

It's Time for More Realpolitik in Global Economic Governance

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The World Trade Organization is a magnificent achievement. It has created an open trading system on a global scale, increasing welfare for its 160 plus member countries. It has reduced uncertainty in the global economy, thereby encouraging long-term investment by companies. And through its dispute settlement system it has strengthened the rule of law, helping to legitimize the idea of free trade. In short, when we say that the international economic system built 70 years ago is both “liberal” and constitutes an “order,” we largely have the WTO and its predecessor the GATT to thank for that.

That’s the good news. But as the G20 leaders’ declaration from the recent Buenos Aires summit accurately points out, “the [multilateral] system is currently falling short of its objectives and there is room for improvement.” There are two reasons for multilateralism’s growing band of discontents.

One stems from the ideology of the current U.S. Administration. Maximizing U.S. power is the Trump White House’s North Star for advancing the country’s interests in the world. This is not an isolationist Administration, but it is a nationalist one. It believes home-grown solutions are best, seeks a maximum freedom of action, and is skeptical bordering on hostile to international commitments that could limit this freedom of action.

The WTO is only one of several institutions and agreements that are suspect because of their potential to limit U.S. power. Some have experienced mild annoyance from Washington (NATO) while others have felt the full force of rejection (the Paris climate accords, the Trans-Pacific Partnership). The WTO lies somewhere in between these two extremes.

A second reason for growing unease about multilateralism, especially trade multilateralism, is China.

There is a view held not only within the U.S. Administration but also by many Republican and Democratic lawmakers – and increasingly by leaders of core EU member states – that the WTO was not built to handle an economy like China’s. Instead of reforming and growing to become more like the U.S. or European economy, China’s economy has become more state directed, less transparent, and less respectful of global trade rules.

While the U.S. Administration appears open to reforming WTO rules, this is an era of impatient politics. It seems clear the White House is not going to wait forever for the multilateral avenue to lead to results.

Since modernizing the WTO so that it better accounts for China's state capitalism is going to be a long process it may not be wise to make it the only focus for preserving the component parts of the current liberal economic order. If the WTO and the trade multilateralism it represents is a great achievement but also an obstructed path, what is the way forward?

One option could be for the European Union, Japan and other countries with more taste for long-term agendas to pursue multilateralism minus the United States, trying to move ahead with WTO reform efforts without the support of Washington. It's not clear that would work.

The EU has a number of offensive and defensive trade policy interests where the role of the U.S. is crucial. These include removing the Section 232 on steel and aluminum tariffs, preventing the imposition of similar tariffs on automobiles, strengthening foreign investment screening, nudging China to change its technology transfer, intellectual property, and cyber policies, forging a long-term response to the Made in China 2025 plan for industrial supremacy, and writing rules for digital trade. Sidelining the U.S. at the WTO would be unlikely to encourage Washington to take a cooperative approach to the EU's interests on these fronts.

Borrowing a concept more often associated with international relations theory, another option could be for the United States and the European Union to pursue a "realist" course of trade policy.

Not the full-bore Hobbesian approach that characterizes the current U.S. Administration. Rather, the idea would be to identify where key U.S. and EU trade policy interests lie, where these interests overlap, and then to craft transatlantic strategies to advance those

interests. U.S. and European economic power would be multiplied, increasing its capacity to leverage change elsewhere in the international economic system.

As the trilateral cooperation among the U.S., the EU, and Japan begun at the end of 2017 to develop new global trade rules demonstrates, even a U.S. Administration that sees the world as an irredeemable arena of competition for power, one that puts America First, may understand that to achieve its goals some of that power will have to be harnessed from beyond U.S. borders.

Now, the risk of Realpolitik – whether in trade policy or in international relations – is that it could sacrifice values at the altar of interests. And the preservation of the liberal values at the heart of the global trading system should be non-negotiable.

These values include the rule of law, the primacy of the individual and private interests vs. state interests, fair and regulated competition, transparency, and openness to economic and technological progress.

Yet it is precisely these values that a realist approach to trade policy would promote.

U.S.-EU cooperation to advance their common economic interests could aim among other things to agree on a code of conduct for state-owned enterprises and means to enforce that code, promote an open digital economy together that bars the localization of data into state-controlled silos, strengthen competition policy to prevent states from subsidizing exports of underperforming firms, and create high standards for labor rights and environmental protection.

These steps would strengthen liberal values and the ability of U.S. and European firms that operate according to those values to flourish in the global economy. And they would help give citizens confidence that governments are working to promote a global economy that both reflects their values and invests in their future prosperity.

A realist approach to trade policy that focuses on state-to-state cooperation need not present a challenge to the institutionalism represented by the WTO. The two paths can be followed simultaneously, and one day efforts outside the WTO could be brought inside it.

Whether it is the U.S.-EU-Japan trilateral process, or the U.S.-EU trade talks launched in July 2018, avenues are not lacking for building leverage to encourage China to take a more market-oriented economic path. All the more reason, then, not to turn cooperation in the WTO setting into a test case for the U.S.-European relationship. That would do little to narrow transatlantic differences over the role of multilateralism, while at the same time be unlikely to help strengthen the liberalism at the heart of the global economic order.