



Protectionism – it's not just Trump

There is no doubt that Donald Trump is a staunch protectionist. But the causes of rampant protectionism lie much deeper. For example, the World Trade Organization (WTO) has made no progress in dismantling trade barriers over the last thirty years. In addition, the US has lost its leadership role in the WTO due to the rise of China, so it has less incentive to follow its rules. Furthermore, hopes for political change in China through trade have not been fulfilled.

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Trump is a symptom rather than a cause of protectionism

Donald Trump is a staunch protectionist who wrongly views global trade as a zero-sum game and believes that the US can win any trade war in which the Americans have a trade deficit. But Trump is more a symptom rather than a cause of rampant protectionism. The causes of the disintegration of the rules-based global trade system lie much deeper.

Free trade always has a hard time

Free trade is a shaky construct anyway. That's because the disadvantages of global trade are obvious to voters: companies relocate their production and the associated jobs abroad, while dependence on imports from China, for example, grows in return. Such reports make the headlines and play to the advantage of left- and right-wing populists. By contrast, the advantages of free trade are less obvious. Consumers benefit from foreign trade primarily through lower prices and a wider selection. But consumers don't know what a car would cost without free trade.

Free trade is put on the back foot entirely if the World Trade Organization (WTO), as the organizer of free trade, does not function properly from the perspective of the United States – and there are numerous examples of this.

Problem 1: WTO has made no progress in reducing trade barriers for 30 years

Firstly, the WTO has made no significant progress in reducing trade barriers since the mid-1990s. The Doha Round of trade negotiations ultimately collapsed in 2008 after seven years. The US and other Western countries failed to gain better access to the markets of developing countries.

This frustrating state of affairs can also be interpreted as a consequence of the previous liberalization talks ("Uruguay Round"), which ended in 1994 after eight years with an agreement. In doing so, the Western countries had made significant cuts to their tariffs in order to persuade the hesitant developing countries to join. Gabriel Felbermayr, an economist specializing in trade, has rightly pointed out that the Western countries had put themselves in a poor negotiating position with an eye to subsequent rounds of negotiations. Their tariffs were already so low that they could hardly lower them any further to get concessions from developing countries.^[1] Frustration over the ineffectiveness of the WTO is an important reason why the US began withdrawing from the WTO long before Trump's first presidency. Membership of the WTO club is less and less worth it from the US perspective.

Problem 2: US has lost its leading role in the WTO

The US turning away from the rules-based world trade system is probably not only due to the failure of the Doha Round, but also due to the fact that, over time, the US lost their leadership role in the World Trade Organization because of the rise of China. In fact, the predecessor of the WTO, the General Agreement on Tariffs and Trade (GATT), was initiated by the new superpower USA in 1948 to promote the economic division of labor and thus the economic development of the Western states and some of their close developing countries in the emerging Cold War with the Soviet Union. The GATT introduced rules such as the most-favored-nation principle, according to which a member country must grant all other members the same trade advantages as the most favored third country. This ban on discrimination particularly benefited smaller countries, which would otherwise have been unable to assert their interests due to their lack of power.

As long as the GATT and thus the rules of the world trade system were dominated by the USA, it was in its own interest to abide by the rules of "its" GATT. As long as the others follow your rules, you follow your own rules as well. But with China's accession to the WTO in 2001 and its rapid growth, the USA lost its dominant role in the WTO. It increasingly perceived the WTO rules as a restriction of its trade policy autonomy and consequently, turned away from it.

This became particularly visible after 2007, when the US, under President George W. Bush, began to block the appointment of the seven judges to the WTO Appellate Court. His successor, Barack Obama, continued this policy. The justification given for this was



that the judges not only implemented existing law, but – similar to the European Court of Justice – increasingly created case law that violated US sovereignty.

As a result of the US blockade, the WTO Appellate Body has been unable to function since the end of 2019 because the minimum number of three judges has no longer been reached. This means that the entire WTO court system is blocked. Without the possibility of an appellate court, a country that sees itself as a victim of an illegal trade policy can no longer have the damage it has suffered determined, which is the basis for countervailing duties against the violator.

Problem 3: Change through trade does not work

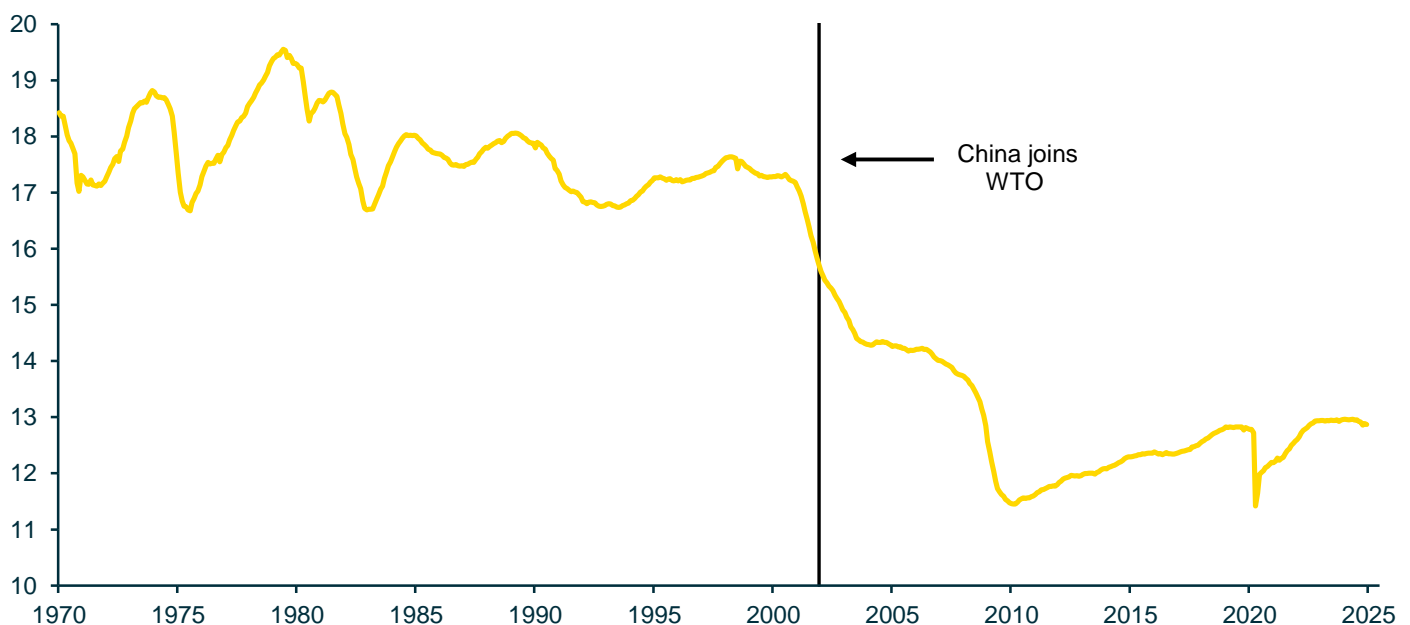
The fact that the US turned its back on the WTO even before Trump is also because free trade has disappointed a central hope of the US and other western countries: change through trade. The promise was that authoritarian states such as Russia and China would benefit economically from trade with the West but that with growing prosperity they would also open up to democracy and gradually become more like the West. Instead, China is being run in a more authoritarian manner than ever before. Furthermore, China is increasingly challenging the US militarily. Because China's economic power has grown so quickly, not least due to its accession to the WTO, China can afford a rapid military build-up. Accordingly, it is obvious that the US is trying to slow China's economic and military rise through protectionism. As long as China suffers more from this than the US, the economic and thus also the military advantage that the US still has will increase. The US therefore has an incentive to turn to protectionism, even if it weakens its economy.

Problem 4: WTO and the “China shock”

A further reason for the US to withdraw from the rules-based world trade system is because the WTO has arguably contributed to accelerating the decline of US industry. Competition due to increased imports from China hit labor-intensive areas of American industry particularly hard, with many workers without a college degree. Often, the affected companies were the most important employers in their region, so many of the laid-off workers entered long-term unemployment. Studies show that the China shock had its greatest impact **[2]** in the first decade of the 21st century, but the aftereffects lasted for another decade. Up to 60% of job losses in the US manufacturing sector are attributed to the China shock, and long-term employment in this sector has declined sharply (Chart 1).

Chart 1 - “China shock” accelerates US manufacturing job losses

US manufacturing payrolls in millions, monthly data. China joined the WTO on 11 December 2001



Source: Fed, S&P Global, Commerzbank Research



Conclusion: The environment remains difficult for Germany as an exporting country

Donald Trump is adding fuel to the fire when it comes to protectionism. But the US turning its back on free trade has deeper causes, as shown above, and the process already began some 20 years ago. This has the following consequences:

- US protectionism will continue, even after Mr. Trump has left office in four years' time. Protectionism would stay even if a Democrat were to become president in four years.
- The departure from the rules-based world trade system means the emergence of a power-based world trade system. The primary instrument of such a system is free trade agreements, which give the three major economic powers (USA, China, EU) more opportunities than small countries to assert their interests.
- Due to China's political confrontation with Western countries, trade between a China-dominated trade bloc on the one hand and the US and the EU on the other will decline in the coming decades. However, this process will be slow because China's size means that it cannot easily be replaced as a procurement and sales market. Furthermore, companies have an incentive to be able to use investments already made in China for as long as possible.

[1] Gabriel Felbermayr, Martin Braml, "Der Freihandel hat fertig. Wie die neue Welthandels(un)ordnung unseren Wohlstand gefährdet", 2024, Amalthea Signum Verlag GmbH, Wien. [\[back to text\]](#)

[2] Cf. Autor/Dorn/Hansen: "On the Persistence of the China Shock", NBER Working Paper 29401, October 2021 [\(back to text\)](#)



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