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# Why Trump's anti-globalism is wrong

## Inclusive and fair trade, not protectionism, will close the gap between rich and poor

When the World Trade Organisation (WTO) was created in 1995, many assumed the promises of open international markets would prove irresistible. Two decades later, the consensus behind the idea of free trade seems to be crumbling. Those on both the left and right are increasingly questioning the benefits of our current approach to economic globalisation.

The WTO's declining importance in an ever more fragmented global trade system makes it particularly difficult to withstand the strengthening winds of economic nationalism. To restore trust in the global trading system, governments need to make global trade more inclusive and narrow the gap between rich and poor.

The global financial crisis, coupled with increasing inequality, has made people sceptical of globalisation. WTO members are disappointed that after 16 years of negotiations they have still not managed to conclude the Doha Round – which aims to reform the international trading system through the introduction of lower trade barriers and revised trade rules.

Bigger trading nations including the US, the EU, Canada, Japan and China are now turning their attention to bilateral and regional free trade agreements, such as the much-touted CETA agreement between the EU and Canada, and the China-led Regional Comprehensive Economic Partnership (RCEP) between 16 Asian-Pacific countries currently under negotiation.

## Wheeling and dealing

The more countries and regions agree separate bi-lateral free trade agreements, the more different sets of rules producers have to comply with. For example, every free trade agreement includes its own 'rules of origin', determining where exporters can claim a product was made. A car assembled in Toronto may claim to be 'made in Canada'. But if 90 per

cent of its parts stem from China, the rules of origin may reject that claim. Every FTA has its own separate criteria for determining the origin of a product. Complying with several sets of rules gets very costly for producers, and may shut the smaller players out.

A greater number of bilateral trade deals will also lead to different speeds of market opening. CETA for instance advocates 'deep' trade liberalisation that includes domestic regulation on issues such as public procurement or food and health standards. RCEP, on the contrary, is a trade deal that is much more limited in scope and mostly focusses on negotiating tariff reductions.

The developing 'multi-level, multi-speed trade system' described above implies countries will be treated less equally in the future. Smaller, poorer countries that are unwilling or unable to sign up to far-reaching bilateral or regional trade deals will be left behind. For a start, large economies may feel negotiating a bilateral trade deal with a small or poor country is not worth the time or effort. What is more, improved market access for others major trading nations through the increasing number of bilateral trade agreements reduces the value of any trade concessions that developing countries currently enjoy.

At present, neither the WTO nor its individual member states can prevent countries seeking deeper integration with selected trade partners from doing so. However, more can be done to bridge the gap between the WTO's frontrunners – rich countries – and its slower-moving members, including most African states. This would also restore trust in global trade and the WTO's role in governing it.

## Time to reform the WTO

As an act of damage control, states that negotiate trade deals on their own need to ensure all agreements between subsets of WTO members complement rather than undermine the broader multilateral trading system. New agreements, regardless of how many signatories they have, should not lose sight of excluded states' interests. The best way to achieve this would be to pass market-opening concessions on to third countries. In other words, if a country agrees with one trade partner to reduce its tariffs for a specific product, it automatically extends this concession to all its trade partners. Exporters in all countries would benefit, regardless of whether or not they are signatories to the agreement.

Existing plurilateral agreements within the WTO that do not include all member states already follow this approach. For example, the benefits of the Environmental Goods Agreement, currently negotiated between 46

WTO members, will be extended to the entire WTO membership. But this practice could also be used in bilateral and regional deals, especially to extend market access to producers in the least developed countries.

Making free trade agreements more open and inclusive, however, cannot entirely make up for the lack of political will in the Doha Round to deliver on promises for development. This failure is particularly bitter considering developed countries claim they wish to do more for Africa to stem the tide of refugees and migrants travelling from there to Europe. Aid pledges alone are unlikely to level the playing field.

It is time to turn the WTO into an institution that improves coherence between trade and other policy goals agreed in multinational settings, such as fighting hunger, providing access to affordable medicines and protecting the environment. It won't always be possible to match different policy goals entirely, but there needs to be greater consensus and transparency around the trade-offs involved. WTO members could increase the number of personnel trained to address the link between trade and other areas, such as sustainable development. Advisors from outside the insular trade-policymaking community can ensure negotiations focus on more than merely 'making trade more efficient'.

## Populism won't make the world fairer

The failure of governments to manage free trade's domestic disruptions has led to frustration and uncertainty among the real and self-perceived losers of open global markets. The public regularly identifies trade liberalisation as a common cause of lost jobs and lost income. Recent electoral campaigns, including Donald Trump's, demonstrate the appeal of politicians who rally against increasing openness and free trade. Sadly, the populist vision of a world trade system in which national interests count more than multilateral rules will only serve to exacerbate global inequality. The economic weight of smaller countries is too limited to contest the rise of protectionist measures across the globe, and in particular in Western countries. Moreover, there is no legal guarantee that major export destinations such as the EU or the US will uphold existing trade preferences for developing countries if protectionism is on the rise.

In a world of economic nationalism, it will ultimately be the smaller countries that lose out. To counteract the trend towards economic nationalism, we must take the wind out of the populists' sails. Governments need to better address the rise in domestic inequality that global trade has been linked with. Existing mechanisms that aim to offset trade-related wage cuts and job losses – like the Trade Adjustment

Assistance in the US and the European Globalisation Adjustment Fund – will likely fail to overcome public reservations against economic globalisation. These programmes are too limited in scope, bogged down by political horse-trading, and provide only short-term assistance.

## For the welfare of all

Compensating those hardest hit by globalisation should instead be the job of national welfare states. Protectionist measures and punitive tariffs cannot reliably protect domestic workers. States should pursue a twin approach to softening the domestic impact of free trade. Firstly, they should seek to better redistribute the gains of trade to offset wage and job losses by adopting efficient welfare and progressive tax systems, including means to stop multinational companies and rich individuals from exploiting tax loopholes or hiding their wealth in tax havens. This should go hand-in-hand with addressing other drivers of labour market change, such as automation, digitisation, and an aging workforce. Latin American and Scandinavian countries that have introduced various social programmes to tackle this (including cash transfers and basic income models) can teach important lessons in this regard.

Fragmentation, nationalist protectionism, and public disillusionment with open markets paint a bleak picture of the global trade system's future. We must discuss the domestic and international consequences of trade more honestly: not just the economic opportunities, but the job losses they generate and economic disadvantages for developing countries.

Bridging the gaps between front-running and slower-moving WTO members should involve ways to pass market access on to third countries, to provide guidelines for bilateral or regional trade liberalisation, and to improve the coherence between trade policy and other agreed aims, such as the Sustainable Development Goals.

On the domestic level, reconciliation between the losers and winners of global trade means reforming how the goals of trade policy are defined. Paying more than lip service to the views of civil society and trade unions, rather than catering primarily to the private sector, could make trade policy fairer. This will increase its legitimacy – a lesson learned from TTIP negotiations were many domestic actors felt excluded – and ensure vulnerable groups are protected. Most importantly, free trade must be complemented by fair distributional policies that limit its disruptive potential and so mitigate the turn to economic nationalism.

*A longer version of this article will soon be published in the Spanish edition*

*of Nueva Sociedad.*



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