




# **Progressive Trade Policy in a Changing Global Order**

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## Even Before Trump, the Rules-Based Order Was Under Attack

- Hard to remedy inequities between development and developing countries
  - Reflected in failure of development round
- Intellectual foundations eroded: end of neoliberalism
- Process had led to *managed* trade agreements favoring corporate interests
  - Workers in both North and South disgruntled
- Large and unsustainable trade deficits—with China entering the scene with a supply side-driven economy and massive surpluses

## Discontent Was Almost Universal

- Preserved neocolonial trade patterns
- Contributed to global inequality
- Large displacement of workers—especially industrial workers in North
- Threats to environment—trade seemed often to trump environment

## Some Big Winners

- Corporations
- China and other Asian countries, especially East Asian

## System Was Unravelling

- Refusal of US to appoint judges
- No major successful new round of negotiations
- New digital issues especially contentious—Biden pause
- Major failure during Covid 19—led to vaccine apartheid
- 2008 showed that ***bad things can move more easily across borders***
- New Cold War, pandemic showed that ***borders do matter***: need to reestablish resiliency, national sovereignty (chips, pandemic products)
- *End of era of hyper-globalization; entering era of deglobalization*
  - Some slowing of trade relates to change in global composition of GDP
  - Some has to do with China's (slowly) moving away from trade dependence
- Still, *most trade occurred compliant to rules*, most countries have incentive to have rules-based system

## Trump Threw Hand Grenade Into the Global Trade Order

- Raw and blatant power
  - Power had always been evident in writing of rules and enforcement
- But even façade of a principled rules-based order did constrain power, at least in some instances
  - Countries did by and large comply with MFN principle
  - MFN essential for 1<sup>st</sup> welfare theorem ensuring efficiency of market economy
  - Selective tariffs can be a major source of corruption
- Now, no pretense of principle: “cards are in my hand, and I am going to use those cards to extract a larger fraction of the surplus created by global value chains.”
  - Smashed domestic and international rule of law
- Evident that the law of the jungle could be worse than the old neoliberal rule of law

## Digression: Trump's Arguments Not Based on Good Economics

- Believes trade is zero sum—it's positive sum
- Believes trade deficit is sign that the country is being treated unfairly, that tariffs are paid by foreigners, and that tariffs will rectify trade deficits
  - Each claim is wrong: tariffs are largely paid by Americans, multilateral trade deficit is affected by macroeconomics, so tariffs won't necessarily rectify multilateral trade deficits
  - Trade deficit in goods actually increased in 2025
- Tariffs important tool for industrial policy—reindustrialize US
  - Trump tariffs poorly designed as an instrument for industrial policy
  - Even if production were brought back, jobs wouldn't be—robotization of manufacturing; and skills needed for future different from those of today
  - Bringing back modern manufacturing requires engineers, infrastructure, supply chains
  - Trump failed: large loss of manufacturing jobs in 2025

## Trade Agenda Part of Larger Global Economic Agenda

- Asymmetric financial markets—procyclical capital flows to developing countries, countercyclical to developed—created differential cost of capital giving developing countries disadvantage in *trade* and *investment*.
  - *Need policies to contravene*
- Intellectual property regime—increased flow of money for poor countries to rich, decreased flow of knowledge from rich to poor
  - Important contributor to maintain income differentials and neocolonial trade patterns

# I. Principles of a Post-Neoliberal, Post-Trump Trade Order

## A. Insights from the past

1. Power shapes rules and how they are enforced
2. Geopolitics and geopolitical power is endogenous—affected by rules
  - a. Military power today stands in backdrop
  - b. Economic power depends on *dependency*
  - c. US abuse of power will (or should) reduce dependency and encourage policies restoring national sovereignty (technology, trade, and military)
3. Comparative advantage is endogenous
  - a. Old regime was neither globally efficient nor fair—led to inequalities between and within countries

## Further Insights From Past

- Power is related to coalitions, within and across countries
- Coalitions are endogenous
- Coalitions are central to distributive battles

## B. Some Core Guiding Principles

- Trade is not an end in itself but a means to an end—increasing wellbeing of all citizens
  - Need to recognize that redistributions that *might* have made everyone better off often don't occur
- Trade regime needs to be fair—evaluated through Rawlsian lens
- Fairness has to allow the closing of the knowledge gap between developed and developing countries
- Global regime needs to recognize the role of power and be designed to constrain abuse of power
- Origins of abuse often lie *within* countries—about which the international community can do little, other than to take it into account in designing rules.
- Many of failures of neoliberal order had to do with the failure of complementary domestic policies—international rules *might* have worked better if domestic policies had been different
- Trade regime has to respect values of citizens, e.g. towards environment
- Today's critical issues are AI and digitalization—citizens' views about privacy, content moderation, competition, etc., should prevail, not those of tech companies
- Comparative advantage should be based on *productive capacities*, not tax benefits or social dumping.

## Guiding Principles

- Reciprocity
  - With recognition of special and differentiated treatment for poor countries
  - But in a world with asymmetric power, this core principle has been rejected

## II. Progressive Trade Agenda

- A. Governance
- B. Principled approach to new trade issues
- C. Responding to the Trumpian assault

## A. Governance

- Sets of reforms to make sure that it is not just corporate interests that are at the table and that are heard in trade negotiations
- Hard to deal with problem of power and compliance
  - Possibility of making retaliatory rights transferable
    - Rules need to be carefully designed
  - Expensive, complex and slow procedural remedies are inherently unfair
  - Collective punishment? (see below)
- Adjudication
  - Transparency, 21<sup>st</sup> century perspective on good adjudication procedures
  - ISDS fails miserably
  - Those who lose (especially powerful) will complain that the system went off the rails.

## B1. Intellectual Property

- IP is designed to promote wellbeing of *all* citizens, not profits of corporations
  - Man-made law, not “natural” law
- Trade-offs between static inefficiencies (restrictions on use of knowledge, creation of market power) and dynamic incentives
- Current system may be dynamically inefficient—by making access to most important input into research harder, pace of innovation slowed
- Change in world (advent of AI) changes nature of tradeoffs
- Rethink TRIPS: greater role for automatic waivers, shorter patents, more compulsory licenses, higher standards for novelty

## B2. Digital and AI

- Critical problem of alignment: pursuit of profits by these firms is not aligned with wellbeing of society (failure of Smith's invisible hand)
- Need regulation, and perhaps other interventions (public options) to get better alignment
- US tech companies trying to use trade agreements to tie hands of governments to force rules that enhance their profits
- Without good rules, AI could worsen information ecosystem, worsening economic performance and undermining democracy
- Critical issue for national sovereignty in today's world

## C. Guidance on the Way Forward

### 1. Don't capitulate to Trump

- The cards are not in his hands
- Especially so if countries cooperate in *not* capitulating
- Especially so if countries take actions de-linking, reducing dependence on US—rational for them to do so
- Capitulation will just mean more and more and more demands
- Supreme Court has taken away has ability to impose arbitrary and capricious tariffs

## C. Guidance on the Way Forward

### 2. Coalition Architecture

- Most countries still believe in a rules-based system
- It's in China's interests—the largest trading country
  - But can China be trusted?
- A G-1 open architecture could work
- Regional agreements may be a good start—fewer power asymmetries, stronger norms
  - But within regions may be less scope for gains from trade

## C. Guidance on the Way Forward

### 3. Dividing the World into New Blocs?

- One of interpretations of Trump agenda
- Not likely:
  - Latin America natural trading partner with China
- But US has been remarkably successful in area of technology
  - Restrictions on the use of Huawei
  - Restrictions on exports of NVidia chips—inducing China to develop own technologies

## C. Guidance on the Way Forward

### 4. Narrower but Deeper Agreements

- Focusing on areas of deep global concern—like climate change
- Embracing not just trade but investment, technology, and joint research

## Conclusions

- Part of a still-broader agenda
- Revisiting global governance of knowledge, investment, finance, debt, taxation etc.
- All interrelated
- This may be a good time for the coalition of the willing to begin to make reforms in each of these areas