

Article

Populism, Globalization, and the Prospects for Restoring the WTO

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Abstract

This article sets out to identify a constructionist framework for a new and expanded “embedded liberalism” and WTO reforms in the global trading system. Globalization and populism led the Trump administration to attack the WTO system by introducing unilateral protectionist measures and undermining its rules and norms. US populist trade policies have persisted under President Biden. Necessary steps to restore the WTO system include (a) domestic reforms by WTO members to improve economic adjustment, labor mobility, and social safety nets; (b) WTO reforms to allow for additional domestic policy space, new negotiated rules to address contentious issues, and a relaxation of the consensus rule; and (c) US restoration of its commitment to multilateral trade rules. Renewed global leadership will be required to pursue these steps. If the current WTO agreement proves to be incapable of resolving these issues, countries will turn increasingly to the alternative of regional trade agreements, which may be able to re-create the conditions for a return to a rules-based global trading system. Yet populism, anti-globalization pressures, and geopolitical tensions present the danger of a continued unwillingness to cooperate among major countries.

Keywords

embedded liberalism; global institutions; globalization; populism; trade policy; WTO

Issue

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1. Introduction

A global wave of populism brought Donald Trump to power as US President in 2016 and increased the influence of populist parties around the world. It has also disrupted global trade policy, primarily through Trump’s defiance of the norms and rules of the WTO beginning in 2018, and this impact has persisted beyond his defeat in the 2020 presidential election. The disruptions of globalization had already led to skepticism in many countries regarding the benefits of open trade, particularly since the global financial crisis of 2008 (Hays, 2009). The populist challenge to the global trading system, in other words, arose at a time when support for the post-World War II global system of trade was already being questioned, challenged, and attacked from other quarters. Yet populism has played a special and particularly corrosive role in the disruption of trade and trade relations since it sparked overt efforts to undermine the very institutions of trade and eroded the trust among WTO mem-

bers in the rules necessary to sustain the entire trading system. In addition, populist strategies of domestic polarization severely undermined the ability of some countries, and in particular the US, to achieve a workable domestic pro-trade coalition. The creation of a new and revived global trade regime will require measures to address both anti-globalist and populist challenges to the WTO as an international institution.

This article sets out to explain the erosion of the system of global trade rules, and how this damage might be repaired. It will draw primarily on a constructivist model of global institutions as the basis for analysis. While US populist trade policy was a major contributor to this problem, anti-globalization anxieties played a key role in promoting it, as it had already begun to create major trade adjustment problems in large countries, particularly after China joined the world economy in the 1990s. Structural changes in global capital flows, along with accelerating technological change and the expansion of global supply chains, exacerbated anti-globalization

sentiment. These factors undermined the constructivist underpinnings of the WTO that had been established in the postwar period, especially regarding political support for the rules and trade liberalization in general. Remedies to fix this problem will require new mechanisms to rejuvenate support through new domestic policies, a broader engagement with domestic pro-trade constituencies, reforms of WTO rules, new models of trade leadership and, if necessary, the use of regional trade liberalization to move countries back to a multilateral rules-based trading system.

The article is organized as follows: A beginning section presents the basic constructivist model and the framework it provided for the initial the General Agreement on Tariffs and Trade (GATT)–WTO system. There follows a discussion of populist trade policies and other disruptions to the system in terms of eroding political support for WTO rules and institutional norms. The analysis of possible remedies then sets out to identify policy changes, WTO reforms, and other strategies to improve the situation. A concluding section assesses the prospects and requirements for making progress in improving the political environment for a stable global trading system.

2. The GATT–WTO System as a Constructivist Institution

The GATT–WTO system that emerged from the aftermath of World War II was an innovative institution that established for the first time a multilateral agreement of trade regulation and negotiation based on reciprocity, non-discrimination, and the principle of peaceful third-party dispute resolution. The constructivist element of the system consisted of a collective intentionality among its participants to gain the benefits from international trade, subject to each member’s ability to retain sovereign policy space to manage domestic economic stabilization (see Jones, 2015; Lang, 2006; Ruggie, 2008; Searle, 2005). Leadership by major trading countries, especially the US, in conjunction with European and other OECD countries, was necessary to ensure the legitimacy, stability, and viability of the universal rules-based system. Accession to the system involved a negotiated balance of benefits (the output of welfare-improving trade agreements) and obligations (reciprocal market opening, subject to rules and exceptions). A dispute settlement system provided the benefit of third-party review (and later adjudication) of bilateral trade conflicts, with the understanding that participants would forgo unilateral actions in favor of peaceful and negotiated resolutions. The underlying economic justification of the system was its ability to reduce transaction costs, secure gains from exchange for all participants, motivate a mutually welfare-enhancing negotiating framework based on reciprocity, instill adherence to the rules, and thereby provide a domestic “anchor” for stable liberal domestic trade policies. Figure 1 illustrates the three pillars of the

constructivist institution—collective intentionality, constitutive rules, and institutional output—and their institutional components.

An important element of a country’s participation in the collective intentionality of the WTO is the domestic mechanism for achieving political support for trade openness within the participating countries, particularly the leading countries that provide the institution’s stability. This is a political process that requires the domestic government to provide assurances to key constituencies in the population that government policies will provide safety net protection from disruptive external trade forces. Ruggie (1982) identified embedded liberalism as the domestic political compact that made possible trade liberalization among participants in the postwar GATT–WTO system. Its features included progressive tax and fiscal policies, domestic welfare measures to offset wage losses, and adjustment policies to facilitate labor flexibility and mobility in response to trade-related job displacement. In addition, the GATT–WTO system itself allowed for participating countries to use temporary “safety valve” trade restrictions in case of defined “unfair” trade practices and unexpected trade disruptions, including anti-dumping and countervailing duties and safeguards measures. GATT–WTO rules on domestic subsidies were also designed to allow domestic transfers to stabilize the economy without compromising trade-opening measures negotiated under the agreements. The goal behind the designation of domestic policy space and negotiated exceptions was to maintain the domestic political balance necessary to sustain support among sovereign countries for the “pooled sovereignty” of a cooperative system of reciprocal market opening, dispute settlement, and trade negotiations.

Over the years, this balance has often been precarious, especially with regard to politically sensitive traded items. Throughout the entire history of the GATT–WTO system, many countries have persisted in their efforts to impose subsidies, tariffs, and other forms of intervention favoring domestic output, an issue that continues to vex trade relations to this day. Some measures, such as import quotas and voluntary export restraints (VERs) violated the GATT non-discrimination rule. Subsequent WTO negotiations eliminated the use of VER-type restrictions, but trade conflict over sectoral issues has continued. In addition to trade conflicts among the richer countries over manufactured products, the growing number of developing country members in the WTO, and their growing influence in the negotiations, reflects an increasing divergence in sectoral trade interests within the organization. In particular, the participation of China in the world trading system has disrupted many industrial markets around the world, and its system of subsidies and treatment of intellectual property have been at odds with WTO rules.

Achieving a workable system of domestic political support for trade among an expanded membership, now at 164 countries, across a wide range of development

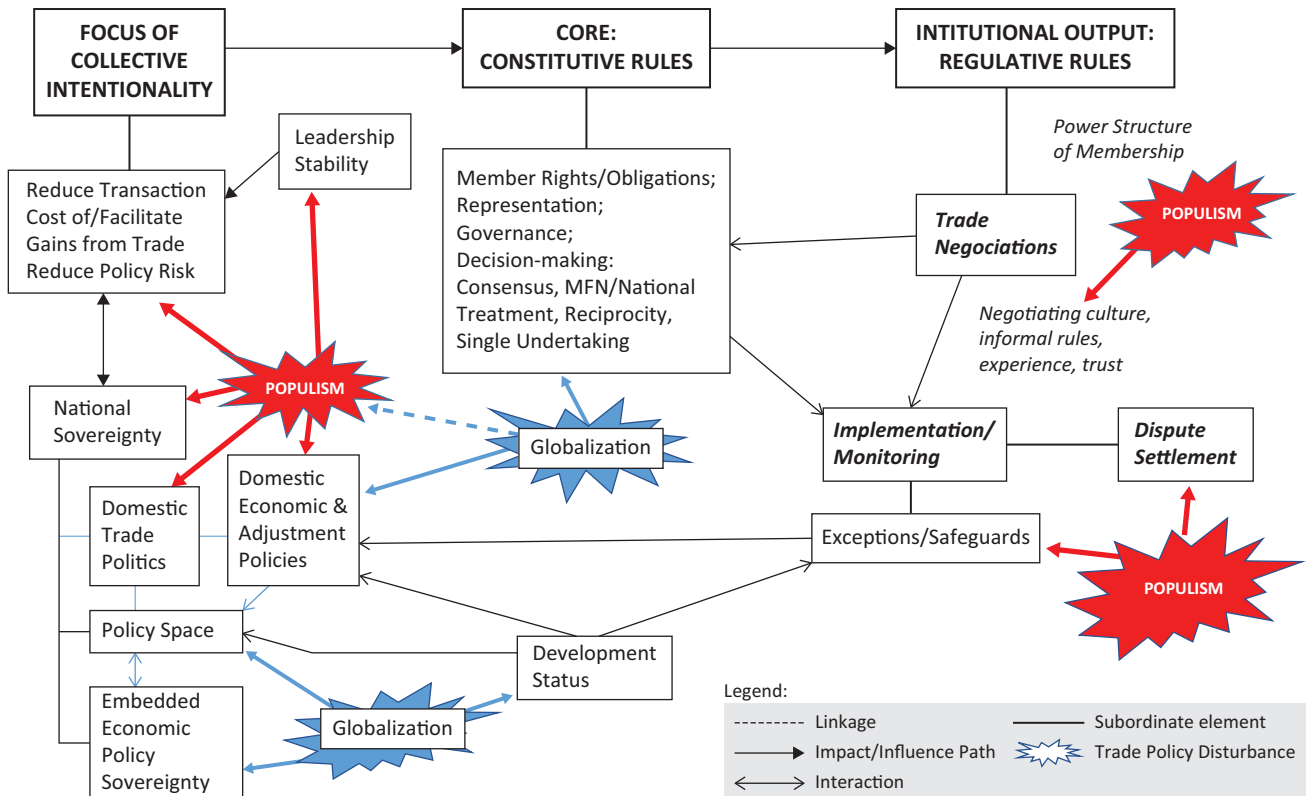


Figure 1. Institutional sketch of the GATT–WTO system and populist/globalization disruptions. Notes: Concept based on Searle (2005) and Jones (2015); MFN refers to the GATT/WTO Most-Favored Nation Clause.

status and governmental ability to stabilize domestic economies, has made the WTO consensus rule on comprehensive negotiations nearly impossible to maintain. Zelicovich (2022) notes that multilateralism in the WTO appears to be possible only to the extent that the membership shares a core of principles and values that supports collective intentionality, which becomes problematic when members’ developmental and trade concerns diverge. In the early postwar years of the GATT, the consensus rule had benefitted from the more informal diplomacy that came with a small group of leading countries whose trade diplomats had similar educational backgrounds and perspectives. Trade negotiations were never quick, but the consensus ethos of the time made agreements easier to reach. The transition to the WTO introduced the “single understanding” (total package) requirement in multilateral trade negotiations, and more formal legalization, especially in the Dispute Settlement Understanding and its reverse consensus rule. These changes, along with the membership growth, displaced trade diplomacy in favor of legal precision in anticipation of possible disputes and made trade negotiations less conducive to consensus building. The collapse of the Doha Round in 2009 signaled the end of the era of postwar multilateral trade liberalization, and accelerating globalization compounded the growing divergence of trade interests among its members, increasing the likelihood of trade conflict. Figure 1 illustrates the globalization flashpoints that tend to disrupt the policy space

equilibrium. Rapid changes in comparative advantage have heavily burdened adjustment policies in countries experiencing job displacing imports, threatening domestic political support for trade openness. These problems are familiar features of the GATT–WTO system, but the complexity of increasing interdependence presents a particularly difficult challenge to the WTO as an institution, and a remedy to the problem will require improved domestic adjustment policies, as well as WTO reforms.

The populist trade policies of US President Donald Trump have presented an analytically distinct challenge to the global trading system. It is important in this regard to acknowledge that populism itself, a phenomenon that begins specifically in democratic electoral systems (see Eichengreen, 2018), is not linked inherently with protectionist trade policy. Mudde (2017, p. 29) defines populism as an “ideology that considers society to be ultimately separated into two homogenous and antagonistic groups: ‘the pure people’ and ‘the corrupt elite,’ and argues that politics should be an expression of the...general will of the people.” Populism can take different forms along the political spectrum, but regarding trade, right-wing, culturally centered populism is the most consequential. Its operating principle is to stoke division in the domestic population between “the people” and the “elite” through a political strategy of affective polarization in the case of Trump’s presidential campaign (Gidron et al., 2019). Trade, in this context, is most likely to become a populist issue to the extent

that populist leaders can link it to other grievances to mobilize the people's outrage against the elite. Trump succeeded in associating trade institutions with global elitism and import competition with immigration and cultural issues. Sociotropic voting behavior motivated many of his supporters not impacted directly by trade to connect job displacement through imports with larger social grievances and support for protectionism (see Colantone & Stanig, 2018). At his campaign rallies, Trump criticized US trade policy as a reflection of US immigration policy, comparing Chinese imports with the surge of Mexican immigrants he claimed were threatening US security and culture. In this connection, Hinojosa Ojeda and Telles (2021) present evidence that the surge of import competition from China, which had joined the WTO in 2001, caused a broader political shift towards populism reinforced by fears of cultural displacement by immigrants. Trump also exploited popular anxieties about globalization itself, framing national economic security in terms of a competition between the US and its trading partners over trade balances, with the US losing the battle (see Mutz, 2021). Trade thereby became a vector of populist anger.

3. The Populist Damage to the Trading System and US Economic Welfare

Even so, only a large and influential country such as the US is capable, on its own, of attacking the core institutional principles of the WTO system itself. In Figure 1, Trump's populist disruptions sought not only to contravene WTO open trade principles but to undermine their legitimacy, by substituting unilateral protectionist actions for adherence to the core rules of non-discrimination and tariff binding and the principle of multilateralism (Jones, 2021). Trump's populist trade policies began in earnest in 2018 as he invoked the National Security Clause of US trade law (corresponding to GATT article 21) to apply universal tariffs of 10% on imported aluminum and 25% on imported steel. This policy was designed by Trump's Trade Representative Robert Lighthizer, a prominent trade lawyer who was aware of the hitherto untested vulnerabilities of the WTO to unilateral assertions of US power. The original intention of GATT article 21 was to allow such tariffs only in wartime and cases of national security emergencies, but Trump declared "unemployment in the industry" (US Department of Commerce, 2018, p. 17) as the national security argument for it. The new US interpretation flew in the face of all previous applications of this measure, opening the door to protectionist trade actions by other WTO members for any self-declared "security" reason. It also implied that the GATT–WTO tariff binding principle could be negated unilaterally, potentially undoing all previously negotiated trade liberalization measures and the entire system of rules-based multilateral trade.

The second major populist blow to the WTO was the Trump-initiated trade war with China. The GATT had

been founded in large part to avoid the trade wars that contributed to the collapse of the world economy in the 1930s. The WTO agreement, therefore, committed its members to submit trade disputes on matters negotiated under WTO agreements to a dispute settlement procedure, thus preventing tit-for-tat tariff escalation. The US, in this regard, had agreed in principle to forgo its use of unilateral measures under US section 301 as a method of dealing with trade disputes. China, for its part, had been the subject of several legitimate complaints regarding intellectual property violations, as well as non-transparent subsidies, which would have justified WTO dispute settlement proceedings. Trump, on the other hand, seemed less interested in these specific rule violations and focused instead on the US trade deficit with China, which he regarded as the more important problem. He embarked on a policy of unilateral tariffs across a wide range of Chinese products, leading predictably to Chinese retaliation in kind, and then US counter-retaliation. These actions directly violated the tariff-binding rule, the GATT–WTO non-discrimination clause, and dispute settlement procedures. The 2020 Phase One Agreement, which established a truce in the trade war, also violated these provisions, locking both countries into trade quota agreements in further violation of WTO rules. The recrudescence of trade war policies, compounded by discriminatory managed trade agreements, further weakened the world trading system.

Economic welfare cost estimates of the national security tariffs and the US–China trade war on the US include the traditional negative static welfare effects but also the enhanced effects associated with their violation of WTO rules. Bown and Russ (2021) estimate that small increases in steel and aluminum industry employment were overwhelmed by job losses among industries that use these metals as inputs, with a net decrease in manufacturing employment of 75,000. Amiti et al. (2019) estimate the consumer welfare cost of all new tariffs under the Trump administration for 2018 alone to be \$23.8 billion, compounded by the fact that all China-US trade war tariffs and the protective effect of many of the steel and aluminum tariffs continued into the Biden administration. In addition, the degree of foreign retaliation against the national security tariffs was unusually high because most countries regarded them as an open violation of WTO rules (see Table 1). Foreign countermeasures beginning in 2018 disrupted US export and import trade by \$183 billion on an annual basis (Amity et al., 2019). US diplomatic relations with major trading partners and military allies also suffered, as these tariffs treated them as national security risks. Amity et al. (2021) update economic cost estimates of the US–China trade war by considering its broader macroeconomic and productivity effects, concluding that it has reduced US economic welfare by 4.9%, a much larger impact than all other estimates of the trade war tariffs based on static market effects alone. The systemic cost of the trade war

Table 1. Trump administration trade restrictions and foreign retaliation, 2018–2020.

Date	Initiated by	Against	Action	Products **
Jan. 22, 2018	US	Korea China	Section 201 (Safeguard)	Washing machines Solar Panels
Mar. 23	US	Most countries Most countries	Section 232 (Nat’l Security tariffs)	Steel Aluminum
Mar. 28	US	Korea	Section 232 VERs	Steel
Apr. 2	China	US	Retaliation	Steel/Aluminum tariffs
June 1	US	EU, Canada, Mexico	Extend Section 232	Steel/Aluminum
June 22	EU	US	Retaliation	Food, consumer goods
June 5–July 1	Canada, Mexico	US	Retaliation	Steel/Aluminum, Food, consumer goods
July 8	US China	China US	Section 301 trade war tariffs I Trade war tariffs I	Various goods Various goods, food
Aug. 10	US	Turkey	Doubled tariffs (for currency manipulation)	Steel/Aluminum
Aug. 6	Russia	US	Retaliation	Steel/Aluminum
Aug. 14	Turkey	US	Retaliation	Cars, alcohol, tobacco
Aug. 23	US	China	Trade war tariffs II	Various
Aug. 23	China	US	Trade war tariffs II	Various
Sept. 24	US	China	Trade war tariffs III	Various
Sept. 24	China	US	Trade war tariffs III	Various
Aug. 27	US	Mexico, Canada	* USMCA, VERs, wage provisions	Autos
May 10, 2019	US	China	Raise tariff III rates	Various
May 30	US	Mexico	Contingent tariff threat	Immigration policy
June 1	China	US	Retaliation: higher tariff III rates	Various
June 5	US	India	Withdraw GSP benefits	All Indian exports
June 15	India	US	Retaliation	Steel/Aluminum
Jan. 15, 2020	US, China		Phase One trade war truce	Various trade quotas
Jan. 24	US	Several countries	Section 232 extension	Steel/Aluminum derived products

Notes: * USMCA stands for United States-Mexico-Canada Agreement, successor to the North American Free Trade Agreement (NAFTA); ** steel/aluminum tariffs against Canada and Mexico were terminated in 2018, and tariffs against other countries were converted into tariff-rate quotas in 2021 by the Biden administration; China tariffs continue, as of late 2022. Source: Jones (2021).

must also include the US–China Phase One violation of the MFN clause, along with the fact that the negotiated targets for Chinese purchases of US goods had not been realized as of mid-2022 (Bown, 2022).

Trump’s third blow to the WTO was his veto on the appointment of any new WTO Appellate Body judges, thereby blocking the completion of appeals to dispute panel decisions. This action threw the entire dispute settlement system into disarray, one of the three major functions of the organization. The Trump administra-

tion’s view was that the US was under no obligation to comply with WTO rules or dispute panel decisions unless they served US goals. His trade policy sought to replace the WTO system with unilateral measures unrestrained by international agreements. White House aides reportedly deterred him from withdrawing completely from the WTO on more than one occasion (Woodward, 2018). Other examples of this defiance of the WTO included Trump’s resurrection of VERs as a trade policy tool, a measure explicitly banned in the WTO Safeguards Agreement,

and his threat to impose unilateral tariffs on Mexico unless it changed its immigration policy to satisfy US demands. The systemic damage to the global economy from the totality of these disruptions was reflected in the resulting global uncertainty of trade policy, previously secured by the long-standing acceptance of WTO rules. One way to quantify the economic impact of this phenomenon is to observe related changes in economic activity, especially reduced new trade-related investments and initiatives. Caldara et al. (2019) estimate that the impact of trade-related uncertainty shocks during this period reduced global GDP by about 1%, as uncertainty spikes were linked specifically with key Trump tariff announcements (see Figure 2). Beyond these immediate disruptions, one must also consider how much the populist policies may have crippled global trade cooperation and liberalization in the long run, not only through trade policy actions but also through the broader diplomatic conflict they created among erstwhile friendly countries and allies. Table 2 summarizes the major disruptions of Trump’s trade policy regarding WTO norms and rules.

4. Fixing the Populist Damage

Moving from a point of institutional disequilibrium in the global trading system to one of stability and renewed functionality will involve many challenges, not least because the current dysfunction has roots in several factors. Some of them have been familiar to WTO observers for several years, such as the lack of adequate and effective adjustment policies to deal with trade disruptions, thereby diminishing public support for trade liberalization. Other problems that need to be addressed include the increasing diversity of the WTO membership and the corresponding ineffectiveness of the consensus rule

and “single undertaking” strategies in multilateral trade negotiations. A related problem is the lack of flexibility in concluding smaller-scale WTO plurilateral agreements among willing WTO partners. Updated WTO rules and “safety-valve” provisions will also be required to forestall major protectionist actions. Finally, the “trust deficit” that has arisen from the populist fever and other polarizing global events needs to be addressed, a monumental task that will require new sources of global leadership. Progress in returning to rules-based trade will depend on progress in solving many of these constituent problems simultaneously.

4.1. Domestic Adjustment and Safeguards

The problem of adjusting to trade disruptions is not new but has become more difficult and complicated to manage. Early postwar Keynesian fiscal policies seemed adequate to handle most adjustment problems in the context of production, trade, and labor mobility patterns in the early decades of the GATT–WTO system. However, the speed of technological change, the increased mobility of capital, and the evolution of international supply chains have increased the pace of global change in comparative advantage and trade patterns, creating adjustment pressures and often stoking protectionist policy responses. Either directly or indirectly, these pressures have supported populist movements as well. If the embedded liberalism model can be renewed at all, it will take new and broader thinking to address the underlying impediments to trade adjustment. A comprehensive plan for overcoming populist influences on trade policy, along with the structural changes and challenges facing the global economy, must therefore include effective efforts by domestic governments to improve their

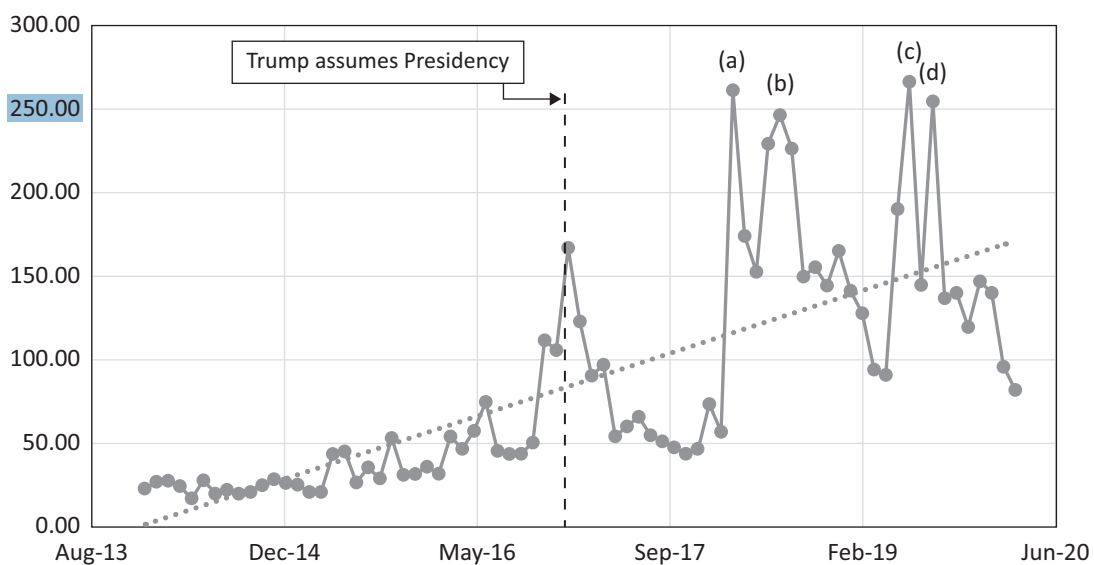


Figure 2. Trade policy uncertainty index, January 2014–March 2020. Notes: (a) US imposes section 232 global steel and aluminum tariffs, (b) US imposes first China tariffs, (c) US raises China tariff levels, (d) US expands China tariff coverage. Source: Caldara et al. (2019).

Table 2. Populist erosion of trade institutions under the Trump administration.

Date	Trade Provisions	Application	Institutional Impact
April 2018	US Sec. 232/GATT art. XXI (national security)	Universal steel (25%) aluminum (10%), and tariffs	Ambiguous GATT wording allowed US to introduce new criteria for potentially unlimited national security-based trade restrictions
March 2018 (ongoing trade war)	US Sec. 301; GATT arts. XXI, I.1 (MFN *), II.1(a), and (b) (tariff binding); DSU art. 23; DSU ** case DS-152	Unilateral retaliation against China trade practices. Retaliation and tariff escalation	US refusal to honor previous agreement restraining use of Sec. 301, opens door to trade war
2017–2020	WTO DSU ** (Annex 2), art. 17.2. AB *** Appointments	US blocks AB *** judge appointments	US action progressively limits the ability of AB *** to function and encourage countries to file WTO disputes. Quorum dissolves Dec. 11, 2019
April 2018	WTO Agreement on Safeguards, art. 11(b)	VER (steel from Rep. Korea, Brazil, Argentina)	US negotiations with Korea, Argentina, and Brazil on steel quotas defy WTO ban on voluntary restraint agreements
May 2019	US International Emergency Economic Powers Act of 1977 (applicability disputed)	Threat of unilateral discriminatory tariffs to coerce changes in Mexican immigration policy	Coercive protectionism. WTO: nullification and impairment of negotiated trade benefits; MFN * violation; NAFTA/USMCA violation
January 2020	GATT art. I, WTO DSU **	US–China Phase One Agreement: discriminatory quantitative import requirements	Trade quota agreement between the US and China contravening MFN *, dispute settlement rules

Notes: * MFN-Most-Favored Nation Clause, ** DSU-Dispute Settlement Understanding, *** AB-Appellate Body. Source: Jones (2021).

capacity to adjust to changing patterns of production and trade.

Effective trade adjustment policies comprise government actions that increase the efficiency of market adjustment, allowing workers displaced by trade to find stable new employment in other firms and industries. This proposition, to be sure, has become subject to increasingly critical skepticism. Kolben (2021) suggests that the traditional concept of compensation in trade policy may no longer be politically viable. Such policies need to identify channels of adjustment to facilitate the movement of labor, capital, and other resources from firms and industries where jobs are being displaced to those where economic activity can provide new jobs. In many cases, domestic economies have become too rigid to accomplish this goal in the face of ongoing and accelerating adjustment pressures. Factor mobility appears in many countries to be too low to absorb trade shocks (Akman et al., 2018). In addition, many workers disparage the notion of direct compensation as “hand-outs,” and reject long waits and re-training for new and unfamiliar

jobs in distant locations (Kolben, 2021). Government programs such as the US Trade Adjustment Assistance program have notably failed to fill the need for effective retraining and re-employment of trade-displaced workers (Kim & Pelc, 2021), and structural problems with taxation and program financing have allegedly starved governments of resources to tackle the problem (Hays, 2009). These problems often present policy-makers with political motivations to rely on protectionist measures rather than market adjustment mechanisms to respond to trade-driven job displacement.

These problems must be taken seriously, but it is important to consider the alternative. Protectionism tends to create new conflicts that offset the gains of avoiding adjustment. For example, a steel tariff that helps avoid layoffs for basic steel workers often results in other (and often more) layoffs in steel-using industries because of tariff-induced higher input prices, as noted earlier (Bown & Russ, 2021). A full consideration of this issue will require an empirical study of the net costs of specific protectionist policies compared to the

net costs of alternative market adjustment policies that support trade openness over time. Adjustment policies have indeed come up short, but trade restrictions may become politically entrenched and difficult to reverse. In this regard, WTO safeguard policies remain an instrument of adjustment that has not fulfilled its intended purpose: to provide temporary protection for industries subject to unexpected trade disruption to allow adjustment to take place. The problem in recent years has been that WTO safeguard rules have led to dispute challenges by exporting countries that typically have discouraged their use, an issue that will require negotiations on WTO reform.

Regarding domestic adjustment policies, there is plenty of room for improvement, including more responsive and flexible skill re-training and education, measures to increase labor mobility, and regulatory reforms to encourage entrepreneurship and new business development, such as antitrust measures (see Clausing, 2019). Broader policies can also help this process, including general market adjustment that provides incentives and assistance for workers displaced by both trade and non-trade disturbances (especially technology) to make the transition to new jobs (Kolben, 2021). Progressive tax policy can also contribute to trade adjustment and more equitable income distribution (Clausing, 2019). “Compensation,” in this regard, may be only one part of a new set of complementary policies that unclog market barriers to adjustment. Renewing the embedded liberalism model is not just a way to provide political support for trade liberalization, but also a necessary component of managing market upheavals in a modern economy. Adjustment policies will also need to be adapted to developing countries as they confront trade market disruptions.

4.2. WTO Reforms

Since the WTO became a battleground for conflict over populism and other sources of division, it will be necessary to pursue corrective institutional reforms. One stream of thought on this question focuses on fundamental structural changes to global economic governance. Building on a critical historical analysis of global institutional evolution, Mazower (2012) traces the evolution of modern global organizations such as the GATT and WTO, which in his analysis have tended to favor the interests of western countries. Organized on the principle of nation-state sovereignty, these institutions allowed global trade increasingly to serve corporate and financial interests, sacrificing broader global goals of development, macroeconomic stability, human rights, and environmental sustainability. Trade institutions, according to this view, became focused on trade liberalization to the exclusion of all other concerns. Addressing these shortcomings, Gallagher and Kozul-Wright (2022, pp. 95–102) propose a “new” Bretton Woods that would re-set the goals of the WTO, in conjunction with complementary

reforms in the IMF and World Bank, to serve equitable growth, development, and sustainability across the world. While individual countries would have to implement supporting and parallel reforms, the transformation of global economic institutions would proceed on the basis of multilateral negotiations.

The emphasis on multilateralism is shared by others seeking global institutional reforms favoring social and developmental goals (see Narlikar, 2019; Wilkinson, 2019). Such fundamental global institutional change would need to overcome economic nationalism inspired by right-wing populism, not to mention geopolitical and North-South divisions. The drawback to new institution building along the lines of Bretton Woods is that the opportunities for such major international summitry are rare. Mazower (2012) indicates in his historical overview that the birth of new international institutions typically occurs after major wars, whereby victorious countries can find common ground on establishing significant new relations beneficial to themselves. Given the possibility of future cataclysmic events such as major wars and deadlier pandemics than the Coronavirus, the world may yet encounter another such a moment, in which conflicts among major powers could be set aside to solve catastrophic global problems. In the meantime, Stephen and Parizek (2021) identify a process of deadlock, drift, and fragmentation in global trade governance, based on diverging preferences among new and existing trading powers. Zelicovich (2022) similarly identifies a divergence in values within the diverse WTO membership that diminishes the scope of multilateral cooperation. If the foundations for multilateral cooperation are weak, the likelihood of successful negotiations on large new multilateral institutions is slim.

An alternative, although generally less ambitious, stream of thought regarding WTO reform is to work within the existing WTO structure to achieve incremental reforms. This approach applies especially to technical issues and rule changes (Appleton & Macrory, 2022). The threshold for cooperation on smaller reforms would be easier to reach, although it may also be easier to negotiate difficult larger issues internally than as part of separate treaties. Many observers believe that the WTO needs an updated rulebook to guide dispute settlement, including a resolution of long-standing conflicts over pricing methodology in anti-dumping cases and the trade impact of non-transparent government subsidies (Wouters & Hegde, 2022). It also needs a way to modify the consensus rule, a problem made particularly difficult by the fact that any changes in this rule also require consensus. As suggested by the discussion of domestic adjustment measures, it will be necessary to re-strike the balance between policy space and trade liberalization. Thus, WTO safeguards methods, as noted in the context of domestic adjustment, may need to be modified, along with rules for government intervention regarding subsidies in regulation. There is also growing pressure for the WTO to accommodate environmental

initiatives in a manner that is consistent with rules-based open trade.

One promising provision in the existing WTO agreement is the possibility of new “critical mass” trade liberalization, which allows a smaller number of countries representing a sufficiently large amount of trade in a product category to agree to MFN trade liberalizing measures for the entire WTO membership without new obligations for non-signatory WTO members. Another, more complicated, possibility is Annex 4 plurilateral agreements among smaller numbers of WTO members on a conditional MFN basis. Members of a specific Annex 4 “club” would have both the benefits and obligations of the agreement, with no additional costs or benefits for non-signatories. The increased flexibility of negotiating smaller agreements regarding trade liberalization among like-minded countries would also allow subsequent accession of other countries. Annex 4 would allow smaller coalitions of countries to avoid populist confrontations or conflict with other WTO members and reach an agreement. Annex 4 would be particularly useful in pursuing agreements on new topics that do not meet the threshold of consensus support, such as electronic commerce, investment facilitation in developing countries, services regulation, environmental sustainability, and plastics pollution (see WTO, 2017). One Annex 4 proposal would establish WTO measures to help small firms overcome barriers to entering global trade markets and would also help to build a broader base of political support for the WTO and trade liberalization (Hoekman & Sabel, 2021). Unfortunately, the Annex 4 issue is yet another prisoner of the consensus rule, which allows any WTO member country to veto any such agreement, even as a non-signatory (Hoekman & Sabel, 2019).

4.3. Renouncing Populist Trade Policies

To restore confidence in any system of global trade cooperation, the specific measures taken by the Trump administration will need to give way to policies consistent with WTO rules and norms to repair the damage they caused (see Goldstein, 2021). A sort of protectionist inertia propelled these measures into the Biden administration, partly the result of a reluctance of the new US president to give up inherited bargaining chips in trade relations. Yet President Biden has clung to the domestic political advantages of the new protectionist tools of his predecessor and has been slow to show a full return to rules-based trade. When it comes to major WTO trade negotiations, the “trust deficit” that inhibits major trade liberalization will persist until these measures are renounced. At the same time, there are signs that the WTO may be recovering at least part of its negotiating function. The Twelfth Ministerial Conference, long delayed by the Covid-19 pandemic, was finally convened in June 2022 and led to a modest, but welcome, agreement on fisheries subsidies, along with new measures increasing access to pandemic-related intellectual

property, and a pointed statement endorsing the WTO rules-based system and continued commitments to a broad set of ongoing programs (WTO, 2022). These developments provided evidence that the populist disruption of the WTO negotiating function was not complete, and that WTO members could still find a way to pursue the collective intentionality of rules-based trade liberalization, at least on more narrowly defined issues that facilitate productive bargaining.

For broader and more consequential agreements, the path forward for establishing a post-populist trading system will require newly energized leadership in the global trading system. The US, as the erstwhile champion of rules-based trade, will need to serve as an essential and committed player, but in addition, there must be a renewed coalition of pro-trade countries that agree to negotiate new WTO rules and reforms. The EU and other OECD countries will be essential in this effort, but the developing countries must also play a role if the WTO is to continue to be global in scope. China, which has a major stake in an open trading system, will need to participate in a new bargain to re-establish the WTO as a repository of rules and a forum for multilateral trade liberalization.

4.4. A Possible Alternative

The foregoing set of conditions for establishing a post-populist and revitalized system of trade liberalization is based on the modernization of embedded liberalism and the repair of anti-globalization and populist damage done to existing GATT–WTO institutions. The problem with pursuing this solution lies in the fact that major reforms within existing global institutions must overcome internal barriers to change that had previously served to lock in commitments and create stability, such as the consensus rule. Because the underlying conditions that facilitated the original institutional agreement change—the pattern of country leadership, the scope of negotiating issues, and technological and geopolitical conditions—the commitment among its participants to the original terms of collective intentionality may no longer be sufficient to make the needed repairs. Specifically, such a weakened institution may have difficulty in mustering the needed domestic political support among countries that would need to play a leadership role in the process. For this reason, the plan to revitalize the WTO with incremental reforms will be contingent on the political support and global leadership that can be brought to bear on the project.

Notwithstanding predictions of fragmentation in trade governance into regional parallel institutions (Stephen & Parizek, 2021), such regional trade agreements may provide a pathway back to Geneva and a rejuvenated WTO. WTO member countries have already moved their diplomatic resources increasingly into regional trade agreements as the main channel for trade liberalization, having become impatient with

the WTO's inability to conclude major new multilateral agreements. Returning to a multilateral outcome will depend on the same sort of leadership needed to renew embedded liberalism and WTO reforms, but within the framework of regional trade agreements. Larger countries can be expected to favor regional trade agreements because their economic leverage allows them to negotiate them relatively quickly, with agendas customized for their economic interests. Wei and Frankel (1996) develop an economic model in which countries initially fearful of a global trade agreement will tend to be more favorable to an intermediate stage of regional agreements. This strategy allows political support to grow for openness to global trade and would also support domestic reforms for a new embedded liberalism. This "stepping-stone" approach holds that exporting lobbies in general will benefit from regional trade, subsequently generating broader export lobby support for a global agreement, while diminishing the influence of import-competing protectionism. In addition, regional negotiating dynamics may allow new issues to be concluded among smaller groups of like-minded countries. If open to new member accession, expanded acceptance could grow incrementally rather than being reliant on the risk of not achieving immediate global consensus. It may therefore be easier for countries to overcome the "trust deficit" in trade relations through regional trade agreements than through long and contentious WTO negotiations. Yet success in this approach will require a general restoration of confidence in cooperative, good-faith negotiations.

Regional agreements are still inferior economically to global agreements in that they limit the gains from trade itself, as well as the transaction cost savings of a single set of global rules. The greatest danger of this approach is that it could lead to a balkanization of trade into insular trading blocs dominated by competing large countries with hub-and-spoke networks. Unabated populism and geopolitical tensions would make this outcome more likely. The regional pathway to multilateralism will therefore have to navigate the "steppingstones" carefully. The pattern of openness to new members, along with leadership among large trading countries, will be crucial in this regard. For example, whereas the USMCA (formerly NAFTA), is currently closed to new members and the EU's door is open only to neighboring countries in the region, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP) appear to be open to new membership on a much wider geographical basis. The process will also depend on a sort of jealousy that comes from competitive trade liberalization, based on the desire of trading countries not to be left out of new market access agreements. The momentum of expanding or merged agreements may then lead to the adoption of common rules, thereby "multilateralizing regionalism" (see Baldwin & Low, 2008; Capling & Ravenhill, 2011). At the same time, the joint negotiating power of its members will grow, making the acces-

sion of large trading partners—such as China, the US, and the EU—more compelling. A check on this process is that many smaller economies, including developing and emerging market countries, will need to accede based on mutually compatible rules, but they, too, would also have a strong incentive to join an expanding trade network. At the same time, broader negotiations would have to adjust to the diverse interests of larger memberships and new trade issues. Yet existing WTO rules and dispute settlement procedures could act as the foundation for new global trade rules created by this incremental process.

5. Conclusion

Donald Trump's trade policies represented an unprecedented challenge to the WTO by its largest and most influential member: A defiant rebuke of its core principle (non-discrimination), rules (on tariff binding, negotiated quotas), and practices (multilateralism, dispute resolution). While the underlying problems of the WTO can be traced to globalization and other forces, the systemic damage due to these policies exposes the need to address the accumulated problems of a weakened institution. Overcoming the current institutional rupture in the global trading system will require a host of measures to restore the conditions for negotiating global trade liberalization. Building domestic components of a new embedded liberalism in key countries, especially the US, will require new government programs and public support in the face of domestic skepticism about trade. Getting WTO member countries to come to a consensus on updating their rulebook and making their decision-making more flexible and adaptive appears to be equally challenging. Finally, global leadership will be needed to motivate the world to re-embrace some version of the system's traditional model of rules-based governance and trust-based goodwill. Working within the framework of existing global institutions to make progress on these changes appears to be the best strategy for reform. In the absence of progress at the WTO in Geneva, the alternative of a "back-door" return to multilateralism through the "steppingstones" of regional trade agreements offers the possibility of a more gradual process that could avoid the pitfalls of an unwieldy WTO negotiation. However, even within the regional framework, leadership and commitment to broader multilateralism will eventually be necessary, building trust, cooperation, and trade expansion incrementally, while reducing the severity of national sovereignty concerns. In the meantime, domestic policies that promote economic growth and reduce political and social tensions, combined with global reductions in geopolitical tensions, may be necessary intermediate steps to restore a diplomatic environment for international trade cooperation.

A hopeful sign is that, throughout these disruptions, the WTO has continued to function, having completed its Ministerial Conference in June 2022 and announcing

a fisheries agreement and a number of other decisions and declarations (WTO, 2022). Even without a fully functioning dispute settlement mechanism and with no major multilateral negotiations in progress, member countries' delegations and staff maintain the WTO rules and day-to-day work on the committees in preparation for future negotiations and agreements.

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