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Is world trade facing a spiral into isolationism?

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Is world trade facing a spiral into isolationism?

Bonn, 20 January 2017. Today will see Donald Trump sworn in as the 45th president of the USA, a move that could see the system of world trade plunge into a spiral of isolationism. Trump's entry to the White House will see an aggressive form of mercantilism become respectable in Washington, aimed not only at German car producers, as Trump clarified in his latest interview. It poses enormous risks for the world economy as a whole. The European Union and Germany are well advised to prepare for the worst. With the nomination of Robert Lighthizer as US Trade Representative Trump has indicated that he aims to put his strongly protectionist ideas into practice. Trump made radical trade policy claims on the campaign trail – and has not deviated from these to any great extent since being elected. He threatens to leave the North American Free Trade Agreement NAFTA and calls for tariffs of up to 45 percent on Mexican and Chinese products. The high degree of global fragmentation and interlinking of production processes means that these steps would prove extremely short-sighted: For example, each dollar of Mexican exports contains around 40 cents of upstream products from the US. A drastic increase in US customs duties for neighbouring Mexico would ultimately lead to greater expense for many Americans. The competitiveness of the American economy as a whole would fall – and lower-income citizens in particular would suffer from the increase in prices.

Trump also plans to block the central element of trade policy of the departing President Obama, the Trans-Pacific Partnership (TPP). TPP would be the world's largest free trade agreement and would bind the US to dynamic markets in the Asia-Pacific region – with the exclusion of China, however! A paradoxical situation: on the one hand Trump aims to stem Chinese exports to the US, on the other hand to hinder the treaty which, at least in the rhetoric of the Obama administration, would have served to lessen the trade policy dominance of China. With the TPP vacuum in Asia Trump is practically inviting China to take the lead in the global trade system. There is a major risk that new trade wars will flare up. Of course, Mexico and China could appeal against the raising of tariffs by Trump to the World Trade Organization (WTO). However, these processes would take a long time – particularly in view of the fact that the dispute settlement mechanism at the WTO is overburdened with numerous cases. It would be likely that Mexico and China would take retaliatory

measures. China could cancel its contracts with the US company Boeing, for example. An escalation of protectionist measures would result, shaking the foundations of the global trade system, including the WTO. To avoid the occurrence of nightmare scenarios it is necessary to bind Trump and his team to existing structures and weaken his radical positions. A great deal of persuasiveness needs to be applied to the argument that the interests of American workers and consumers would be served more effectively in the Trump administration was to work not against but with its partners. Structural changes and the loss of jobs are not only threatened by international trade, but also through the relentless pace of technological developments such as the digitalisation and automation of the global economy. But how should new rules for such developments be coordinated internationally without a functioning global trade system?

In Europe, recent years have been characterised by discussion of the Transatlantic Trade and Investment Partnership (TTIP) under negotiation with the US. In view of the positions of Trump, the fundamental question needs to be readdressed: what kind of trade agreement do we favour? How should globalisation's losers be compensated? How can globalisation be made fairer and the trust of citizens regained? Let us be under no illusions, Europe also fails to speak in unison on these issues. Following the tug of war over the free trade agreement with Canada, European trade policy needs to be put on a new footing. This includes the need for agreement in the dispute over competencies between the European institutions and the member states regarding who is able to negotiate and ratify trade agreements. Only then will Europe be taken seriously as a trading power again – in Washington, but also in Beijing. The aim should be to strengthen alliances with the countries with whom we share a vital interest in open markets and a functioning global trade system.

Germany, which holds the position of G20 Chair this year, should use its high international standing to enter into dialogue with the new US administration on these issues. The G20 summit in Hamburg in July in particular offers an opportunity to re-establish lines of discussion with our traditional partner at the highest level. In addition, by then at the latest Berlin and Brussels should also be ready with answers for Trump when he enquires as to what lucrative deals the EU is able to offer.