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The return to trade protectionism

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The road to protectionism

When the postwar multilateral trading system was set up in 1947, the invocation of national security as a rationale to restrict trade was extremely rare. But what was once the exception has now become common.

A series of global shocks over the past 15 years have upended the post-World War II framework for international economic cooperation and set in train a widespread reassessment of how trade should be conducted and with whom. The old rules of the game no longer apply.

The global financial crisis of 2008-09, the heavy-handed application of tariffs by Donald Trump, the Covid pandemic, China's remarkable economic rise, and now the war in Ukraine have skewed international trade and investment policies in ways rarely seen before. Governments continue to apply high tariffs to restrict imports and screen inward flows of investment. But in recent years they have begun to use tools that were far less frequently employed before, including restrictions on exports and reviews of outward flows of investment.

As troubling as this may be, of even greater concern is how the events of recent years have inured politicians—and the wider public—to the dangers of closing markets. A series of dramatic trade events have shifted the paradigm of what is acceptable and cleared the way for ever more restrictive policies.

The normalization of invoking national security

Since the 2008 global financial crisis, governments have steadily embarked on increasingly protectionist policies, though it has not been a mad dash. Trade facilitating measures were implemented during this time and the rules-based multilateral trading system had some success in restraining the 164 members of the World Trade Organization (WTO) from a full-fledged flight to protectionism.

Since the multilateral trading system began operating in 1948, the invocation of national security as a rationale to restrict trade was extremely rare. What was once the exception has become common.

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In response to the financial crisis, the WTO began to monitor trade policy interventions more closely to gauge the reaction of its members. Trade restrictive measures were higher in some years than others, but overall the accumulation of trade restrictions has steadily expanded in coverage of global commerce. WTO economists estimated that the cumulative stock of import restrictions—mainly tariffs—last year up to mid-October impacted merchandise imports worth US$2.07 trillion or 9.3% of the global total, up from US$234 billion or 1.3% of the total in 2011.[1]

Since the multilateral trading system began operating in 1948, the invocation of national security as a rationale to restrict trade was extremely rare. This is because governments were aware of the tenuous balance to be struck between a government's sovereign right to determine what is in its national security interests and the possibility that national security exceptions to global trade rules would be used carte blanche to simply avoid following the rules. During the past 10 years, these fears have been realized. What was once the exception has become common.

The pandemic and the rising global rivalry between the United States and China have induced a new wave of restrictions, including the hoarding of vaccines and respiratory masks, curbing the transfer of technology, and more recently, efforts to review, slow, or prohibit outward flows of investment to certain markets. Despite the clearly adverse impact of these actions (export restrictions on Covid vaccines led to severe vaccine shortages in Africa, for instance) policymakers show little appetite for changing their ways.

The pace and scope of these actions are upending long-established trade patterns and, if left unchecked, are likely to accelerate and deepen the economic fragmentation that is already underway.

WTO economists estimate that fragmenting the global trading system into two rival blocs would drain 5% of global GDP, with developing countries taking an even bigger hit.[2]

The International Monetary Fund (IMF) projects that a deep and wide fracture would cost 7% of global output, or the combined annual GDP of Japan and Germany. The Fund warns that if a technological decoupling takes place, some countries would see their national income contract by 12%.[3] The risk of such a decoupling is increasing.

A convergence of flashpoints

Despite these warnings, the forces driving this fragmentation not only remain present, they are growing more pronounced. Restricting trade and investment is not new. Governments have been imposing restrictive measures in one form or another for hundreds of years. The difference is the motivation behind these measures.

Take tech, for example. The ostensible rationale for tightening trade and investment policies is two-fold: to protect the privacy of citizens through restrictions on handling data and to hobble rivals' ability to employ cutting-edge technologies. Such dominance promises not only economic prosperity but also military supremecy.

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> The pandemic and US-China trade war have prompted a new wave of restrictive trade policies that threaten to deepen economic fragmentation and drain global GDP.

Such is the link between technology and military prowess that Washington has ratcheted up its restrictions on exports of high-tech products and is now prepared to establish specific laws to prohibit inward investment and mechanisms for monitoring *outflows* of US investments as well. These measures are largely viewed as an effort to contain China. Furthermore, the United States is applying intense pressure on its allies to do the same.

The United States' place at the center of this conflagration is no small irony given that Washington was the driving force in creating the global institutions and processes that provided the guardrails for globalization. Today, the United States is less concerned with enhancing or even preserving, multilateral processes or institutions than with assuring its continued preeminence on the global stage.

The catalyst for Washington's change of heart on global cooperation on trade and investment has been the rise of China. A key driver of important legislation in Washington has been the fear that China may soon usurp the United States as the world's leading superpower and rulemaker. The passage of both the US Inflation Reduction Act and the CHIPS and Science Act in 2022 was spurred by bipartisan support for countering China.

The war in Ukraine has prompted the West to put economic sanctions on Russia. But there is a fundamental difference in the US appraisal of the European giant: Russia is largely an exporter of resources and armaments; it boasts military might but is an economic backwater. Many military analysts see next-generation semiconductors and artificial intelligence as critical components in advancing military power throughout the next decade. Few believe Russia will be at the forefront of developing such technologies. But China is a very different story.

The catalyst for Washington's change of heart on global cooperation on trade and investment has been the rise of China.

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Expanding scrutiny of outward investment

Both the US and the EU have signaled their intention to control outward investment in strategic sectors.

While there are established pathways for regulating or blocking inward foreign investment in the United States and elsewhere, pressures are now growing to match these tools with similar mechanisms to monitor and possibly curb outward foreign investment.

In the past, democracies generally adopted a hands-off approach to foreign investment decisions of their companies. This laissez-faire outlook contributed to the vast and complex global supply chains that dominate international manufacturing. Largely freed from government restrictions, companies invested where they believed they would achieve the best rate of return on their FDI.

But this is changing and could soon change even more profoundly. Companies across the globe are reassessing supply chains as they balance theoretical cost savings versus the real risk of supply disruption brought about by abrupt policy changes.

US semiconductor makers, for instance, are prohibited from expanding their Chinese manufacturing operations for a decade if they are to access the US$39 billion pool of funds available to them under the CHIPS and Science Act.[4]

Concern about US investments in China is not new. The Trump administration applied a series of restrictions on doing business with Huawei, the Chinese telecommunications company. In November 2020, the former president signed an executive order which banned US investors from obtaining shares in 31 Chinese companies with alleged links to the Chinese military. President Biden expanded the restrictions in August 2021, prohibiting US investments in a further 59 Chinese companies with alleged ties to the military.[5]

But these restrictions were broader and specifically targeted companies that were seen to be affiliated with China's military. President Biden is poised very soon to expand the scope of outward investment monitoring, if, as expected, he issues an Executive Order to regulate US companies investing in advanced technologies in other countries.

As mandated by the December 2022 Consolidated Appropriations Act,[6] the Treasury and Commerce Departments were required within 60 days to submit to Congress reports that spelled out how they planned to address threats to national security arising from investments made by US companies in strategic high-tech sectors in certain countries.

It is not yet clear what the Executive Order will say. Those reports were delivered to Congress at the end of February. The targeted countries are believed to include China, Cuba, North Korea, Venezuela, and Iran. The United States and other countries already have in place export controls for armaments and for dual-use products, which have military as well as civilian applications. But clearly, this order would go beyond this ambit and would represent an unprecedented expansion of regulatory authority over American commerce.

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Businesses in Washington believe the possibility of sweeping restrictions has abated and that the regulations will pertain largely to notification of pending investments in China by US companies in sensitive areas like advanced semiconductors, quantum computing, and artificial intelligence. In a March interview with Reuters, Commerce Secretary Gina Raimondo characterized the initial program as a pilot project. "It makes sense to walk before you run because getting it wrong has consequences we want to avoid," She said. Raimondo added that she did not want the order to be "overly broad" because sweeping restrictions could have consequences for US pension plans, which may have invested in foreign companies or funds.[7]

No new law to curb outward foreign investment has yet been passed. But both houses of Congress have taken up legislation that would mirror US laws on inward foreign investment, establishing guidelines for their monitoring and interdiction. It could be that following the issuance of the Executive Order, lawmakers would move to pass similar legislation.

A 2022 bill from Senators John Cornyn (R-Texas) and Bob Casey (D-Pa.) sought to establish the National Critical Capabilities Committee (NCCC). The objective would be monitoring supply chains to "prevent the offshoring of critical production capacity."

These National Critical Capabilities are defined as "systems, services, and assets vital to US national security, this includes agricultural security, health security, homeland security, energy security, infrastructure security, and natural resources security."[8]

Such restrictions on supply chains and foreign business operations could have ramifications on existing investments and bring retaliation from foreign governments who view such US authority as extraterritorial encroachment.

It seems likely the United States would press its trade partners to adopt similar mechanisms. In the case of the European Union, this would not require much effort as European Commission officials have already signaled their intention to tighten export controls and see whether "additional tools" are warranted to control outward investment in strategic sectors.[9]

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Sovereignty trumps inward investment

More countries are implementing investment monitoring regimes for 'strategic sectors' and those that already have them are extending the scope of businesses considered strategic.

There are no multilaterally agreed rules on inward foreign investment. Efforts to strike a deal at the Organisation for Economic Co-operation and Development in the 1980s foundered over sovereignty concerns. WTO members have tried to bring investment into the rubric of global rules without success largely for the same reasons. While a majority of members are nearing a deal on investment facilitation that would largely be limited to transparency with no provisions on market access or dispute settlement.

This is how governments like it. While they pay lip service to the notion of global trade rules, investment rules have often proven a step too far. Governments prefer to preserve sovereignty when it comes to who owns assets inside their borders.

China imposes very rigid restrictions on the inward flow of foreign investment. In December 2021, for instance, its top economic planner the National Development and Reform Commission, and the Ministry of Commerce issued a revised "negative list" of industries subject to restrictions on foreign investment. Thirty-one sectors were covered including agriculture, education, media, mining, some manufacturing, transportation, tobacco, and health care.[10]

For the United States, the principal tool for overseeing the national security implications of inward foreign investment is the Committee on Foreign Investment in the United States. CFIUS is a group of nine federal agencies, chaired by the Treasury, which reviews the national security implications of potential foreign acquisitions or investments in US businesses. The committee can block transactions or impose measures to mitigate any threats to US national security.

Economic and health crises of a global scale and geopolitical tensions in the recent past have given rise to greater investment scrutiny around the world. So too has the development of new technologies.

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Many other countries also employ processes for monitoring, reviewing, and prohibiting inward foreign investment. According to the United Nations Conference on Trade and Development's (UNCTAD), 2023 Investment Policy Monitor, at least 37 countries have instituted investment screening mechanisms.[11]

UNCTAD estimates that in 2006, only three countries employed such screening. In every instance, the rationale for developing these mechanisms invokes the protection of national security. Most countries in the Organisation for Economic Co-operation and Development (OECD) maintain that the exercise is one in which a balance is struck between protecting national security and encouraging productive foreign investment.

There is no common approach to screening. Different governments use different criteria for determining which investments should be subjected to monitoring and which might be pre-approved. In some cases, the origin of the investor is the guiding principle. For the United States, investors from the "Five Eyes" intelligence-sharing countries (Australia, Britain, Canada, New Zealand, and the United States) are normally given the green light. Some European Union countries apply screening to investors from outside the EU, while others widen the circle to include members of the European Free Trade Association. Some apply greater scrutiny to state-owned investors.

Likewise, governments use different criteria in assessing the strategic importance of specific industries although critical industries and products that have military, as well as civilian applications, tend to be covered in most countries.

Economic and health crises of a global scale and geopolitical tensions in the recent past have given rise to greater investment scrutiny around the world. So too has the development of new technologies as governments fret that foreign actors may gain access to sensitive technology, strategically important information, or personal data.

Canada, for instance, published new guidelines[12] in 2021 for reviews that focused on among other things, the national security implications of foreign access to sensitive personal data. The following year, Australia mandated that any transaction leading to foreign control of the access to personal data of more than 100,000 people be subject to government approval.[13]

In response to the pandemic, several countries imposed new investment regulations in 2020. France listed biotechnology among the critical technologies for which foreign investment would be reviewed. Foreign investors purchasing 10% or more of vaccine or medical equipment companies in Germany need approval from Berlin. India implemented a targeted set of disciplines mandating that investors from any territory bordering the country must obtain government blessing before acquiring any Indian companies producing medicines or medical equipment linked to the fight against Covid. In all, UNCTAD says that between 2020 and 2022, at least 12 countries approved pandemic-related screening measures.[14]

Strict investment disciplines have been applied in response to the war in Ukraine. The EU, which has no formal centralized powers over investment screening, has nonetheless urged its 27 member states to put in place screening procedures to assess the security implications of any investment from Russia or Belarus. Many have complied.

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Not only are more countries implementing investment monitoring regimes, those that already have them are extending the scope of businesses considered strategic. Governments are also lowering the investment threshold which triggers a review and are widening the range of investments and investors subject to a review, according to UNCTAD.

The rising role of security reviews of FDI

In the United States, CFIUS is empowered to conduct national security reviews of mergers, acquisitions, joint ventures, leases, and other investments in which the entity in question would be controlled by a buyer deemed to be a "foreign person." Following a review, CFIUS may decide to investigate and subsequently call for the deal to be altered, mitigated, or halted. The foreign investor may be asked to divest itself of any assets it acquired.

Despite the huge flows of foreign investment into the United States, the number of cases subject to review is rather small. But CFIUS wields great power. The mere possibility of a review tends to have a chilling impact on investment. In its annual reports, CFIUS releases no information on specific company transactions unless the US president decides a deal should be blocked. The Trump administration extended new powers to CFIUS which led to a sharp increase in the number of security reviews. Chinese investment was the focus of these reviews.[15]

According to Ion Analytics, CFIUS reviewed 147 deals between January 2017 and September 2022.[16] In reviewing these deals Ion concluded that 25 cases were either blocked, mitigated, or dropped following a review. Of the 25 cases, 17 involved a Chinese buyer, according to Ion. There were also 29 deals involving Chinese investors which were approved, as were three deals proposed by Chinese-owned US buyers. During his one term in office, President Trump blocked four deals, the proposed acquisition of San Diego-based semiconductor

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maker Qualcomm Inc.,[17] a takeover of StayN'Touch, a Maryland-based developer of software used in hotel management,[18] and the acquisition of Lattice Semiconductor Corp.[19] These three were the targets of Chinese investors.

The fourth case was the purchase of Musical.ly by Beijing-based ByteDance. This purchase led to the formation of TikTok. In August 2020, CFIUS ordered ByteDance to divest itself of TikTok on national security grounds. But perhaps mindful of the app's popularity and with a re-election campaign looming, President Trump decided not to enforce his earlier threat to ban the platform.[20]

There were at least two other cases involving personal data where CFIUS required China-based companies to divest their holdings in US platforms. In March 2019, Beijing Kunlun Tech Co Ltd was forced to sell its 100% stake in the dating app Grindr LLC. That same year, Shenzhen-based iCarbonX had to divest itself of its majority stake in PatientsLikeMe, an online service that helps patients find people with similar health conditions.[21] In both cases, the rationale appeared to be a fear that sensitive data obtained from either platform might be used by Beijing for nefarious purposes.

The landmark cases: TikTok and Huawei

Western governments worry that Huawei and TikTok could harvest data and channel it to the Chinese Communist Party under China's 2014 Counter-Espionage Law and 2017 National Intelligence Law.

There can be no question the two highest-profile investment cases in recent years involve Chinese companies Huawei and TikTok.

Comparisons between Huawei and TikTok reveal more differences than similarities. Huawei is a telecommunications giant, the world's largest producer of mobile phones, and a pioneer in the development of 5G telecoms network technology. In 2022, the company boasted global revenue of US$92 billion. The founder, Ren Zhengfei, was a former engineer in the People's Liberation Army.

TikTok, launched in 2017, has become a global phenomenon with more than 2 billion downloads globally and more than 130 million in the United States. The platform's rapid growth and tremendous popularity among young users soon brought it under US scrutiny. The Biden administration has warned TikTok that it faces a ban in the United States should its parent company, Beijing-based ByteDance, not sell its stake in Tiktok.

In terms of corporate culture, target markets, and ownership structure, the two companies seemingly could not be more different. What they have in common is that Western governments worry that Huawei and TikTok could harvest data and, under instructions from Beijing, channel it to the Chinese Communist Party. In both instances, what worries governments is what *could* happen, thanks to China's 2014 Counter-Espionage Law and 2017 National Intelligence Law.

In the case of Huawei, the United States and other countries sought to address these concerns by blocking the installation of the company's equipment in telecom networks. Such a strategy is more difficult with TikTok, where the concerns relate to the handling of personal data rather than sensitive business or government information.

TikTok's executives have repeatedly denied being pressed by the Chinese government to share data and say they would refuse to do so if the request ever came.

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In March, the House Energy and Commerce Committee subjected TikTok Chief Executive Shou Zi Chew to a hostile five-hour grilling, raising issues such as the massacre in Tiananmen Square, the suppression of the human rights of Uyghurs in western China, and the policies of the Chinese Communist Party. Mr. Chew, a Singaporean with an MBA from Harvard, denied any links to the Chinese government or the Communist Party. No member of the committee produced evidence to suggest that TikTok constitutes a threat. Lawmakers seemed more interested in scoring political points than in understanding the complex legal and technical issues involved in the case.

At that hearing, Mr. Chew told the committee that ByteDance was not owned by the Chinese government but that 60% of the company was owned by "international investors." Three members of the company's board head US financial firms.[22]

Following a 2019 investigation, CFIUS recommended that ByteDance divest itself of TikTok. At the time, it appeared a US buyer for the platform might emerge. But President Trump backed off his threat to shut the company down if a buyer could not be found. The company then sought to persuade CFIUS by proposing radical changes to its US operations. As part of this restructuring, TikTok spent US$1.5 billion to create "Project Texas" which would place all its US operations—and all data on US citizens—into a single subsidiary. The data would be stored by Oracle Corp, the Austin, Texas-based tech company. A US government-approved committee would oversee these US operations.[23]

"Our approach has never been to dismiss or trivialize any of your concerns. We have addressed them with real action now. That's what we've been doing for the last two years, building what amounts to a firewall. The seals protected US user data from unauthorized foreign access. The bottom line is this: American data is stored on American soil by an American company overseen by American personnel. We call this initiative Project Texas," Mr. Chew told the Committee.[24]

TikTok sought to persuade CFIUS by proposing radical changes to its US operations.

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The Restrict Act extends broader authority to the US president to ban any platform deemed a threat to national security.

To date, this project has not been approved and members of the Energy and Commerce Committee expressed skepticism that a firewall would effectively prevent Beijing from accessing information.

One serious problem for the United States, in this case, is that, unlike the European Union, the country has no federal data privacy laws (though six US states do have some laws covering data privacy.) Such laws could be invoked as a restraint on the transfer of any data out of the country. While TikTok may use data gathered from its users for commercial purposes, so too can Facebook, Google, and any other large tech company.

Ad hoc attempts to shut down digital platforms have floundered in the US courts before, and legal experts maintain that a similar approach with TikTok might encounter the same fate. At issue is whether any attempt to ban the app might impinge on the freedom of expression under the First Amendment of the US Constitution.

One precedent for the legal challenges the Biden administration might face in banning TikTok could be the September 2020 decision by a federal district court in San Francisco blocking the Trump administration's efforts to ban another Chinese app, WeChat, which had 19 million users in the United States, much fewer than TikTok. Plaintiffs in the case argued that banning WeChat would violate their First Amendment rights and the judge agreed.

Judge Laurel Beeler said the Trump administration had put in scant little evidence that its effective ban of WeChat for all US users addresses those [national security] concerns."[25] Instead of a total ban on WeChat, she suggested the administration could simply ban the app from government devices. Since then, federal agencies, many US states, and governments in Canada and Europe have banned the use of WeChat on official devices.

US lawmakers seem to recognize the legal lacuna—and potential political backlash—they may face in banning TikTok. A number of bills have been put forward in recent years, but none have found the traction needed to become law.

With the emergence of legislation known as "Restricting the Emergence of Security Threats That Risk Information and Communications Technology Act," better known as the Restrict Act, Congress may have found a vehicle that would empower the president and attract bipartisan support. The White House has come out in favor of the bill, which was introduced in early March.[26]

The bill, which was introduced by twelve senators from both parties does not name any company specifically but would extend to the president broader authority to ban any platform deemed a threat to national security.

Should it become law, the Restrict Act could grant the Commerce Department the power to review and block any attempt to acquire or invest in US technology companies by investors from six "foreign adversary" countries, including China, Russia, Iran, Cuba, Venezuela, and North Korea.

One of the bill's co-sponsors, Senator Mark Warner (D-VA), explained the advantages of blanket legislation. He said the "risk-based, rule-bound" process would let Commerce officials take a "more comprehensive approach" to mitigating threats from foreign companies, as opposed to the previous "whack-a-mole" approach used by the US government in the past.[27]

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Should this bill become law, it could spell the end of TikTok's operations in the United States, even though no hard evidence has emerged implicating the company in activities that would pose a threat to national security or which indicate the transfer of personal data to China. The alternative would be for ByteDance to sell the company to a US entity, something the Chinese government has repeatedly said it would never approve.

Chinese government officials reacted with fury to the tone and content of the 23 March hearing, insulting specific lawmakers for their lack of technical acumen and their anti-China fervor. But the irony that the same government railing against a proposed ban on TikTok, has itself banned Facebook, Twitter, Google, YouTube, and Instagram was apparently lost on Beijing.

Until the TikTok case, the highest profile case of a Chinese company operating in the United States was that of Huawei. At one time, Huawei had agreements with major telecommunications companies in Britain, Germany, Canada, Australia, New Zealand, Norway, and across the African Union, including the union's headquarters in Addis Ababa.

Despite those agreements, a trail of espionage charges around the world dogged the company, with governments alleging that Huawei networks contained a "backdoor" to access private data. These charges, strongly refuted by the company, led swiftly to laws and regulations that forced Huawei to divest. In 2018, the United States passed a defense funding bill that barred on security grounds the US government from doing business with Huawei and several Chinese vendors of surveillance products. A cascading series of US sanctions against Huawei then followed including an export ban on US-designed semiconductors used by Huawei. No US company or American individual could own shares in companies that the Pentagon says are linked to the People's Liberation Army, a list that includes Huawei.

The sanctions against Huawei had a deep impact on the company. Denied access to the most advanced chips, its share in the global smartphone market plummeted from 18% in 2020 to 2% in 2022.

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The sanctions against Huawei had a deep impact on the company, it's revenues fell from US$122 billion in 2019 to US$92 billion in 2022 after the ban on Huawei's purchase of advanced US-designed chips.

In January 2021, the Trump administration revoked export licenses for US companies like Intel which supplied products and technologies to Huawei. After Joe Biden took office in January 2021, the Federal Communications Commission voted unanimously to prohibit the use of Huawei equipment in US telecommunication networks. The reason? National security.

After US intelligence officials shared their concerns with their counterparts in the "Five Eyes" countries, new sets of sanctions were imposed. In November 2018, New Zealand blocked Huawei from supplying mobile equipment to the national telecommunications company's 5G network, citing a "significant network security risk." On 14 July 2020, the UK announced a ban on the use of the company's 5G network equipment,[29] citing security concerns. In May 2022, Canada banned Huawei from the country's 5G network.[30]

Huawei's—and China's—relations with the West were to grow even more strained. In 2018, Mr. Ren's daughter, Meng Wanzhou, was detained at her house in Vancouver as she faced extradition to the United States on charges of conspiracy to commit wire and bank fraud. The Chinese responded days later by imprisoning two Canadians, a former diplomat Michael Kovrig and a businessman Michael Spavor. In September 2021, Ms. Meng reached a deal with the Biden administration and was free to return to China. Hours later, Beijing released Mr. Kovrig and Mr. Spavor.

The sanctions against Huawei had a deep impact on the company and it appears that more US sanctions against the company would be on the way. Huawei posted revenues of US$122 billion in 2019,[31] but the sanctions, especially the ban on Huawei's purchase of advanced US-designed chips, had a devastating impact on the company. By 2022, revenues had fallen to US$92 billion. In 2020, the company was the world's largest supplier of smartphones with a market share of 18%.[32] But, denied access to the most advanced chips, the company's phones were not competitive, and by 2022, that share had fallen to 2%. Earlier this year, the company took a further blow when the Biden administration advertised that it was prepared to cut off sales of all US technology to Huawei.

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Trade protectionism in full flight

Government response to anticipated shortages of essential goods is usually policies of export restrictions. The panic produced by the pandemic led some governments to sharply curtail exports of vaccines and medical equipment.

Before he was elected president, Donald Trump was fond of saying that "trade wars are good and easy to win." Once elected, he set about trying to prove his theory. What ensued was the imposition of the most aggressive trade-restrictive measures since the end of the Second World War.

The trade war with China and the decision to impose steep tariffs on virtually all imports of steel and aluminum were like a thunderclap that resounded through the global economy. At the time, they touched off anger and deep anxiety about the future of trade and the extent to which anyone could rely on their trading partners. Although the volume of the rhetoric has been dialed down, the systemic and political aftershocks are still reverberating.

Mr. Trump did not start the trend toward protectionism, but he kicked it into high gear. Each of the global macroeconomic shocks of the last 15 years has given rise to successive waves of new import restrictions. As noted above, the cumulative impact of these measures covers US$2.07 trillion in imports, 9.3% of the total.

It was with the global financial crisis that the movement toward import-restrictive measures began. Between November 2008 and mid-October 2009, WTO members imposed restrictions covering 1% of world imports or about US$123.8 billion. One year later the level of imports hit with the restrictions had gone up to around 1.2% of world imports or roughly US$150 billion.[33]

With the election of Donald Trump, all bets were off. In 2017, import-restrictive measures hit US$79 billion in imports.[34] One year later, the global ramifications of Trump's trade war were plain to see, as the amount of trade affected by import tariffs had increased more than seven-fold to US$588.3 billion. By this stage, about US$1.5 trillion in trade was impacted.

There was worse to come. From October 2018 to October 2019, WTO Members restricted US$746.9 billion in imports, the highest recorded since the WTO began its annual monitoring of trade measures.[35]

The outbreak of the pandemic disrupted global trade further as governments slapped trade restrictions on US$440.9 billion in imports. The relatively smaller figure indicates the sharp decline in trade flows more than restraint by governments. Governments did pare back some import restrictions for essential products like medicines, medical products, and food. But they also imposed some 18 Covid-related, import-restrictive measures covering US$163.5 billion in trade in 2022 through October.[36]

Comparing current export levels with what they might have been absent the trade war reveals the cost of the flight to protectionism. Had US exports to China grown at the same level as overall Chinese imports from 2018-2022, US exports to China in 2022 would have been 23% higher than they are today, a Peterson Institute for International Economics study said. US services exports to China in 2022 remained 25% below 2017 levels and 24% below the average Chinese services import level in the 2018–2022 period.[37]

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While agriculture exports were up 16% led by strong cotton and soybean sales, pork exports fell 42% and US exports of wheat also declined sharply in 2022. Moreover, US farmers are becoming dangerously reliant on the Chinese market with more than 19% of global US farm exports shipped to China, up from 14% in 2017 and 13% in 2009.[38]

In October 2021, the Biden administration reached a complicated agreement with the EU in which most of the Trump tariffs would be scrapped on imports below a quota of 4.4 million tons with the quota shrinking to 3.3 million tons in 2024.[39] The EU lifted all its tariffs on US products and the two sides agreed to negotiate an environmental pact to assess and then reduce the carbon content of steel imports. The two sides pledged as well to address steel overcapacity and cited China specifically as the root cause of overcapacity.

The countries with which Washington reached deals dropped their WTO cases, but four others—Norway, Turkey, Switzerland, and China—did not. On 9 December 2022, a WTO dispute panel ruled against the United States. Washington was not pleased.

"The United States strongly rejects the flawed interpretation and conclusions in the World Trade Organization panel reports released today regarding challenges to the United States' Section 232 measures on steel and aluminum brought by China and others," Assistant US Trade Representative Adam Hodge said in a statement, adding that the United States did "not intend to remove the Section 232 duties as a result of these disputes."

If the goal was to revive and reverberate a struggling domestic industry, the data suggests that did not work.

The stated goal of the Commerce Department, which oversaw this policy, was to drive up production and capacity utilization. According to a blog from Ed Gresser

The US's trade war with China and the decision to impose steep tariffs on virtually all imports of steel and aluminum were like a thunderclap that resounded through the global economy.

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Separate from the export controls triggered by the pandemic and the Ukraine war, Beijing has floated proposals to impose export controls on more than 100 technologies, many of them related to renewable sources of energy.

at the Progressive Policy Institute,[40] prior to the application of the 232 tariffs, raw steel production in the US was 82 million metric tons in 2017. Under heavy trade protectionism, output in 2022 reached 82 million metric tons. Capacity utilization at steel mills was 73.5% in 2017 and rose only marginally to 74.7% in 2022. As far as jobs go, steel mill employment in 2022 fell to 75,000 from 80,600 in 2017, while foundry jobs slumped to 50,000 from 65,000 in the period.

Governments have long employed controls on the export of weapons and products with both military and civilian uses. But in recent years, restrictions on the export of goods and technologies have increased to the point where the WTO says that restrictions on exports, which barely registered in monitoring reports 10 years ago, today are more prevalent than those on imports.

Since the WTO ramped up its monitoring in 2009, the largest number of recorded export-restrictive measures occurred in 2021 (66) and 2022 (129 through October.)

From mid-October 2021 to mid-October 2022, US$114.5 billion in global exports (0.5% of the total) were subject to some form of restrictions. *(This does not include restrictions applied on Covid-related products.)* Many of these were food products, particularly vegetable oils, and cereals, in which world trade was severely impacted by the war in Ukraine. Exports of mechanical appliances and electrical machinery were also curbed.[41]

When governments worry that their people may face shortages of essential goods, they reach into their policy toolboxes and take out export restrictions. The panic produced by the pandemic led some governments to sharply curtail exports of vaccines and medical equipment. From the outbreak of the pandemic through mid-October 2022, roughly 85% of all Covid-related restrictive measures have been on exports. Even with governments having pared back some of these measures, US$134.6 billion in trade has been affected.

Neither Russia nor Ukraine is a huge exporter but in specific products such as agriculture, fuels, and steel, they are significant global traders. Prior to Covid, together the two countries accounted for about 30% of global wheat exports. When those supplies were curtailed, the initial response in many countries was to ensure that domestically produced wheat stayed in the country. From mid-October 2021 to mid-October 2022, WTO members applied 72 export restrictive measures which affected $110 billion in exports. Today, 52 such measures remain in place covering US$56.6 billion in exports.

Apart from the export restrictions driven by the pandemic and the war in Ukraine, Beijing this year floated proposals to impose export controls on more than 100 technologies, many of them related to renewable sources of energy. Given the dominant position of Chinese producers in photovoltaic technology, these restrictions could severely hamper green policies, particularly in Europe.[42]

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Fragmentation is coming, ready or not

A fragmented world is increasingly likely and the price to pay will not be only economic. It will affect collective action on the climate, poverty reduction, and future pandemics.

While the sharp increase in trade and investment restrictions is cause for concern, it would be wrong to suggest that globalization is dead and has been replaced wholesale by industrial policies and hostile trade relations.

Trade did expand by 2.7% in 2022, and while WTO economists predict sluggish growth of only 1.7% in 2023, they expect a rebound in 2024 to a more robust 3.2%.[43] World exports of intermediate goods, a good indicator of the health of supply chains, grew 4% year-on-year in the second quarter of 2022 to $2.5 trillion.[44]

The global trading system and its guardian, the WTO, continue to operate but cracks are emerging. The factors propelling fragmentation have not subsided. The considerable headwinds that buffet the global economy have not abated. The war in Ukraine has created deep fissures not only in Europe but across the world. Russia will be an outcast in its own continent for as long as Vladimir Putin remains in power and perhaps longer. The rich Western European market, so carefully cultivated by Moscow, is no longer a destination for Russian oil and gas exports.

Relations with China are more nuanced. While the United States and China seem locked on a collision course, other countries in Asia, Africa, and Latin America are weighing carefully how to balance their relations with the two big powers. Europe is not prepared to turn its back on China. Before French President Emmanuel Macron and European Commission President Ursula von der Leyen embarked on their April trip to Beijing, Ms. Von der Leyen, outlined her concerns with Chinese policies on Russia, Taiwan, and the South China Sea but added that Europe has no intention of decoupling with China.

The outlook in US-Chinese relations seems more clear-cut, if also more problematic. Such is the animosity in Beijing and Washington that imagining a scenario in which the two could return any time soon to more cordial relations is difficult. In the latter part of the 20th century and the first ten years of this one, US-Chinese relations were not only cordial, they were locked in mutual desire. China would not have acceded to the WTO without US support. US trade and investment with China soared and corporate America was a huge beneficiary of China's spectacular growth and development. But roughly a decade ago, the relationship veered off the rails.

As the United States has grown more disenchanted with multilateralism, China has sought to play an enhanced role in international institutions in the Middle East, Africa, and even in Europe. Can China parlay this into a position of global leadership? Certain factors, not least its mercantilist economic model and its repression of human rights and free speech, suggest not.

Things are changing very quickly and there is no denying that the multilateral system which has served the world so well for 75 years is ill-suited to this tech-driven, insular, and angry planet. The process is already underway. There is already more and more focus on trade and investment within regions, or among "friends," and less and less intercontinental commerce. Trade and investment patterns are being rattled and roiled.

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In her outstanding book *The Globalization Myth*, Shannon O'Neil of the US Council on Foreign Relations points out that trading within regions has always superseded trade across oceans.

"In total, over half of the flows of international trade, investment, money, information, and people occur within regions. Globalization is, as much as anything, a regional affair," she writes.[45]

The trends are not deviating and many incompatible positions are hardening. A fragmented world seems increasingly likely if not inevitable. The economic ramifications are clearly negative, but they may not bite immediately. The slide into a less efficient, less productive system will take place gradually. Many people will not fully comprehend how they became poorer.

The price to pay for a fragmented world will not be only economic. At a time when the logic for collective action on the climate, poverty reduction, and future pandemics has never been more evident, the folly of fragmentation is unmistakable. But to assume that governments would work together to combat climate change when they meet with daggers drawn on trade and investment, is far-fetched.

At a time when the logic for collective action on the climate, poverty reduction, and future pandemics has never been more evident, the folly of fragmentation is unmistakable.

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In his former role as Director of the WTO's Media and External Relations Division, Keith worked closely with the Director General and his office to reflect the objectives and activities of the WTO. He was responsible for the overall coordination of the WTO's interaction with media, civil society, parliamentarians, and the United Nations. He appeared regularly before media at press conferences, briefings, and television and radio appearances.

Keith received his Masters in Business Administration in International Business from George Washington University in 1991 and his Bachelor's Degree in History and Political Science from Tufts University in 1980. In 1990, he authored *1992 AND BEYOND: How to Prosper in the World's Biggest Market*, which was published by Knight-Ridder Inc.

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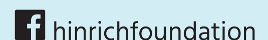

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