

Trump's protectionism might just save the WTO

By Pascal Lamy

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PARIS — President Trump is right that the World Trade Organization badly needs reform.

Keeping the United States within the WTO should obviously be Plan A. But it would be prudent for other members to start thinking about devising a new international trade organization minus the United States in order to avoid the “my way or the highway” blackmail that has become the American president’s signature negotiating style.

Paradoxically, protectionism has presented an opportunity to make critical reforms: It was Trump’s recent round of tariffs, which violate WTO rules, that may well be the trigger for updating those rules, a process that has remained stalled and elusive for too many years. Those who value fostering a fair global trading system that works for all should seize this chance.

The [meeting](#) of trade ministers hosted by Canadian Prime Minister Justin Trudeau in Ottawa last month — absent both the United States and China — was a first step down the path of finally upgrading the system of reliable and predictable rules to guide global commerce in the rapidly evolving economies of the 21st century.

America’s pushback against “Made in China 2025,” the Middle Kingdom’s effort at technological modernization, is symptomatic of the problems with the global trading system. To be sure, China’s trade practices — including opaque, trade-distorting subsidization of high-tech products — need to be disciplined by stronger WTO rules. But technically, Beijing is right to argue that it abides by current WTO restrictions because the rules on industrial subsidies are too vague. And it will probably argue that rules about agricultural subsidies also need strengthening, which U.S. farmers may not like.

As this case shows, further leveling the playing field through WTO reform is necessary in order to create a fairer trading system that fits the actual reality in the 21st century of “one world, three systems.” The U.S. system is hyper-capitalist, individualistic and entrepreneurial; China’s mixes a strong collectivist state with uneven market competition;

Europe's social market system and many others stand somewhere in between. These systems must be able to coexist and exchange goods and services as well as facilitate people's mobility across their divergent economic and social models.

Another aspect of the WTO that's a candidate for reform, according to the United States, is the dispute settlement system. Trump is dead wrong that this resolution mechanism is biased against the United States. In fact, the United States wins the vast majority of cases it brings. A good recent example is a WTO [ruling](#) in January against China, for placing punitive tariffs on chicken imports, in a claim brought by the United States. The best way to avoid a "government of judges" that would overly interpret loose rules is for the legislator — the WTO members — to amend and clarify rules where they are too imprecise.

The WTO may not be Trump's preferred negotiating table, but it is the one place where short-term improvements for the United States and others can be most readily made. To move forward, the European Union and Japan need to keep trying to bring United States and China around, and other nations must not cave in to pressures coming from either Washington or Beijing.

Reforming the WTO instead of dismantling the multilateral trading system is the best bet all around. Deglobalization, if that is Trump's trade game, won't work because the disconnecting of economies and unwinding of value chains put in place over decades is too costly. For the United States, rebalancing the trade deficit won't work because the supremacy of its almighty reserve currency means the world trades mostly in dollars.

The United States can thus easily finance its current deficit, but further pumping money into a consumer-driven economy already near to full capacity will only increase imports. A new Cold War launched by the United States to thwart China's rise as a technological power is the worst strategy of all. Attempts to isolate the Middle Kingdom will only empower "China-first" nationalists, making it more, not less dangerous.

It is certainly ironic that it may be up to everyone else but the world's two largest economies, locked in rivalry, to salvage an open trading system that enabled both of them to rise to the top ranks they occupy today. But, to mix a metaphor, sometimes it takes the forest to save the biggest trees.

Open trade increases welfare — provided that domestic policies and systems redistribute fairly the economic gains they bring and properly cope with the social pains they create. The United States still has a long way to go to get there.

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