

## Trade War: What is it good for?

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### Executive Summary

The 2018 G7 summit in Charlevoix, Quebec was thrown into disarray by President Trump's imposition of punitive tariffs on other members of the group. Much of the action centred on this manufactured problem, distracting from the ambitious agenda conceived by the Canadian government, with commentary focusing on the dangers of a looming trade war. There is a small kernel of Trump's analysis of global trade that, despite its incoherence and clumsy policy implementation, is not entirely misguided: the market fundamentalism that has driven global trade policy during the neoliberal era has produced an array of malign effects. However, his proposed solutions do not actually address this, they are unworkable and predicated on a series of much bigger misunderstandings of how trade functions and the benefits it can bring. Still, the inability of G7 members to paper over the cracks implies a period

of turbulence ahead for the rules-based international order, which cannot be resolved by simply repudiating Trump on the basis of liberal platitudes.

### Trumped: Trading Away the G7 Agenda

A bizarre sequence of events enveloped the G7 summit this year. Shortly before it began, US President and former reality TV star Donald Trump [imposed tariffs](#) on steel and aluminium from the country's major trading partners, including Canada and Mexico—the other members of the North American Free Trade Agreement (NAFTA)—and the European Union (EU), leading them to [open legal disputes](#) at the World Trade Organisation (WTO).

During the summit, Trump made a series of characteristically

contradictory noises: preaching free trade—i.e. agreeing a dialogue on [new trade talks](#) between the US and EU, and even proposing the [curious idea](#) of a G7 ‘tariff-free’ zone—while simultaneously advocating American protectionism. As sherpas worked round the clock and [journalists speculated](#) about the looming chaos of ‘trade wars’, many doubted that a communiqué would even be forthcoming for the first time in the body’s history, contributing to [the general sense](#) of malaise.

However, as the meeting drew to a close, Trump left early and [warmly described](#) his relationship with the other leaders as ‘a ten’. This, [to me at least](#), evidently reflected 36 hours of clever, careful diplomacy on their part in handling a highly combustible and unpredictable element, a view only strengthened when Canadian Prime Minister Justin Trudeau gave a [thoughtful and poised](#) closing press conference where he revealed that, in fact, [a communiqué](#) had been agreed and signed by all members.

Then, as those of us covering the summit left *La Malbaie* to return to the media centre in Quebec City, Trump unleashed a [cowardly, bullying Twitter attack](#) on Trudeau from the comfort of Air Force One, threatening further tariffs and removing his signature from the joint statement. In the end, and despite their brave faces, it seemed that the other G7 members had ultimately snatched a perplexing defeat from the jaws of an improbable victory.

There is, of course, much drama here for journalists to pick over as they second guess the intentions of the main protagonists. But when it comes to questions of serious policy, the most disappointing thing about the summit is that it was never supposed to be about trade in the first place. Like an unwelcome dinner guest demanding a special meal and cranking up their awful music, Trump managed [to totally overshadow](#) the ambitious and timely, forward-looking, progressive agenda laid down by the Trudeau administration that sought to grapple seriously with the real

multidimensional 21st century challenges—on [inclusive growth](#); [automation of work](#); [gender inequality](#); climate change [and oceanic destruction](#); [peace and security](#)—facing both G7 countries and the wider world, without offering a meaningful contribution to any of these critical agendas.

In fact, it would not be an overstatement to say that he set progress on five of the most crucial problems facing the world back substantially. The scale of the missed opportunity, in terms of the chasm between what might have been possible in Charlevoix in terms of generating forward momentum for broader global initiatives on these epoch-defining issues had a more capable US President been sat at the table, and the damage caused by Trump, could probably not be any bigger.

### Free Trade Fallacies

If, as the poet Alexander Pope [put it in the 1700s](#), ‘a little learning is a dang’rous thing’, then Trump—just like the other motormouths [who pontificate](#) confidently yet erroneously on the complexities of global trade politics without fully grasping them—thoroughly epitomises the problem. There is a nugget of truth buried at the root of his analysis, which reflects the justified concerns of a support base neglected for too long by ‘mainstream’ (read: neoliberal) politicians: i.e. that untrammelled globalisation has produced intense dislocations, with the working classes in [increasingly peripheralised](#) parts of industrialised countries losing the distributional battle and, in many cases, being left to stagnate.

But this analysis is not new. Political economists of a more heterodox persuasion have long railed against the certainties of market fundamentalists and taken issue with the ways in which trade rules are

concocted and conducted and (supposedly) free trade is practised.

Indeed, they have a well-rehearsed litany of complaints, including, but not restricted to the following. First, the now-rich countries [never actually became so](#) through liberalising markets, but by protecting them until their strategic industries were internationally competitive. Second, and by implication, free trade between countries at very different levels of development [can undermine](#), rather than stimulate growth by destroying nascent industrial sectors that have not reached competitiveness. Third, free trade is an impossibly utopian idea that exists solely in abstract neoclassical economic theory: it is, as even its proponents [regularly lament](#), only ever partially and insufficiently complete, and, as sceptics would argue, it can thereby serve to legitimise and obscure inequalities of power that skew markets as they become ever-more concentrated. Fourth, the trade rules we actually have are devised in exclusionary ways, they reflect the interests of the

powerful, and deliberately exclude sectors in which poorer countries might successfully compete, especially agriculture. Fifth, the notion of 'free trade agreements' (FTAs) in the contemporary era [is misleading](#), because they are not [really about trade](#) in the sense that most people understand it: they increasingly focus, not on goods and tariffs, which are at their lowest levels in modern history, but rather on 'behind the border' regulation in services. Sixth, for many, [such FTAs have gone too far](#) and are unacceptable: because they reach so deeply inside a state's regulatory capacity, they represent an infringement on both sovereignty and democratic accountability.

The problem, then, is not that free trade is not an admirable goal nor something worth pursuing: even critics accept the idea that, when conducted between equals in an inclusive legal framework of multilaterally agreed rules, where weaker members enjoy [special and differential treatment](#) (SDT) to protect them as they try to catch up, and the system as a whole is

predicated on a shared '[social purpose](#)', it undeniably leads to substantial growth, development and other positive-sum outcomes such as greater interdependence between societies (thereby reducing conflict).

Rather, what is really at stake is the fact that actually-existing 'free trade' in today's real world is not something that only produces positive effects, nor is it a fetishized, static phenomenon that exists independently of politics. It is a constantly changing, imperfect, ongoing process, which waxes and wanes according to patterns of political action, the institutional order and the prevailing ideological settlement.

These three things feed off each other: as different countries make different choices to exploit their [policy space](#) in different ways, perhaps by bending rules, negotiating market access, or using the removal/imposition of tariffs and non-tariff barriers as inducements or punishments to others, there are subtle shifts in ideas about, and the practice of trade policy, which carry consequences for the reproduction

and evolution of the contours of the global economy in general, and the nature of its trade governance in particular.

This ecosystem therefore needs to be carefully managed. The multilateral trade architecture that has been painstakingly constructed since 1945, first through the General Agreement on Tariffs and Trade (GATT) and, after 1995, the WTO, [has always been contested](#)—in terms of how it should be understood, how it actually functions, and how it could be improved—and it has evolved over time according to the interplay between actors, ideas and institutions described above. In short: our highly complex, overlapping systems of free trade are, at root, places of both intense—and often, but not always, highly productive—[political contestation and social cooperation](#).

We can see all of this clearly if we consider the travails of the WTO: twenty years ago it was *the* institution of global governance *par excellence* in which the major diplomatic battles

were fought out; today it is mired [in an enduring crisis](#) of legitimacy. It has been caught up in shifts *of power*, as China and the other so-called BRICS rapidly accrue more of it, in good measure because of distinctive forms of selective protectionism; *of ideas*, as countries question liberal certainties around trade and development strategy; and *of political agency*, as policymakers push the boundaries of what is acceptable, something seen most clearly in their trying (and largely failing) to negotiate [controversial so-called 'WTO-plus' agreements](#) that go [well beyond](#) what has been agreed at the multilateral level. All three of these processes have clashed with each other amid the profound crisis *of* neoliberalism that has been ongoing since 2008, perpetuating the confusing, contradictory role and function of 'free trade' within the global political economy.

### **Trump is Wrong, but Not for Reasons you Might Think**

In reality, then, global trade politics is a series of very messy and contingent

compromises. We have never had truly 'free trade' because it is both impossible to achieve and in constant flux. Therefore, to speak of 'free trade' as if it is obvious what this even means, is deeply misguided.

As Dani Rodrik, the prominent Harvard economist has [recently argued](#) in his book *Straight Talk on Trade* (see [here](#) for a shorter blog version and [here](#) for an excellent review), the proponents of an open multilateral order have often downplayed its many problems and limitations. They did this for honest reasons: a genuine, [but nonetheless misguided](#) belief that 'protectionism'—which is an equally knotty, relative concept in all the same ways as its antonym—was to be avoided at all costs, lest they lead to backsliding on the task of constantly liberalising the global economy. So, the benefits of free trade had to be relentlessly asserted, and legitimate critique or opposition caricatured as either anachronistic or 'anti-globalisation'. On this reading, trade is an end in itself to be prized, not a means to achieving

something else, such as positive social outcomes.

It is here that, in my view, Trump's inchoate actions in recent weeks might—as far as this is possible—be comprehended. A charitable view of his blundering imposition of tariffs and bellicose trade rhetoric would be that he recognises the changed context for trade politics, and the opportunities this offers. The US is suffering a degree of relative industrial decline *vis-à-vis* the rising powers, and this in turn has produced stagnation (and anger) in many parts of the American heartland. Moreover, [the failure of the West to fully recover](#) from the 2008 crisis contrasts especially poorly with the growth performance of many authoritarian East Asian countries, in turn bringing developmentalist, and even outright economically nationalist ideas [back into mainstream conversation](#).

Yet Trump's trade analysis remains deeply problematic. Much journalistic critique has focused on how it is devoid of substance and any

meaningful [grasp of technical detail](#), along with being intellectually incoherent and [politically chaotic](#). It is of course all those things, but the bigger problem, as I see it, is that Trump exhibits the same fundamental misunderstandings that typify the analysis of many non-expert advocates of free trade: i.e. an implicit belief that this is something that is an achievable end-state, always intrinsically desirable, and an end in itself. This is clearly evident from his behaviour in and around Quebec.

After the G7 summit, Trump complained about the supposed unfairness of Canada's [agricultural tariffs](#), and has long pushed for [a renegotiation](#) of NAFTA. However, FTAs can only ever liberalise—to use the language of the WTO—'substantially all trade'. All countries retain defensive interests in the most sensitive sectors, negotiating exemptions and opt-outs. They do this for two reasons: they have powerful lobbies that demand protection, and retained protections function as bargaining chips in future negotiations.

This is as true for the US *vis-à-vis* Canada as it is the other way round. So, if Trump really wants Canada to start giving ground on agricultural tariffs, imposing his own on the latter's steel is unlikely to succeed. He needs to come to the table and offer something, such as a quid pro quo reduction in [the enormous subsidies](#) enjoyed by US farmers. But this will be extremely difficult to deliver, hence the reason why eliminating all trade barriers—and achieving perfect free trade—is fallacious.

Moreover, it probably would not be desirable even if he were to achieve this improbable outcome. His confused pronouncements—what Paul Krugman [called](#) 'a declaration of ignorance and policy insanity—suggest that he ultimately wants to achieve full, across-the-board 'utopian' liberalisation, something that would hit his supporters in the US rust belt and elsewhere even harder than at present.

Indeed, if Trump genuinely wished to support the left-behind and do what is

best for the US economy, abrogating multilateral agreements is not the way to go about it. The key is to offer the kind of nuanced vision that can retain the broad benefits of free trade and globalisation, but in a more managed and socially beneficial way. Put differently: the solution to capitalist stagnation is not an extreme pro- or anti-globalisation position; it is one which recognises that more needs to be done to compensate losers and correct the negative consequences of openness while sharing the benefits as widely as possible.

### **Lessons for the G7**

This is, of course, precisely what the Trudeau administration sought to do with its ambitious Charlevoix agenda: the issues under discussion were specifically about correcting the dislocations wrought by global economic change. This was an auspicious opportunity, and also why the outcome was so depressing: a more intellectually capable and diplomatically skilful US President could have led the way in driving

forward agendas on inclusive growth, automation, climate change, gender equality etc. That Trump prefers isolation is a tragedy about which historians will be very unkind indeed.

In all, it seems that there is a period of severe turbulence ahead for the G7, so what can be done about it? It is crucial to note that it is not Trump that has plunged globalisation into crisis. It already was in crisis, in large measure because of [neoliberal overreach](#) about which sceptics of untrammelled corporate globalisation have long been uncomfortable. He is a particularly morbid symptom, not a cause, although he is obviously making it worse. Had a different US leader made a more sophisticated case for resetting the boundary between national sovereignty and global integration, on the one hand, and, on the other, free markets and controlled forms of intervention, it could have opened conversations about a more carefully managed, socially inclusive globalisation. However, this is not what is on offer from Trump: he desires an inconceivably high level of ‘free trade’

in the abstract, yet has no idea what this actually entails in practice.

There is also a lesson here for the other G7 members. It is crucial to separate the rules-based international order—and an abstract preference for liberal-democratic, market-based economies—from its contemporary variant. Liberalism, free markets, free trade and democracy are not absolutes. They are not end points. They can come [in many forms](#). When the G7 was first established in 1975, much of the West still had highly social democratic political economies. They evolved in a more neoliberal direction within the changing ideological and political structures of the time. That era is now [rapidly coming to an end](#), as it plainly cannot deliver for sufficient numbers of increasingly disaffected people.

What should really concern liberals is that it is Trump who has been most vocal in identifying this and speaking for the disenfranchised. Regardless of how disingenuous this may be, he is making the kinds of arguments—albeit

in a garbled and frequently contradictory fashion—that left-of-centre leaders [should have been making](#) since the 1990s. Too many on the left were too dazzled by corporate power, and should have instinctively advocated a more cautious, balanced engagement with globalisation. That they allowed untrammelled free markets—especially in the financial sector—to facilitate huge concentrations of wealth and ever-rising inequality is the very thing that paved the way for Trumpism.

The broader implication here is that ‘trade war’ narratives miss the point. It will not do for leading [politicians](#) and observers to wring their hands about the ‘[mayhem](#)’ of what Trump is unleashing, as if the order as it presently exists can and should be uncritically defended. A world can be envisaged in which there is a more inclusive and redistributive form of

globalisation, in which the wellbeing of people is privileged over the freedom of capital. This is the terrain on which liberals now need be staking their claims: indeed, it is incumbent on them to do so in an era of capitalist stagnation and contentious politics. They need to offer real, tangible structural change in how the global economy functions if the baby of globalisation is not to be thrown out with the neoliberal bathwater, and we are to stymie the onward march of the hard-right. Trudeau’s thematic G7 agenda evidently represented an acknowledgement of these 21st century realities; it will nonetheless take a Herculean diplomatic effort to see meaningful multilateral action on them over the coming years.

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