

# FINANCIAL REVIEW

## Is Trump trying to destroy the world trade system, or save it?

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Deciphering the Trump administration's intentions on trade is becoming ever more difficult.

The flip-flops, contradictions and sheer inexplicability of how this war is unfolding have left specialists at a loss to explain what's going on.

"You're asking a difficult question, which is what does the Trump administration want," says Simon Lester, associate director at the Cato Institute in Washington, and an expert on trade disputes and the World Trade Organisation.

Most of the focus so far has been on the tit-for-tat tariff escalation between the US and China, which has resulted in 25 per cent imposts on US soybean imports.

In response, President Donald Trump this week announced he would provide \$US12 billion (\$16 billion) to farmers to weather the worsening trade war with China.

In a few short months, American farmers have gone from being competitive exporters to recipients of government welfare via a Great Depression-era program.

The payments not only defy belief, they are a clear sign that Trump has no intention of backing down on the use of tariffs that he sees as supporting other sectors such as steel making.

Through this chaos, the Australian government is pursuing a softly-softly strategy of trying to be helpful. Of avoiding conflict, but holding firm to the rules-based global system that has served Australians well for decades.

Treasurer Scott Morrison this week returned from a Group of 20 finance ministers meeting in Argentina touting the need for revamp of global trade rules, and the WTO in particular.

By flagging problems at the Geneva-based body, as well as backing calls for reform, Mr Morrison has endorsed the Trump administration's argument that its ultimate goal is for a more open global trading system.

But the devil, as always, is in the detail.

Backing the need for reform of the WTO is a bit like calling for more money for education. Who could disagree? The difficulty is that change requires all of the 164 members to agree. And that, in a competitive world, is no small thing.

Frustrating Canberra, and others who are open to assisting the US, is the lack of clarity about what the US actually wants.

The US has given very little indication about how it would like to reform the WTO and its appeals body, which it is effectively strangling to death by refusing to agree to any replacements of its members when they leave.

Mr Lester says it's not clear whether the Trump administration is simply killing off the appeals process because it can't actually withdraw from the WTO. Congress won't allow it.

At the same time, the US is still engaged, complaining about the WTO's problems and continuing to be otherwise active in the general workings of the organisation.

"You see things on both sides of the argument; that they want to destroy the system, or keep it going," he says.

Others say that uncertainty is precisely the point, to keep the world guessing.

The positive interpretation – reinforced by the truce negotiated between Washington and the European Union this week on tariffs – is that the uncertainty may be the catalyst for change that has been missing for the last decade since the collapse of the Doha round.

Reforming rules around trade dispute settlement isn't new – so why would it work now?

"Maybe because there's a threat that the biggest trading power will pull out of the system and force people to make decisions they wouldn't otherwise," says Mr Lester.