HAL
open science

Reading Olson to understand Trump : multipolarity without multilateralism?

Zaki Laïdi

To cite this version:

Zaki Laïdi. Reading Olson to understand Trump : multipolarity without multilateralism?. 2018. hal-03458426

HAL Id: hal-03458426

https://sciencespo.hal.science/hal-03458426

Preprint submitted on 30 Nov 2021

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

European University Institute

ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

RSCAS POLICY PAPERS

RSCAS PP 2018/02
Robert Schuman Centre for Advanced Studies
Global Governance Programme

Reading Olson to Understand Trump: Multipolarity without Multilateralism?

Zaki Laïdi

European University Institute

Robert Schuman Centre for Advanced Studies

Global Governance Programme

Reading Olson to Understand Trump: Multipolarity without Multilateralism?

Zaki Laïdi

RSCAS Policy Paper 2018/02

This text may be downloaded only for personal research purposes. Additional reproduction for other purposes, whether in hard copies or electronically, requires the consent of the author(s), editor(s). If cited or quoted, reference should be made to the full name of the author(s), editor(s), the title, the working paper, or other series, the year and the publisher.

ISSN 1830-1541

© Zaki Laïdi, 2018

Printed in Italy, August 2018
European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
Italy
www.eui.eu/RSCAS/Publications/
www.eui.eu
cadmus.eui.eu

Robert Schuman Centre for Advanced Studies

The Robert Schuman Centre for Advanced Studies, created in 1992 and currently directed by Professor Brigid Laffan, aims to develop inter-disciplinary and comparative research on the major issues facing the process of European integration, European societies and Europe's place in 21st century global politics.

The Centre is home to a large post-doctoral programme and hosts major research programmes, projects and data sets, in addition to a range of working groups and ad hoc initiatives. The research agenda is organised around a set of core themes and is continuously evolving, reflecting the changing agenda of European integration, the expanding membership of the European Union, developments in Europe's neighbourhood and the wider world.

For more information: http://eui.eu/rscas

The **Policy Paper Series** of the Robert Schuman Centre for Advanced Studies complements its Working Papers Series. This series aims to disseminate the views of a person or a group on a particular policy matter, specifically in the field of European integration.

The European University Institute and the Robert Schuman Centre for Advanced Studies are not responsible for the proposals and opinions expressed by the author(s).

The aim of the Robert Schuman Centre for Advanced Studies is to contribute to the public debate by offering views and opinions on matters of general interest.

The EUI and the RSCAS are not responsible for the opinion expressed by the author(s).

The Global Governance Programme

The Global Governance Programme is one of the flagship programmes of the Robert Schuman Centre. It is a community of outstanding professors and scholars, that produces high quality research and engages with the world of practice through policy dialogue. Established and early-career scholars work on issues of global governance within and beyond academia, focusing on four broad and interdisciplinary areas: Global Economics, Europe in the World, Cultural Pluralism and Global Citizenship.

The Programme also aims to contribute to the fostering of present and future generations of policy and decision makers through its executive training programme: the Academy of Global Governance, where theory and 'real world' experience meet and where leading academics, top-level officials, heads of international organisations and senior executives discuss on topical issues relating to global governance.

For more information: http://globalgovernanceprogramme.eui.eu

The European University Institute and the Robert Schuman Centre are not responsible for the opinions expressed by the author(s).

Abstract

Since Trump's election, multipolarity seems to be inducing an abatement of multilateralism. Why? This paper intends to explain this paradox by applying Mancur Olson's theory of collective action to Trump's Trade Policy. Olson predicted that in a social game in which the number of actors increases significantly, dominant actors dispose of two main resources to limit the number of free riders: rewards and coercion. By applying this hypothesis to Trump's trade policy, it becomes clear that Trump wants to reduce the rewards offered to his partners, as he deems them excessive. Furthermore, he considers that the rules and norms of the world trading system limit the United States' ability to coerce its partners. For this reason, the aim of Trump's trade policy is to unbind the United States from the constraints of the multilateral trade system.

Keywords

Multipolarity, multilateralism, trade, Trump, Europe , Olson

Introduction[1]

In an increasingly multipolar world, where wealth and power are distributed among a greater number of actors, one would expect that multilateralism (which is to be understood as the normative regulation of international relations through legitimate international institutions), would emerge as the most effective and obvious means of regulating a game that is, by definition, more open[2]. However, the reverse appears to be unfolding: multipolarity seems to be inducing an abatement of multilateralism. This is the paradox that we need to understand.

To this end, one might naturally look at the Trump factor. However, as important as this factor may be, it does not fully explain the phenomenon, far from it. To make sense of and formalise this paradox, one must go further. In so doing, we must rediscover Mancur Olson, since the international system is confronted with the classical collective action dilemma that he had identified in his day[3]. Returning to Olson is all the more pertinent considering that he was commissioned by the United States Department of Defense to apply his model to the study of burden sharing within the Atlantic Alliance.[4] The conclusions reached during that study were very similar to those laid out in his book[5]. Yet, in our view, the former has thus far not been mobilised to understand and interpret Olson in the domain of international politics, nor to analyse multilateralism. Beginning with Olson, therefore, is of double interest to us. First of all, he helps us to understand why the bigger the group, and the more it is constituted of small actors, the less able it is to generate collective action. Secondly, Olson tells us that this constraint cannot be overcome unless there are more powerful actors capable of compelling free riders to participate in the game through incentives or sanctions[6]. Applied to international relations, this hypothesis implies that multipolarity, resulting from an increased number of actors, is not necessarily conducive to the establishment of multilateralism as a cooperative structure that regulates relations between these actors. The aim of this article is therefore to interpret Olson's hypothesis in light of the unilateral measures taken by Trump with regards to trade[7].

---

1 An initial version of this paper was presented at a June 20, 2018 workshop at the European University Institute, The Governance of International Trade, Reshape or Demise?

2 A standard definition of multilateralism might be "the practice of co-ordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions". Robert Keohane, "Multilateralism: An Agenda for Research". *International Journal Autumn* 45, No. 4 (1990): 731. While simple, this definition requires further qualification. Multilateralism is not solely a function of the number of participating actors, as any arrangement between three states would therefore automatically be categorised as an exercise in multilateralism. However, we know that states establish arrangements that run counter the principles of multilateralism. For instance, if Russia reaches an agreement on Syria with Iran and Turkey, while vetoing resolutions put forward in the Security Council, it would be difficult to conceive of this arrangement as multilateral. Conversely, a bilateral trade agreement between the EU and Japan is considered multilateral, because it is compliant with the rules set out by the WTO. In order to evaluate the multilateral nature of an action or agreement, one must not only consider the number of actors, but the extent to which the arrangements are compatible with the institutions with which they are supposed to comply. The United States' withdrawal from the Paris Accords, from the Iranian Nuclear deal, UNESCO and other unilateral trade measures, run against the arrangements established under the auspices of international institutions.

3 Mancur Olson *The Logic of Collective Action: Public Goods and the Theory of Groups*, Second printing with new preface and appendix. Vol. 124. Harvard University Press, 2009.

4 Mancur Olson et Richard Zeckhauser, "An Economic Theory of Alliances", *The review of economics and statistics* (1966) 266-279.

5 According to this model, in an alliance or international organization composed of nations acting in their national interests, there will be a general tendency for the larger nations to bear disproportionately large shares of the costs, and for the smaller nations to make little or no contribution to the common cause". art cit

6 Olson, The Logic of Collective Action, op cit

7 I have laid out this hypothesis in: Zaki Laïdi "Towards a post-hegemonic world: The multipolar threat to the multilateral order." *International Politics* 51, No. 3, 2014: 350-365.

Like to Olson, one might say, Trump considers that there are "free riders" who derive benefits from the system to the United States' detriment[8]. While this point of contention had been highlighted by Trump's predecessors,[9] he was the first to enact measures designed to unbind the United States from some of the constraints engendered by its participation in multilateralism. Consequently, the United States is no longer able to fully exert its hegemonic power, and yet it remains powerful enough to inflict losses upon its partners who remain constrained by the rules of multilateralism. Therefore, the biggest actor of the international system, unable to constrain "free riders", decides to free ride itself, taking the risk of dismantling the whole architecture. Here lies the potential rupture introduced by Trump. We must therefore explain the ways in which the Trump phenomenon interacts with the structural dynamics that have proven a significant problem to Europe, especially since Europe's only defence against the strength of the United States, are norms[10].

This text is structured in the following manner, the first section will analyse the ways in which Trump is orchestrating the United States' withdrawal from multilateralism, the second section will interpret these measures through the prism of Olson's hypothesis. Finally, the third section will highlight the obstacles to a complete dismantling of the multilateral trade system, though, certain actors (Europe, for instance) will still find themselves weakened by these new dynamics.

The Trump Factor

In the immediate aftermath of Donald Trump's electoral victory, it was reasonable to wonder if he would prove to be "more bark than bite" once in office. It was believed and hoped, that many of the Presidents stated positions would be moderated by the restraint demanded of American power and the pursuit of American interests. There would certainly be changes, but it was assumed that they would be at the margins. Indeed, it was believed that credence had been given to this hypothesis since, once in office, President Trump back-peddled on his campaign promise to declare China a "currency manipulator". A year into Trump's presidency, however, it has become clear that his virulent criticism of multilateralism, which he has accused of running counter to the United States' interests, is being followed by deeds.

After announcing the U.S.' withdrawal from TPP, (which was later ratified without the US) President Trump launched an offensive against the WTO which he accused of usurping American sovereignty[11]. Historically, however, it was the United States that had ensured that by design, the WTO's dispute settlement mechanisms would be binding.[12] Unable to renege on this provision without leaving the WTO, the Trump administration has opted instead to asphyxiate the institution by blocking the nomination of the arbitration panellists required for dispute settlement processes to function[13]. Trump is

---

8 Refer to Donald Trump's tweet: "Germany owes vast sums of money to NATO & the United States must be paid more for the powerful, and very expensive, defense it provides to Germany ". Donald Trump, Twitter Post, March 18, 2017.

9 Jeffrey Goldberg, "The Obama Doctrine", *The Atlantic,* April 2016. Jeffrey Goldberg highlights Barack Obama's indictment of so-called "free riders" during their interview: "Free riders aggravate me," he told me. Recently, Obama warned that Great Britain would no longer be able to claim a "special relationship" with the United States if it did not commit to spending at least 2 percent of its GDP on defense. "You have to pay your fair share," Obama told David Cameron, who subsequently met the 2 percent threshold."

10 Since the European Union is not a state, but a multilateral institution, by design it favours multilateralism as opposed to rapports purely based on power dynamics, cf. Zaki Laïdi, *Norms over Force. the enigma of European power*. Palgrave, 2008

11 Ana Swanson, "Once the W.T.O.'s Biggest Supporter, U.S. Is Its Biggest Skeptic," *New York Times,* Dec 10, 2017

12 James Bacchus, "Might Unmakes Right. The American Assault on the Rule of Law in World Trade", Centre for International Governance Innovation, *CIGI Papers,* No. 173, May 2018

13 The WTO's strength is derived from the fact that states are required to comply with the rulings of the Organisation's dispute settlement mechanism, either by modifying their behaviour or by financially compensating the claimant if they do not wish to correct course. The US has been critical of the Dispute Settlement Mechanism (DSM), not quite because of its rulings, since the U.S. has won approximately 85% of the disputes that they have brought to the WTO, but more so because of the

also engaged in a demonstration of strength vis-à-vis the signatories of NAFTA on the one hand, and a wrestling match with Europe on the other, by hiking up tariffs on steel and aluminium, even though Europe is by no means responsible for the surplus of Chinese steel in global markets. He has also given Beijing a trade ultimatum and, in a near colonial fashion, demanded that China increase its imports from the United States[14]. Finally, he has drastically reduced the number of multilateral programs to which the United States is granting funding[15]. The potential amount of trade concerned by Trump's trade sanctions may reach the staggering figure of 550 billion dollars.[16] It is the biggest application of tariffs by the US and effecting US since Smoot-Hawley.[17]

Trump's decision to withdraw from the 2015 Iran Nuclear Deal, has removed any doubt that he intends to pursue a nationalistic agenda that defies the multilateral institutions that the U.S. itself played a leading role in creating and sustaining since 1945. In a rather spectacular manner, the U.S. has sought to undermine the UN, NATO as well as the WTO and of course other high profile ad hoc agreements, for example the Paris Climate Accords and the aforementioned Iran Nuclear Deal.

The United States' distrust of multilateralism, particularly in the area of trade, predates Donald Trump. This age-old feature of American politics is the result of the peculiar history of the United States: the U.S. is one of few countries in the world to be born of a trade war. For this reason, trade regulation features in the very first article of the United States Constitution, as a crucial function of the state[18]. Trade is thus considered a pillar of national sovereignty. In fact, John Adams considered that the declaration of Congress in April 1776 that put an end to the authority of the British Parliament over the regulation of trade of the 13 states, was the foundational act of the United States' independence[19]. This element is often omitted from political analyses of Trump, when it is in fact fundamental. Conversely, in Europe, trade policy had been "communitarised" since 1957 as it was considered that given the convergence of interests in Europe on trade matters, sovereignty sharing in this domain would be required.

The prominence of trade in American public discourse can be further explained by two more factors. The first is related to the geographies of economic specialisation within the United States. Since the U.S. system of political representation is based on states, the different economic realities among states will have different political repercussions. It is no coincidence, therefore, that Trump owes his electoral success to the Midwest, where the steel industry, which has been hard hit by international competition, is concentrated[20]. The third key factor is the absence of national welfare and the sharp increase of unemployment which has meant that trade liberalisation has had greater social repercussions in the U.S. than in Europe[21]. Trump's approach is problematic, not least because there is but a tenuous link between trade deficits and trade policy. A deficit reflects a surplus of consumption over savings, more than anything else. If the United States wishes to reduce its deficit, it needs to increase savings. The reverse

role of the DBS in interpreting law which the U.S. considers an affront to American sovereignty. The crucial point here is that the U.S. has difficulties accepting rulings that originate outside of the United States. This is an outlook as narrow as the continuous pursuit of the extraterritorial expansion of American law. Another reason that the U.S. has been critical of the DBS is that it often loses when taken to the WTO for excessive anti-dumping practices.

14 Martin Wolf, "Donald Trump declares trade war on China," *Financial Times*, May 8, 2018

15 Scott Morris, "The Incredible Shrinking US Multilateralism," *Centre For Global Development*, Feb 13, 2018

16 The Associated Press, "Trump's Tariffs: What They Are and How They Will Work", *New York Times*, July 6, 2018

17 Wall Street Journal, July 6, 2018

18 The Commerce Clause of the U.S. Constitution states that Congress has the power "To regulate commerce with foreign nations, and among the several states, and with the Indian tribes;" *U.S. Constitution*. art I, sec 8, clause 3

19 Douglas Irwin, *Clashing Over Commerce: A History of US Trade Policy*, University of Chicago Press, 2017: 46

20 Autor David, David Dorn, Gordon Hanson, Kaveh Majlesi, "A Note on the Effect of the Rising Trade Exposure on the 2016 Presidential Election", *Appendix to Autor, Dorn, Hanson, and Majlesi "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure"*, 2017

21 Cf. see Dani Rodrik, *Straight Talk on Trade. Ideas for a Sane World Economy*, Princeton University Press, 2017.

applies to countries with a trade surplus. Germany for example, exports much more than it imports because Germans save much more than they invest. Furthermore, a trade deficit alone is of no particular significance, per se, as there is no correlation between employment levels and trade deficits[22]. Currently the United States has a very high trade deficit and very low unemployment. Trade becomes of political salience due to the unequal social distribution of the benefits of trade, which are linked to the sometimes-devastating impact of technology and trade on employment. Taxation and labour policy have a much greater impact on the redistribution of the benefits of trade, than trade policy. The United States' trade union for the aluminium industry has strongly opposed Trump's punitive tariff sanctions against Canada and Europe, for obvious economic reasons[23]. The rationality of Trump's protectionist trade policies has thus been contested by groups that are supposed to benefit from these policies. This confirms that Trump's preferences are fundamentally biased as a result of ideology[24].

However, this too is not new. The true novelty of the U.S.' current trade policy is twofold. Firstly, there is an averred desire to substitute the multilateral system based on rules and institutions that guarantee the application of these rules (rules-based system), with a system based on the pursuit of outcomes that are quantifiably beneficial to the United States (outcomes-based system)[25]. In other words, it would no longer matter that international rules are upheld. What would matter is that, for example, the U.S. succeed in reducing its trade deficit by any means, even though no economist would concede that the there is even the slightest link between trade policy and trade deficits[26].

Consider Trump's volte-face regarding the Chinese technology firm, ZTE. Initially, his administration banned the company from American markets due to previous violations of U.S. sanctions against Iran and North Korea. Trump then abruptly instructed the U.S. Department of Commerce to reconsider the ban, presumably in the hopes of securing assurances from the Chinese government that they would increase imports of American goods and not increase tariffs on American sorghum. In the meanwhile, one might imagine that Trump had discovered that this Chinese company was an important client for American companies that produce the components that ZTE uses for its phones. These firms would have therefore been strongly impacted if they were not able to trade with ZTE. Thus, while Trump endeavours to reclaim the U.S. sovereignty, he risks undoing the ties of economic interdependence that link the two greatest economic powers on earth.

The second novelty is Trump's redefinition of the very notion of "alliance". Bush completely disregarded the rules of multilateralism when he declared war on Iraq, as had many of his predecessors before him. Yet, while Bush did endeavour to divide his allies (in a bid to secure the legitimacy needed to carry out a military intervention in the absence of international consensus) he certainly did not underestimate the need for American allies.

Trump's rationale is completely different. Mounting a political or strategic defence to protect the U.S.' allies is not a priority for him. The onus is on the states that consider themselves allies of the United States, to make concessions that benefit the U.S., in exchange for its protection. The notion of alliance has thus taken on a new meaning: the United-States no longer considers that it has responsibilities vis-à-vis its partners, with which there are shared values and interests. It is now

---

22 Robert Lawrence, "Five Reasons Why the Focus on Trade Deficits is Misleading", *Peterson Institute for International Economics,* Policy Brief 18-6, 2018

23 Aluminum Association "Aluminum Association Disappointed in Administration Decision to Place Tariffs on Vital Trading Partners," May 31, 2018, http://www.aluminum.org/news/aluminum-association-disappointed-administration-decision-place-tariffs-vital-trading-partners

24 It is however, surprising that American business does not appear to be galvanised against Trump's trade policies. Two hypotheses can be put forward: the first is that the measures that are implemented are more moderate than the measures announced. The renegotiation of the agreement with Korea KORUS would point in that direction. A second hypothesis might be that American business are satisfied with Trump's fiscal policies, which have been very favourable to them.

25 Bacchus, "Might Unmakes Right - The American Assault on the Rule of Law in World Trade," op cit.

26 Maurice Obstfeld, "Targeting Specific Trade Deficits is a Game of Whack-A-Mole," *Financial Times,* April 22, 2018.

incumbent upon its allies to prove that they are worthy of American cooperation. Otherwise, they are considered cumbersome burdens[27]. What has resulted, is a kind of test of either a state's willingness to grant trade concessions to the U.S., or to increase its financial contributions to the functioning of NATO[28].

It is no coincidence that Trump's tariff increases were first applied to American allies that depend most on guaranties of strategic support from the U.S., ie South Korea, Japan, and Europe. It is also not a coincidence that national security has been cited as a justification for these measures. The message is clear: your ally status is no longer a guarantee of protection, on the contrary it is accompanied by conditions. Another noteworthy determinant of Trump's trade policy is his near visceral hatred of the European Union, which he considers a political heresy as it requires that member states operate beyond the logic of national sovereignty. This hostility toward Europe had in fact been articulated by John Bolton about twenty years ago[29]. What has become clear is that, if Europe had aligned itself with Trump and denounced the Iran Nuclear Deal, the punitive tariff sanction on steel would have been lifted. Thus, for Trump, abandoning multilateralism has a specific purpose, it enables him to deliberately extract trade concessions in exchange for American protection. This approach has been particularly hard hitting for Germany, as it is a country with an unmatched trade surplus, very low military expenditures and an aversion to international conflicts[30].

Does this necessarily mean that multilateralism will be reinvigorated once the Trump factor is removed? Nothing is less certain, because while Trump's accession to office may have accelerated and amplified the crisis of multilateralism, the vulnerability of this system precedes Trump for structural reasons that we will now explore.

Mancur Olson's Hypothesis

As previously stated, one would think that a multipolar world is destined to lead to the emergence of multilateral governance. Yet, the reverse phenomenon appears to be unfolding. The Doha Round negotiations initiated in 2001, failed. Even attempts to establish agreements of a more limited scope appear to be in jeopardy, for example the inter-ministerial conference that took place in Buenos Aires in 2017, was a fruitless, in spite of the fact that the agenda was particularly restricted. India has once again opposed an agreement on fisheries subsidies, and the United States has refused to sign on to the conference's final communiqué as it highlighted the crucial role of the WTO in regulating international trade[31].

Yet, the deadlocks that hinder the functioning of the WTO cannot solely be ascribed to Trump's policies. This would serve only to further misrepresent a phenomenon that has been abundantly caricatured. The Doha Round met its demise in 2008, in Geneva, under the Obama administration due to the stalemate reached as a result of a resistance mounted by both the United States and India, on a decidedly minor issue area: agricultural subsidies. In order to explain this gridlock, the U.S deployed an argument that barely differs from Donald Trump's, albeit conveyed in a less aggressive manner[32]. Since

---

27 Michael Hayden, 'We Have a President Who Views Allies as a Burden', *Der Spiegel*, May 11, 2018

28 Julie Hirschfeld Davis, "Trumps Warns NATO Allies to Spend More on Defense, or Else" *New York Times*, July 2, 2018

29 John Bolton, "Should We Take Global Governance Seriously?" *Chicago Journal of International Law*, Vol. 1: No. 2, Article 2, 2000: 205-221

30 Martin Hesse, Peter Müller, Christian Reiermann, "American Roulette - Trump Tricks Trade Partners into a Dangerous Game", *Der Spiegel*, May 5, 2018

31 James Bacchus, "Was Buenos Aires the Beginning of the End or the End of the Beginning? The Future of the World Trade Organization", *CATO Institute*, Policy Analysis No. 841, 2018

32 Susan Schwab , "After Doha: Why the negotiations are doomed and what we should do about it," *Foreign Affairs*, May/June 2011

2008, the United States observed that the WTO was not able to contain China's meteoric rise and decided that it was necessary to deploy measures outside of the multilateral system in order to contain its rival. This was the rationale behind the now defunct TTIP, which was to be developed in partnership with Europe.

Since Trump is not the only factor in this crisis of multilateralism, how else can it be explained? In order to begin to sketch out an answer to this question, one might begin with the hypothesis formulated by Mancur Olson in his acclaimed book, *The Logic of Collective Action*[33]. While he was not specifically referring to the multilateralism, Olson states that "unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests[34]."

If we were to simply replace "individuals" with "states," we would effectively reach the same conclusion regarding the increasingly multipolar international system. According to Olson, an increase of the number of actors does not necessarily result in the pursuit of common solutions unless there are incentives or means of coercion to convince actors to remain in the game and to abide by its rules. Furthermore, he considers that in the absence of an agreement between multiple actors, there may be free riding, that is to say that there may be actors that benefit from the system without bearing the costs[35]. "Free riding" is precisely the word Trump constantly uses to castigate his allies. Trump probably never heard of Olson. But he is undoubtedly relying on his analysis to make his point.

Indeed, when we transpose Olson's hypothesis on to the multilateral trade system, we see that the relevance of this hypothesis is easily demonstrated. Trade is the area in which power is most dispersed. Furthermore, the two instruments that regulated state behaviour, that is to say incentives and coercion, are much less effective than they used to be. We would therefore put forward the following hypothesis: the reason why multipolarity is not necessarily conducive to multilateralism is because in a multipolar world there, is no hegemonic actor strong enough to impose its vision or to convince the other actors to accept the terms of the game. At the same time, there are no instruments of coercion beyond the decisions reached through trade arbitration. Obama wanted to counter China's rise, through the negotiation of the TTIP with Europe. He wanted to contain China through the structures of the world trade system. Since this strategy failed, Trump has concluded that coercion only works if multilateralism is abandoned. The United States is thus no longer strong enough to dominate the game of international trade, but is formidable once it begins to take measures outside of multilateral structures.

To further develop this hypothesis let us consider the GATT era. Between 1947 and 1995 the international trade system was dominated in turn by the United States, then by the United States and Europe, and finally by the United States, Europe and Japan. The dynamic that played out from one negotiation Round to the next, reflected the evolution of the balance of power between western trading partners, particularly with the establishment of common market, and the rise of Japan as an economic power[36].

At the time, negotiations addressed almost exclusively the reduction of tariffs on industrial goods, as agriculture trade was hardly addressed. This was clearly not of major concern to China and the USSR as they were not signatories of the GATT. As for developing countries, while the number signatories increased over the decades, their political influence remained limited. Furthermore, developing countries disposed of two main incentives: the presumed benefits associated with the Most Favoured

---

[33] Olson, The Logic of Collective Action, op.cit

[34] ibid

[35] ibid

[36] Richard Baldwin, "The World Trade Organisation and the Future of Multilateralism", *Journal of Economic Perspectives*, Vol. 30: No. 1, 2016: 95–116

Nation (MFN) clause on the one hand, and Special and Differential Treatment provision[37]. The MFN clause is the most important provision in international trade, because it means that any tariff-related advantage conceded to one country, must be automatically conceded the rest of the signatories of the GATT.

In other words, the MFN clause prevents discrimination between participants of the international trade system, as such, it is a foundational provision. Since this clause obliges the U.S. to grant the same advantages to all of its trade partners, it has become a key point of contention as the U.S. engages in trade negotiations, because Trump's stated objective is precisely to discriminate against his trade partners in order to influence their behaviour[38].

As it pertains to Special and Differential Treatment, which is a provision that has long permitted developing countries to benefit from non-reciprocal access to western markets, it is an optimal arrangement for both parties under the GATT. Developed countries set the terms for preferential access to their markets, and developing countries benefit immensely from favourable market access conditions: "They were free riders who liked the ride[39]".

This asymmetrical relationship was undone by the establishment of the WTO, followed by the accession of China to the Organisation. Industrialised-developed countries have not only become outnumbered, but the power asymmetry is reduced by the economic rise of emerging economies. When China joined the WTO it accounted for 3% of global trade. In 2017 this figure rose to 15%[40.] Today the US, the EU and China are virtually on par as trading powers and represent around 16% of world trade respectively. This is an enormous and unprecedented change in terms of distribution of power over such a short period of time. The current power distribution within the WTO is a far cry from what it was fifteen years ago. As such, the global trade agenda has come to reflect not only the preferences and the priorities of the developed countries, but of those of emerging economies as well. Therefore, in an institution where consensus and the principle of single undertaking[41] prevail, there must be an extremely strong incentive for the actors to agree to sign a general agreement.

This is what currently lacks as the anticipated economic gains from trade liberalisation are no longer as spectacular as they used to be, yet the political and social costs have increased. Effectively, the downfall of the WTO is that it was established as a "super-GATT" at a time when global trade was headed in a different direction.

Indeed, the succession of failed or gridlocked negotiations since the late 90s is symptomatic of profound crisis, beginning with the failure of the Seattle conference in 1999 which followed by the last-minute initiation of the Doha Round in 2001, probably as a result of September 11, then failure of Cancun in 2003 where emerging economies formed a block against the preliminary agreement on agricultural subsidies that had secretly been negotiated by the U.S. and Europe beforehand. The Hong Kong Conference in 2005 was but a partial success and was followed by the complete collapse of the Geneva Round in 2008. Indeed, this chronology shows that that the failure of multilateral negotiations at the WTO was a long time in the making. While the WTO Dispute Settlement Mechanism., remains a

---

37 ibid

38 The combination of MFN and bound-tariff rates prevent us from having reciprocal tariffs because in most cases our bound-rate ceiling is at or near our very low MFN-applied rates while other nations have higher levels of both" *Remarks by Secretary Wilbur L. Ross at the National Press Club Headliners Luncheon*, May 14, 2018 cited in *Inside Trade* May 17, 2018

39 Baldwin, 103.

40 In 2017 China represented 17 % of world exports and 12% of world imports ,The Eu 16% of world exports and 15% of world imports; the US 14% of world exports and 18% of world imports; *Eurostat*, March 2018

41 The *single undertaking* rule is when an agreement cannot be reached unless all relevant actors agree on all of the terms of said agreement. It is a fair but restrictive rule, that has practically become inapplicable in the WTO, and will, in all likelihood, be abandoned.

relevant and effective instrument for now, it is at risk of being undermined by the United States offensive against the Organisation. The threat to the WTO is very real as the Trump administration continues to asphyxiate the dispute settlement mechanism by deliberately blocking the selection of the arbitration panellists[42].

Because there is no longer a hegemonic power in the international system, each actor may derive different meanings and conclusions on the correct course of action. That is not to say that there is a systematic rejection of multilateralism, however there is a proliferation of different interpretations of the form that multilateralism should take. China, for example, continues to support the WTO, because it considers that the rules that prevailed in the Organisation when China became a member were favourable and should remain unchanged. The Europeans however, disagree. While they remain in favour of multilateralism, they consider that the rules under which China joined the Organisation in 2001, are no longer appropriate for the China of 2018. The rules should therefore be modified to reflect China's new economic standing. Indeed, China presents on the one hand characteristics of a market economy but is also the manifestation of an economy that has flourished because the state has thrown its full support behind Chinese producers and taken a very hands-on approach in helping them to capture global markets. This has been detrimental to European and American producers who are not subsidised by the state[43]. The Chinese have been very careful to adhere to the rulings of the WTO, even when they run counter to Chinese interests, all the while benefiting from India's objections and attempts to block multilateral agreements. Furthermore, China continues to refuse to reconsider its policy on state subsidies and has yet to demand that its producers respect the international regulations on intellectual property. India is also a strong supporter of multilateralism and the WTO and has been very vocal about its opposition to America's policies. However, they would like to continue along the path of multilateralism as long the principle of Special and Differential Treatment is preserved[44]. As such, emerging markets continue to support this brand of multilateralism and block the establishment of plurilateral agreements that have proven useful in overcoming gridlocks that may arise from an "all or nothing" approach[45]. India would like to secure assurances that western markets will remain open, particularly for its qualified workforce, however, it does not feel bound to open its industrial sectors to international competition as they remain highly protected[46].

This brings us back to Olson. Since there are no hegemons that can legitimately impose their vision on the other actors, the only way to preserve the multilateral system is to offer the actors within the system either incentives or to coerce them. Incentives will no longer be effective because, as we have seen, western countries have concluded that unilateral concessions made by developed countries to developing countries and China are no longer defendable from an economic standpoint considering recent economic developments in beneficiary countries. Trump takes this critique even further as he considers that the U.S. should renege on concessions that the United States had granted Europe and Japan in the 1950s under the auspices of the GATT[47]. In Trump's view, emerging economies should also be considered as equals of industrialised-developed economies and preferential treatment should not continue to be granted to them. Incentives are therefore no longer acceptable.

---

42 Tetyana Payasova, Gary Clyde Hufbauer, Jeffrey Schott, "The Dispute Settlement Crisis in the World Trade Organization: Causes and Cures", Peterson Institute for International Economics, Policy Brief 18-5, March 2018

43 Mark Wu, "The 'China Inc' Challenge to Global Trade Governance*" Harvard International Law Journal*, Vol.57: No. 2, May 13, 2016: 1001-1063

44 Jayshree Sengupta, "Is the WTO Relevant for India*?" Doc Research Institute*, Jan 23, 2018

45 Peter Draper and Memory Dube, "Plurilaterals and the Multilateral System," *International Centre for Trade and Sustainable Development and World Economic Forum*, Dec 2013: 3

46 For example, tariffs on Indian automobiles average 125%, compared to 25% in China, 10% in the EU and 5% in the United States.

47 Wilbur Ross, "Remarks by Secretary Wilbur L. Ross at the National Press Club Headliners Luncheon", *Commerce.Gov*, May 14, 2018

That leaves us with coercion, which is precisely the path that Trump has chosen, since he considers that multilateralism provides too many protections for the rivals of the United States. Unilateral measures aim then at increasing U.S. leverage on partners which benefit unduly from multilateral protection[48]. Moreover, unilateral measures allow the U.S. to combine at the same time trade protection with investment protection. Here we use the term "rival" because according to Trump, any country, even trading partners, that has a trade surplus vis a vis the United States, is to be considered a rival. In Trump's view, trade deficits are synonymous with loss of jobs. This has been at the root of the stand-off between the U.S. and China, the outcome of which has yet to be determined. What is clear is that whatever the outcome, it will be negotiated on a purely bilateral basis.

It is reasonable that Trump pursue a new relationship with China. It would be in Europe's interest to do the same. However, on the China question, there are clear divergences between Europe and the United States that have given way to noteworthy concerns. Divergences result from the US' refusal to establish a joint strategy vis a vis China, even though this would be strategically beneficial for all western trading partners. The concern is therefore that the U.S. may strike bilateral deals that impact Europe negatively. Canada has expressed similar concerns, as, like Europe, it remains a strong supporter of multilateralism and fears that continued demonstrations of hard power will damage it. If for example, China commits to importing more American goods, this may be detrimental for European producers that compete with American producers in Chinese markets. Furthermore, if the Chinese agree to further include American companies in China's 2025 program, this concession could be to the detriment of European companies, because an increase in imports from the US, means a decrease in imports from elsewhere. If the agreements reached between China and the United States are informal and non-transparent, it will be difficult for their trading partners to discern the actual nature of the discriminatory arrangement.

Will deconstruction of trade multilateralism remain limited?

In the short run, the likelihood of a complete collapse of the international trade system, followed by generalised protectionism, appears to be limited for the following reasons.

The first is that even though the WTO may be in crisis, the fundamental rules that structure international trade will continue to be applied. These rules, passed down from the GATT, are adhered to every day across the globe without much difficulty. The most important rule, as we have seen, is the MFN clause, even though the U.S. has been vocal about its criticism of this provision. Suppose that the Chinese decide to reduce tariffs on automobiles in order to satisfy the United States. They would not be able to adopt this measure unless it were to be applied to all of its trading partners, and therefore to the most prominent exporters of cars to China, i.e. German and Japanese companies. These firms would therefore benefit from a reduction of tariffs much more so than American firms. That said, if Trump were to decide to follow Mr. Ross' suggestion and reject the MFN clause or disregard bounded tariffs, a period of unexpected deregulation of international trade would follow. What is more, the sanctions imposed on China, a trade war resulting from automobile tariffs and the breakdown of NAFTA, could mark the beginning of a disastrous downward spiral for international trade[49]. Politics can significantly impact the parameters of international trade in unexpected ways, and it is better to anticipate change rather than to rely on the demands of trade to ensure continuity.

---

[48] Consider the ZTE case, this telecommunications firm is one of the most powerful Chinese companies in the world. Allegedly, it had violated the embargo against Iran which resulted in it being subject to heavy sanctions and excluded from American markets. These measures nearly caused ZTE to go bankrupt. The U.S., thus, still has the capability, through unilateral decisions, to cause the collapse of one of the most powerful companies in the world's second global economic power! Trump went back on this decision in exchange for trade concessions, but congress may still hinder the recovery of this company as ZTE has also been accused of industrial espionage. Emily Feng, Louise Lucas, "ZTE revenues fall $2bn as US sanctions bite," *Financial Times*, May 23, 2018

[49] Financial Times, July 3, 2018

The second reason is that global value chains have been profoundly transformed international trade. The schematic according to which a country exports a finished product to another country is almost obsolete[50]. Consider German cars for example, as Donald Trump has stated that he would like to apply high tariffs to them. Out of the 1.3 million German cars that are sold to the United States, 800 000 were produced in the U.S.[51]. Taxing these cars would therefore have but a limited effect on American import demand. The prominence of the intra company trade reduces the importance of trade balances as, currently, exported products have high import content. This is why it is believed that an increase of tariffs on imported inputs would harm the American automobile industry[52]. As has been demonstrated by many economists, the U.S.' deficit vis-à-vis China would be 33% lower if it took into account the value-added trade balance as opposed to its trade balance.

Let's take another example. An iPhone exported from China to the United States will be accounted for as a Chinese export valued at five hundred dollars, for instance. The Chinese value added for phone is barely twenty-five dollars. When Europe sells an Airbus, it boasts having captured market share that could have gone to Boeing. However, 50% of the Airbus' value-added originates from subcontractors in the United States. The reverse is also true. When Boeings are sold half of the profit goes to European subcontractors. In reality, the most accurate measure of international trade is the balance of value-added, as opposed to trade balances calculated for finished products.[53] Value chains are the most effective instrument against protectionism because by increasing tariffs on imported inputs, the price of products that require these inputs increases.

Having said that, one must remain cautious. If the U.S.' government were to follow through on its threat to increase tariffs, European manufacturing plants may be relocated to the United States. This too may be one of Trump's political objectives, though there is a risk that American companies may be tempted to leave the United States in order to avoid the repercussions of increased tariffs in Europe or elsewhere[54].

Finally, the third reason is that the momentum behind trade negotiations has not stalled even though multilateral negotiations have reached a stalemate and have no doubt become obsolete. Furthermore, we are observing the emergence of plurilateral and regional dynamics[55]. Plurilateral agreements, unlike multilateral agreements, concern matters that are very specific and only binds countries for which there is a shared interest in reaching an agreement on those matters[56]. For example, there is an extremely important plurilateral agreement regarding access to markets for public services, but that many states have yet to sign. These agreements are not a cure-all solution and they have challenges too, as demonstrated by the fact that a missing signatory of this agreement is none other than China! Yet, countries around the world are specifically waiting for China to sign on to the agreement. Europeans are concerned that, amongst other things, China will dominate some of the public service markets in Central and Eastern Europe thanks to bilateral agreements with states in these regions and will disregard the rules of public sector markets that have been laid out by the Union's legislature[57].

---

50 Richard Baldwin, "Global supply chains: why they emerged, why they matter, and where they are going." *C.E.P.R Discussion Papers* No. 9103, 2012

51 Handelsblatt , May 24, 2018

52 Sherman Robinson , Karen Thierfelder, Jeffrey J. Schott, Euijin Jung , Zhiyao (Lucy) Lu and Melina Kolb "Trump's Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus," *Peterson Institute for International Economics*, May 31, 2018,

53 This was a suggestion made to the WTO by Pascal Lamy in order to move beyond false debates regarding trade deficits.

54 Financial Times, June 29, 2018

55 Gary Winslett, "Critical Mass Agreements: The Proven Template for Trade Liberalization in the WTO", *World Trade Review*, 1-22, 2017

56 Hoekman, Bernard, "Supply Chains, Mega-Regionals and Multilateralism - A Road Map for the WTO", *Centre for Economic Policy Research*, 2014:13-21

57 Martin Sandbu, "In investment and geopolitics, money talks," *Financial Times*, May 22, 2018

To summarise, the international trade system has reached a crisis point, but the consequences can be substantially mitigated, firstly, thanks to the current structure of global trade which is dominated by trade between firms as opposed to trade between states. Furthermore, the perfusion of regional and plurilateral negotiations may be a means of overcoming the obstacles that have stifled negotiations at a global level, as was demonstrated by the fate of TPP. Once the United states announced its withdrawal from the treaty, the other signatories rushed to sign the treaty without the United States. The growth of international trade appears to be unstoppable.

That which applies to trade does not necessarily apply to international security, however. In the case of the Iran Nuclear Deal, there is no alternative to the withdrawal of the U.S., unless of course, Europe, Russia, and China, succeed in convincing Iran to continue to meet its commitments to the international community while continuing to face American sanctions of which the extraterritorial implications are well known.

What goes for Iran, also applies to Syria. Thus far, there has been no incentive for Russia to reach a multilateral agreement to end the Syrian conflict as this would result in the re-entrance of the West into the conflict, when Russia's whole objective was to side-line the West. The Trump administration seems none the less satisfied with the status quo especially since the Syrian president Bachar Al-Assad controls 60% of the territory, the Kurdish forces, which are supported by the United States, control the most prosperous parts of the country, located in the north and in the east, where the oil reserves, gas and water are concentrated[58].

In fact, instead of speaking in terms of multipolarity, it might be more pertinent to speak of a "double bipolarity". On the one hand, the economic sphere is increasingly dominated by the United States and China, on the other hand the geopolitical sphere is dominated by the United States and Russia. The crisis of multilateralism is based on the superposition of these spheres. The first dynamic is based on the 21st century rivalry between the United States and China. The second is a continuation of the 20th century rivalry between the U.S. and Russia which has re-emerged after a twenty-year hiatus. In both cases, Europe exists only at the margins of this dual rivalry and its involvement in these spheres has fallen short of its full potential. The fear is that the this may bare consequences for Europe. As such, when international relations are based solely on pure power politics, multilateralism retreats, and with it, so does Europe.

[58] Joshua Landis, "Interview with Middle East expert, Professor Joshua Landis: Iran Sanctions | Syrian Civil War | Kurds | Conflict in the Middle East", interviewed by Nate Abercrombie, in Investing with the Buyside, podcast, MP3 audio, May 13, 2018, https://investingwiththebuyside.com/2018/05/12/joshua-landis/

Author contacts:

Zaki Laïdi

Sciences Po

27 rue Saint guillaume

75007 Paris

France

Email: zaki.laidi@sciencespo.fr