

RESEARCH SUMMARY

Finding a Way Forward on Trade: Pragmatism in the Face of Challenges

A commitment to interdependent, rules-based, multilateral trade has underpinned the global economy for nearly a century. But that commitment is now crumbling. Around the world, advanced economies are increasingly deploying tariffs and other trade restrictions to address national-security concerns and domestic policy priorities. In “Finding a Way Forward on Trade,” Christine McDaniel and Barbara Matthews show how a principles-based, plurilateral approach can help protect national security while curbing protectionist tendencies, and tackle new issues such as climate action, renewable energy, and fisheries.

The Dangers of Trade Fragmentation

At the end of World War II, policy architects sought to reduce the incentives for armed conflict by creating a web of economic interdependencies that would render supply-chain disruptions too expensive to contemplate. By the 21st century, however, new challenges have emerged. Geopolitical tensions stoked by authoritarian countries such as China and Russia have highlighted the risk: Economic interdependence also creates vulnerabilities to autocratic regimes.

Efforts to diversify supply chains away from authoritarian regimes are rational from a national-security perspective. But the resulting protectionism and the fragmentation of trade flows can also incur risks by increasing economic costs, dampening growth prospects, reducing real incomes, and weakening international cooperation. A World Trade Organization (WTO) riven by deep geopolitical divisions has been unable to address these challenges.

A Realigned US Trade Policy

The United States can face these challenges by realigning its trade policy with two major steps.

(1) Recommit to first principles by seeking to

- treat imported goods the same as domestically produced goods,
- treat other countries as “most favored nations,” and
- find the least trade-restrictive ways to pursue domestic policy goals.

(2) Engage in plurilateral agreements to

- find agreement where unanimous consensus cannot be reached,
- eliminate tariffs and costly trade distortions,
- promote trade creation and minimize trade diversion, and
- tackle policy challenges in the energy, fisheries, and other sectors.

The Status Quo Is Stunting Economic Growth

To continue with the status quo means to accept a paralyzed WTO and a steady stream of trade initiatives that can only impair economic growth. Prioritizing pragmatic policies that promote cross-border economic cooperation can revitalize economic growth. A realignment in US trade policy around first principles and plurilateralism can provide a positive way forward and an example for other nations to follow.