



IS FREE TRADE UNDER THREAT?

RAZEEN SALLY on the USA's
crucial role in the global
economy

The outlook for free trade is not good. There are optimistic scenarios, but we need US leadership.

Here I present three scenarios for international trade. Let's begin with the state of play.

Firstly, global trade growth has slowed down markedly – what is dubbed Peak Trade. International trade grew twice as fast as world output in the quarter-century before the global financial crisis. It slumped during the crisis, picked up again, but, since 2012, has barely kept pace with world GDP growth.

Secondly, protectionism has increased since the financial crisis. It has not escalated to 1930s' heights, nor has it

reversed existing globalisation. Rather post-financial-crisis protectionism has been “creeping” up, mostly through anti-dumping duties and insidious non-tariff barriers.

Thirdly, President Trump has announced the USA's withdrawal from the TPP (Trans-Pacific Partnership). This is highly unfortunate for two reasons. The TPP is the most ambitious trade deal in over twenty years. Furthermore, it was a geopolitical signal of US re-engagement in Asia.

This leaves the field open for China to assume trade leadership in Asia. It is already doing so on infrastructure. China is the leading power in the Regional Comprehensive Economic Partnership (RCEP),

which brings together the ASEAN countries plus six others.

But RCEP is shaping up to be a typically “trade-lite”, intra-Asian trade agreement. While it will eventually remove most import tariffs, it is likely to do little to tackle non-tariff and regulatory barriers.

My “more likely” scenario is of trade winds blowing in a more protectionist direction, starting in the USA. In addition to withdrawal from the TPP, President Trump wants to renegotiate NAFTA, has threatened high tariffs against China and against US companies that relocate production abroad, and says he will ignore the World Trade Organization (WTO).

Mr Trump's senior trade-policy appointees are fellow economic nationalists. All are obsessed with trade deficits, China-bashing, and industrial policy to revive US manufacturing.

New US protectionism could begin with a spike in anti-dumping and countervailing duties, aimed first at China. Import taxes, euphemistically called a "border tax adjustment", could be part of a US tax-reform package.

And other countries would follow the US protectionist lead, starting with the EU and China. If this happened, it would only accelerate trends since the financial crisis.

Creeping protectionism would no longer be creeping: it would accelerate, affecting bigger chunks of international trade and disrupting global value chains. Peak Trade would be worse: there would be a bigger world trade slowdown.

But there are powerful countervailing forces. The most potent is existing globalisation through global

value chains. US companies are woven thickly into them, and they are likely to lobby against Trumpian protectionism.

US producers and consumers will suffer from US protectionism and from

US LEADERSHIP IS STILL ESSENTIAL FOR INTERNATIONAL TRADE

retaliation from other countries. The Congressional Republican leadership, as well as Republican and Democrat governors in the states, could restrain the economic-nationalist impulses of President Trump.

A more pessimistic scenario would be a full-blown trade war: unrestrained US protectionism, escalating tit-for-tat retaliation by the EU, China and others, perhaps the break-up of NAFTA, and the severe disruption of

global value chains.

This would be a lurch back to 1930s' style protectionism, de-globalisation and depression. I still think this is unlikely.

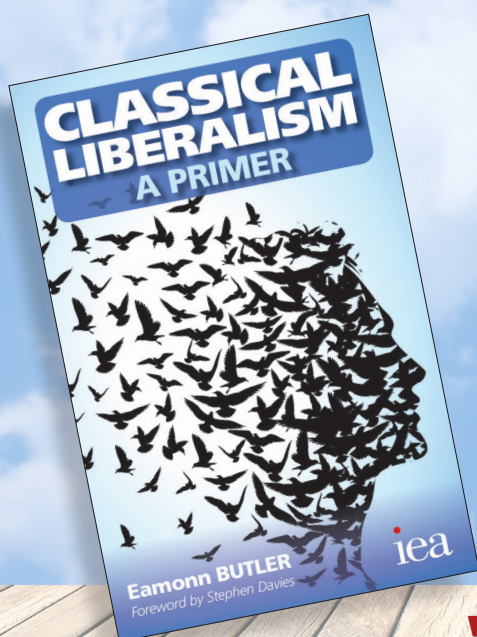
A more optimistic scenario would be of others taking up the baton of open-market trade leadership. The EU might be up for it, and China might be too. International co-operation would be more equally shared and the WTO revived.

But I doubt very much that this will happen. Both the EU and China have ever-bigger internal weaknesses that limit their ability to lead abroad. In the absence of the USA, prospects for international trade co-operation are bleak.

US leadership is still essential for international trade. Without it, the world economy would be more unstable and less open. The USA is still the "indispensable nation"•

Razeen Sally
Director

European Centre for
International Political
Economy
razeen.sally@ecipe.org



"A MAJOR CONTRIBUTION
to better understanding
of one of the
FORMATIVE PHILOSOPHIES
of the **MODERN AGE"**

Dr Stephen Davies

The IEA's primer on this
misunderstood,
misrepresented but
most important **way of**
thinking is available now
for **FREE DOWNLOAD** at:

[www.iea.org.uk/publications/
research/classical-liberalism-a-primer](http://www.iea.org.uk/publications/research/classical-liberalism-a-primer)