

Will The WTO Go The UN Way?

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A global trade war is on its way, triggered by the protectionism measures that the US has initiated unilaterally at the hands of an adamant Donald Trump. The US is not only opening frontiers for a trade war with China but also with its close allies including the European Union and India. Trump's decision to impose tariffs on about \$50bn in imports from China immediately attracted retaliatory actions from China.

As trade is the pillar of economic supremacy, the countries are going to fiercely fight for their advantages. The big question is whether the WTO (World Trade Organisation) will be able to stop a full-fledged global trade war or whether it will just about follow the United Nations (UN) way of not doing much.

Countries resort to tariff imposition often when they want to protect national security, make domestic manufacturers more competitive, and/or help improve/maintain domestic employment rate. These arguments might augur well with the domestic constituency but not enough to convince the international trading community. The US action of increasing tariffs on steel and aluminum has already created enough displeasure in the EU, Canada, and Japan – a visible rift within the G7 countries.

China, India, Mexico, European Commission and Canada have approached the WTO for dispute resolution with the US regarding additional duties on certain imported steel and aluminum products. The WTO, on its part, has circulated the same amongst its members for inputs. As per the WTO provisions in case of failure to reach a satisfactory agreement within 60 days of the request, the complainants may request for adjudication by a panel. During the 1995-2015 period, about 56% of disputes proceeded to the litigation phase due to failure to resolve through consultation.

While the concerted efforts to find an amicable solution to the aggressive move by the US is underway, the complainants are also taking quid pro quo safeguards. The EU has already notified the WTO about their plans to levy duties on about \$7billion worth of US imports to EU, with the aim of collecting \$1.6billion in tariff revenue. China mostly followed Newton's 3rd Law, by imposing equally reactive tariffs on \$50billion worth of American imports including beef, poultry, tobacco, and cars. India was in its traditional wait-and-watch mode, and finally notified the WTO a revised list of 30 US imports including apples, almonds, phosphoric acid and Harley-Davidson motorcycles, on which it intends to impose retaliatory tariffs.

Arguably the US has been well supported by the open global trade but Trump feels the tipping point has been reached. Trump rubbished the NYT argument that tariff would drive up prices for American consumers and affect businesses that depend on cheaper Chinese parts by pointing out that with \$500billion trade deficit and \$300billion intellectual property theft, the US can only win this war.

In the short-term, the US may marginally gain, and in the long run, the global trade may have to bear the brunt of increased protectionism, which may lead to more imbalances. In addition, the US will probably end up losing many of its allies while fighting multiple trade disputes. Trump administration seems to be prepared for such a consequence, given the newfound friendship with long-time foe North Korea.


Trade analysts across the globe opine that intense trade war is inevitable unless appropriate measures are taken by the tariff imposing countries. The role of WTO as a promoter of free and fair trade has never been more crucial. Trump's "America First" policy has distorted global trade dynamics – a turbulent time for the US and WTO. How well is the WTO prepared to prevent emerging trade wars?

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The WTO's strength and legitimacy stem from the support it enjoys from major economies like the US. Several past WTO rulings directed economically powerful countries to not weaken others with unilateral actions. Will this be applicable to the current US action? If so, the US may find it difficult to win the battle at WTO. The US argument of "threat to national security" under Article XXI may be technically correct within the framework of WTO. However, interpretation and application of Article XXI are far more subjective in nature, as every country can be the judge of its security. Besides, the perceived threat is not the same as the real threat. Article XXI will be the biggest bone of contention. Experts warn that over the years, the minority that opposes a self-judging interpretation expresses concerns about abuse of the security exception by economically powerful countries.

Will the WTO be able to prevent such a misuse? In spirit, it may argue that its members will guarantee against such abuse but then, in reality, the ability of the members to scrutiny and assess the real threats is questionable. The eventuality then will be a paradigm shift in global trade, as we know it. And the WTO may go the UN way in the fight between the US and the Rest of the World, leading to a bloody war of a different kind. The US may even withdraw from the WTO just as it did with UN Human Rights Council. The other option may be a middle path with some withdrawals of tariffs that may be a face-saving for WTO.

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An interesting viewpoint. Will the WTO side with the USA as the UN does most of the time? Isn't this all the whims and fancies of a few politicians to make their stake for a second term better? Points to ponder...

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