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Trump's Trade Endgame Could Be the Undoing of Global Rules

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What if President Trump's ultimate goal is to kill the World Trade Organization?

When Robert Lighthizer, Mr. Trump's top trade negotiator, cut his teeth on trade diplomacy, back during the presidency of Ronald Reagan, the United States had an idiosyncratic way of solving its grievances over trade: asking its trading partners to curb their exports, or else.

In the early 1980s, Japan signed on to "voluntary export restraints" to curb the exports of Toyotas, Hondas and Nissans that were causing so much heartburn in Detroit. "Voluntary restraint agreements" were negotiated with 15 countries that accounted for 80 percent of American steel imports.

They were voluntary in the sense that foreign exporters preferred these agreements over the threat of punitive duties. In Washington, they were popular. As the Dartmouth College

economist Douglas Irwin notes in his timely new book, "Clashing Over Commerce: A History of U.S. Trade Policy," the share of American imports covered by some form of trade restriction rose to 21 percent in 1984, from only 8 percent in 1975.

Today, trade grievances are adjudicated differently: Since 1995, the United States has been required, like any other country, to take its complaints to the World Trade Organization's dispute settlement system. It has lost some cases, especially those against Washington's unique way of measuring dumping. But it tends to win when it brings a charge against some unfair practice abroad.

Taking account as Mr. Trump's trade negotiators talk tough to their Mexican and Canadian counterparts as they try to renegotiate the North American Free Trade Agreement, some diplomats and trade experts are beginning to wonder whether the administration's ultimate goal is to blow up the entire legal framework governing world trade. What Washington truly seems to want is the kind of free hand it had in the 1980s to coerce one country after another into bringing its surplus with the United States down to zero.

According to a trade diplomat who is aware of the goings-on, American negotiators have warned Mexicans and Canadians that if the United States leaves Nafta, they shouldn't expect trade relations to simply snap back to W.T.O. rules, which include a tariff ceiling of 3.5 percent, on average, for Mexican exports to the United States and 7.1 percent for American exports to Mexico. The United States, they argue, won't be bound by these constraints.

Asked for comment, Mr. Lighthizer's office referred me to a statement from June in which he affirmed his "commitment to working closely with U.S. trading partners to increase the W.T.O.'s ability to promote free and fair trade." But he has not been shy about expressing his gripes about the organization. Meanwhile, the United States has been *chipping away* at its judicial apparatus, blocking appointments to the seven-member appellate body that rules on trade disputes. The court is now two members short and will be down three when the European jurist steps down in December. The impasse prompted Cecilia Malmstrom, the European Union's top trade diplomat, to warn that the American position risks "killing the W.T.O. from the inside."

While emasculating the trade organization may seem foolhardy, trade experts warn that blowing up international trade law may be the only way the Trump administration could pursue its quixotic goal of eliminating the bilateral trade deficits that it has with most countries.

And that presents the world with a sort of Catch-22. The American current account deficit — a broad measure of its trade — is the mirror image of the gap between the United States' national savings and its national investment. Because it invests more than it saves, it draws money from abroad and spends it on foreign goods and services. Until it closes the savings gap, no amount of diplomacy, bullying or cajoling will close the gap in trade.

If the United States leaves Nafta, it's possible that its deficit with Mexico will balloon rather than shrink, as uncertainty sends the peso into a tailspin and makes Mexican exports

cheaper. But even if Mr. Trump's Nafta gambit worked and bilateral trade came into balance, it wouldn't necessarily change the balance of American trade over all.

Mr. Lighthizer might remember that after Canada, Japan and the European Community agreed in the early 1980s to voluntary restraint agreements limiting exports of steel to the United States, producers in countries like South Korea and South Africa simply picked up the slack.

As another Dartmouth economist, Robert Staiger, told me, unless the American savings-investment imbalance corrected itself, too, the former deficit with Mexico would simply pop up somewhere else.

"Bilateral deficits are going to keep popping up everywhere," he said. "Trump is going to be playing Whac-a-Mole."

And if Republicans pass their smorgasbord of tax cuts, the mushrooming budget deficit will push the savings-investment imbalance in exactly the wrong direction.

The problem for the rest of the world is that any of these situations is likely to produce great frustration in an administration that appears to *believe trade balances are negotiated like real estate deals.* They all put the United States on a collision course with the legal regime administered by the W.T.O.

It is unclear whether Mr. Trump has the legal authority to pull the United States out of the trade regime governed by W.T.O., or even out of Nafta. Rufus Yerxa, a former top American trade diplomat on the team that negotiated both Nafta and the Uruguay Round of multilateral talks that led to the creation of the W.T.O. in 1995, argues that whatever the legalities, the thought that Mr. Trump may pull the United States out of the trade organization is not credible.

The losses, he said, would be far too steep. Countries would discriminate at will against American products and services. "Everybody in the world could do anything they wanted to do to us," Mr. Yerxa said. The sprawling supply chains that American companies have laid out across the world since the trade organization came into being would be under threat.

Chad P. Bown, an economist at the Peterson Institute for International Economics, agreed. "It would hurt economic activity much more than in the 1980s," he said. "So much trade back then was in final goods. Now a lot is in intermediate parts."

It was easy to bully Japan in the 1980s. Its security depended on the United States. It's unlikely that Washington could pull off the same thing with China today. Though the W.T.O. would suffer a blow if the United States left, it might survive it. Today the United States accounts for only about 13 percent of world trade, down from almost a quarter in the 1980s.

What's most mystifying to foreign diplomats and trade policy experts is how the Trump administration conceives the endgame of bringing down a legal system the United States

spent so much time and effort to build. Even if Mr. Trump prevails, the United States stands to lose.

American sugar policy comes to mind. In the early 1980s, hoping to put a floor on prices in the United States, the government set up a quota system to limit sugar imports. As Professor Irwin tells it, the enterprise proved more difficult than the experts in Washington ever thought.

The American import quota got smaller and smaller to keep pace with falling prices worldwide. At one point, American sugar was so expensive that companies started importing sugary products like cake mix, iced tea and cocoa in bulk to extract and sell the sugar within. Coke and Pepsi switched from sugar to corn syrup, slashing domestic demand and forcing the Agriculture Department to reduce import quotas further. And candy makers moved abroad, to where sugar was cheaper.

In the Caribbean and Central America, sugar quotas led farmers to stop producing sugar and start cultivating illegal narcotics that were smuggled into the United States. To cap it all, in August 1986 the United States sold China 136,000 tons of sugar it had accumulated in its efforts to bolster the price. It was sugar it bought at 18 cents a pound. It sold at 5 cents. Within days, world sugar prices plummeted.

Robert Lighthizer has been involved in international trade diplomacy long enough to remember this kind of *go-it-alone trade strategy*. He doesn't appear to have learned the lessons history has taught us since then.