FONDATION ROBERT SCHUMAN
POLICY PAPER

European issues
n°495
4th December 2018

Donald Trump's trade policy:
when the hegemon ceases to be benevolent

Patrick ALLARD

"The United States will not allow the WTO – or any other multilateral organization – to prevent us from taking actions that are essential to the economic well-being of the American people"[1].

Despite Trump's strong criticism of the WTO and the US President's threats of withdrawal, the White House has not so far moved to leave the organization. The administration has not disdained to use WTO legal channels: since January 2017, it has filed 10 complaints before the WTO against China, the European Union, Turkey, Canada and India. Nevertheless, the actions of the Trump Administration, the policies it pursues, its practices, ranging from the procrastination of the appointment of judges necessary for the proper functioning of the WTO Dispute Settlement Body, to the unilateral and discriminatory imposition of massive customs duties on certain American imports, are all systematic challenges to the organisation and its fundamental principles: the inviolability of tariff commitments, which precludes their unilateral modification, and the most favoured nation (MFN) principle, which prohibits discrimination between trading partners.

How can we understand that the current leaders of the United States, the State 'present at creation' according to Dean Acheson, Secretary of State to President Truman from 1947 to 1953, whose interests, values, priorities and action have given a decisive impetus to the establishment of the institutions and rules that have governed the restoration and expansion of world trade since 1945, have embarked with alacrity on an undertaking to sabotage, if not destroy, the international trade order promoted, maintained and amended under the ferrule, sometimes threatening, of successive presidencies, republican and democrat, over the past 8 decades, from GATT to the WTO? It is tempting to appeal to the irrationality, demagogy, impulsivity or incompetence of a President elected by surprise, unrelated to the traditional political and economic establishment and based on breaking concepts and personalities. But, in view of the negative evolution of American public and elite perceptions of the benefits of international trade and because of the United States'; still unique place in the world, its disputed primacy in the future but evident in the present in the global economy and finance, it seems more fruitful to question the logic of the Trump Administration's trade policy.

It is one of the "dirty little secrets" of economics that can be theoretically demonstrated, as the "optimal tariff"; theory does, that it makes economic sense for a country with market power, i.e. a major importing power, to impose high tariffs. According to theory, it can do so, either to benefit from more favourable terms of trade (ratio between export and import prices), as soon as the drop-in import demand induced by more protection causes a drop in the prices of imported products; or to force the opening of partners' markets or to force the relocation of production on national territory. But, according to the proponents of optimal pricing theory, these are only three ways to present the same thing.

I. THE ADMINISTRATION HAS IMPLEMENTED MEASURES CIRCUMVENTING WTO PRINCIPLES TO PURSUE AN AGGRESSIVE TRADE POLICY.

The Trump Administration's trade policy is in line with the resolution posted in the trade policy agenda published in March 2018 by the office of United States Trade Representative (USTR). The challenge is clear: to regain full freedom of use of economic power in the diplomacy of the administration. The objectives are less clear: are they the establishment of pure and simple protectionism? are they the implementation of a strong mercantilism designed to force the opening of markets and discipline trading partners? are they the pursuit of China's economic containment strategy? These objectives are not mutually contradictory and their simultaneous pursuit contributes to the blurring

1. Office of the United States Trade Representative, 2018 Trade Policy Agenda and 2017 Annual Report of the President of the United States on the Trade Agreements Program, mars 2018, p. 2.

of traditional boundaries between the economic and security spheres, in accordance with the National Security Strategy, published in December 2017.

• The administration has used US legal mechanisms prior to the WTO and rarely used…

The legal basis for the measures taken by the Trump Administration clearly shows its willingness to exempt itself from WTO disciplines in order to impose or announce massive and discriminatory tariffs on large amounts of US imports of manufactured goods. The administration did not simply use the traditional temporary trade defence measures to deal with a sudden surge of imports, based on section 201 of the 1974 Trade Act, which it used as early as January 2018 to tackle imports of solar cells and panels, washing machines and newsprint.

It has deployed measures that negate WTO principles by using exception provisions. First, it used the national security exception in Article XXI of the GATT to take unilateral measures to restrict imports of certain products, without regard to the obvious lack of credibility of the approach. In doing so, it relied on the provisions of section 232 of the 1962 Trade Expansion Act, which allow the President to take measures to "adjust" imports that the Department of Commerce has identified, after an inter-agency investigation, as a threat to national security. As a further step in circumventing WTO rules, the administration has resorted to Section 301 of the Trade Act of 1974, which authorizes the President to suspend existing tariff concessions or impose non-tariff restrictions on imports if he finds that a partner, in this case China, is violating its contractual obligations or engaging in unreasonable practices that hinder or restrict US trade. The use of the provisions of Section 301 is all the more emblematic of the Trump Administration's approach since its criticism of China is in principle covered by the WTO dispute settlement mechanism, as noted as early as 1999 by a panel on Sections 301-310 Trade Act of 1974 convened at the request of the European Union. Indeed, the United States has rarely made use of Section 301 since 1995.

• . . . to implement or announce/threaten massive tariff increases on a quarter of US imports of goods.

On the basis of Section 232, the administration unilaterally and permanently raised customs duties on $18 billion (2017) of imports of certain types of steel (25% taxed) and aluminium (10% taxed). On the same legal basis, it launched two other investigations into the national security consequences of imports, threatening to impose 20% tariffs on more than $200 billion worth of car imports and uranium imports. In practice, the most affected imports come from NAFTA countries, the European Union, Japan, Korea and China. The opening of negotiations following the meeting of Jean-Claude Juncker, president of the European Commission, and Donald Trump, led to an exemption for European car imports. On the basis of section 301, the administration initially took 25% tax measures on about $50 billion worth of products imported from China. In August 2018, it imposed a 10% tax on $200 billion of Chinese imports, to be raised to 25% in 2019, in response to retaliatory measures taken by Beijing and to sanction the decline in the Chinese currency since spring 2018. In addition, the President threatened to tax the remaining imports from China (nearly $270 billion) as well.

The value of imports affected by the measures implemented, announced or discussed exceeds $600 billion, or nearly 25% of total US imports. The goods concerned are manufactured, intermediate, capital and sustainable consumption goods, which, before the recent measures, were subject to very low customs duties on average. The average rate of US duties on imports of non-agricultural products could thus rise from 3% to 6-7% as a result of the measures applied, announced or mentioned by the Trump administration and return to the level of the 1960s.

• The United States' main partners have taken action in response to the White House's aggressive policy.

They thus denied the prediction of Peter Navarro, advisor to the President: "I don't believe any country in the world is going to retaliate for the simple reason that we are the most lucrative and biggest market in the world". At this stage, the measures implemented by the European Union, China, Canada, Mexico affect nearly $75 billion of US imports; the measures announced by China, Japan, India, Russia and Turkey would cover an additional $66 billion of imports from the United States. The total of the measures in place and the measures announced or mentioned by the United States' trading partners, nearly $140 billion, is far from equal to the American measures. The countries targeted in one way or another since the beginning of 2018 have also opened some thirty new WTO disputes by requesting consultations.

II. THE ECONOMIC LOGIC OF THE REVISIONISM OF THE TRUMP ADMINISTRATION IN INTERNATIONAL TRADE

The Trump Presidency, contrary to initial fears, has not lapsed into isolationism or outright protectionism. Priority seems to have been given to opening up markets, revising existing trade agreements and seeking fair trade. Thus, it has not broken with what historian Douglas Irwin has described as the paradigm of American trade policy since the Reciprocal Trade Agreements Act (RTAA) of 1934, namely the pursuit of reducing barriers to American exports on the basis of reciprocity. But the Trump administration is at odds with the method. Previous administrations simply used the threat to get partners to agree to negotiate on the basis of an agenda that met American concerns and interests, as in the case of the Uruguay Round. The Trump administration is acting to create a balance of power by imposing massive tariffs on imports from countries accused of damaging US trade interests from the outset, bypassing the spirit, if not the letter, of WTO rules.

• An economic logic: the theory of the optimal customs tariff

The "optimal tariff" theory is not new, but it has long been confined to the margins of international trade theory. It has received renewed attention over the past 20 years, when academic work mobilized it to explain the rationale for the GATT and WTO. In an article proposing a "GATT economic theory", Bagwell and Kyle demonstrate that in a hypothetical world where non-cooperative state trade policies are not motivated by the objective of changing the terms of trade for their benefit, GATT or the WTO would have no raison d'être. It has received more attention since the outbreak of Trump's trade war, to the point that Krugman now uses it to analyse American trade policy: "any country large enough that it can affect world prices of the goods it exports, the goods it imports, or both, has an "optimal tariff" greater than zero". A recent note by the French Economic Analysis Council also refers to it: "[the] economic literature has shown that a large country, by exploiting its market power, can impose tariffs to its advantage to lower the price of its imports or to encourage the relocation of industries on its territory". Various empirical studies have shown that the exploitation of their market power by States is a widespread phenomenon, practiced by non-WTO member countries; by WTO member countries vis-à-vis countries excluded from normal trade relations; by the same vis-à-vis non-Members during accession negotiations for new Members; between WTO member countries with regard to non-tariff barriers, safeguard measures or the setting of effective customs duties when Member countries have allowed themselves a margin of flexibility by binding high tariff ceilings.

• What is the optimal level of the United States' tariff?

A country's optimal tariff is a function of the opposite of the elasticity of the export offer of the rest of the world to which it is addressed. However, this elasticity is all the more likely to be lower the larger the size of the importing country and therefore its market more important for exporters in the rest of the world. As a result, in the event of an increase in customs duties, companies exporting to this country will want to preserve their market share and compensate for the tax imposed on their products by lowering their prices at the border. It can therefore be expected that the market power and optimal tariff of a major importing country, such as the United States, as well as for the

European Union, will be very high. Work based on econometric estimates of the elasticity of the rest of the world's export supply confirms that the optimal American tariff is at very high levels, comparable to those of the Smoot-Hawley Act of 1930. Some estimate it at more than 60% in the case of unilateral fixation and 63% in the case of retaliation by partners. Others estimate the elasticity of the supply of exports from the rest of the world in many countries. They find that it is lower in the United States and the European Union, 4 to 5 times higher in the case of Japan, Canada, Mexico or China (which implies that these countries have a much lower market power), very high for small countries, especially the poorest. They arrive at optimal tariff estimates that are half as low but still very high compared to the WTO bound tariff ceilings. A striking historical shortcut, average customs duty rates of 30% or more are those of the Smoot-Hawley Act, which the United States still applies to 2 countries, North Korea and Cuba, to which it denies the benefit of the MFN clause but which could well be extended to the rest of the world in the event of a WTO dislocation.

Only the threat of retaliation and trade war resulting in a general surge in customs duties would have historically prevented States from using their market power and setting customs duties in a non-cooperative manner. However, it is recognized by economic theory that "large economies" are best placed to trigger and win a trade war: "if one country is substantially bigger it can expect to gain from a tariff war, despite retaliation. Thus, we suggest that big countries win tariff wars". They stress that the advantage of size is one of the factors sought by the formation of a "customs union", such as the EEC. Seen in this light, American trade policy from 1945 until D. Trump's arrival appears to have been marked by restraint, even if the United States did not hesitate on many occasions to use its weight to put pressure on its partners. This restraint is explained by extra-economic motivations, initially the desire of American leaders to prevent any trade war, perceived as the cause of the rise of antagonisms in the 1930s, and then the desire to build military alliances, combined with the hope placed in the ability of multilateral institutions regulating world trade to open up trading partners'; markets and discipline their policies.

• The measures taken, announced or brandished against China are based on a different logic, both economic and geopolitical.

Initiatives against North American partners, Korea and the European Union seem to fall under the optimal tariff theory. The measures taken or brandished were expressly aimed at obtaining concessions in terms of opening up their markets. Not without some success in South Korea, where the Trump administration obtained an agreement signed on 24 September 2018 on the revision of the 2012 Free Trade Agreement (KORUS). The same applies to Canada and Mexico, which signed on 30 September 2018 an agreement reforming NAFTA, renamed the US-Mexico-Canada (USMCA) Trade Agreement, but in accordance with American requests, by introducing stricter rules of origin as well as a 6-year review clause and a 16-year term unless renewed by agreement of the parties. In addition, the Trump administration informed Congress of its intention to open negotiations with Japan, the European Union and the United Kingdom, to expand US trade and investment by negotiating trade agreements", as Robert Lighthizer put it. The European Union had already agreed to open negotiations in the summer of 2018. The joint communiqué issued in July announced negotiations for the abolition of tariffs, non-tariff barriers and subsidies in trade in non-automotive goods as well as to reduce barriers and intensify trade in services, pharmaceuticals, medical products and soya.

The same is not true of the action against China under Section 301 of the Trade Act of 1974. The investigation launched by the USTR and the tariff measures taken or announced following this investigation are part of enhanced trade defence measures, but their implications go far beyond that. The grievances raised by the administration target large parts of China's industrial and trade policy, while the measures taken or announced, which will tax heavily (up to 25%) most of China's exports, leave little room for negotiation with Beijing. Moreover, for the time being, the President explicitly refuses to do so: "China wants to talk very badly", he assured at the same time as he made public the agreement with Canada and Mexico, adding:

"I said, frankly, it's too early to talk. Can't talk now because they're not ready. Because they have been ripping us for so many years, it doesn't happen that quickly".

It is clear from the US Vice President's comments that the administration expects nothing less than a submission from China. Beyond denouncing China's unfair behaviour and deploring America's lost bet on China's economic and political transformation, the increasingly obvious challenge of the Trump Administration's trade policy towards Beijing is to counter the rise of a country designated as a strategic competitor and accused of carrying out an economic aggression against the security and prosperity of the US. The concept of economic aggression, unpublished in an official document of the American government, is mentioned in December 2017 in the National Security Strategy. It is developed in a publication by Peter Navarro, Trade Advisor: "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World". It is reflected in VP Pence's speech on Chinese politics.

The massive tariff measures taken or announced against Chinese products are part of a more general approach to limit the contribution of access to US markets and technologies to the development of China's economy and power. A continuum of mechanisms has been created or strengthened to this end. The reform of the Committee on Foreign Investment in the United States (CFIUS) contained in the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 is among the most significant. The restrictions imposed in early October 2018 on nuclear exports to China are part of the same process of restricting China's access to US markets and capital. They are complemented in a more targeted way by the numerous sanctions imposed on Chinese firms accused of violating embargo regimes on transactions with entities sanctioned by the United States. The case of the telecommunications firm ZTE and the manufacturer of microprocessors Fujian Jinhua Integrated Circuit Co, which are temporarily prohibited from accessing inputs manufactured by American firms, provide examples. Beijing's designation as a manipulator of its currency has not yet been added to the arsenal of measures designed to ostracize and weaken the Chinese economy. But, not neglecting any area, the administration announced the withdrawal of the International Postal Union, whose provisions obliged Washington (and other developed countries) to grant advantageous pricing to lightweight postal packages from China (and other developing countries).

• It can be assumed that neither the WTO nor any economic constraints, let alone complaints from American business circles, will be sufficient to contain American initiatives.

Leaders, proud of the renewed vigour of growth in the United States, convinced that existing trade agreements are detrimental to their country's economy and ready to undo them if they cannot be reformed, expressing a negative view of the integration of the American economy into global value chains and publicly calling for the redeployment of multinational companies'; activities and jobs, which are alarmed by the American economy's dependence, particularly on the national defence industrial base, on Chinese products and capital and which, more generally, seek to stem China's rise, perceived as a strategic rival, by restricting its access to the United States' economic, technological and financial resources. "When I came, we were heading in a certain direction that was going to allow China to be bigger than us in a very short period of time. That's not going to happen anymore".

It is to be expected that the American administration will strive to rally its allies and partners to its approach to contain China's economy. It has already used them, without their knowledge, by demonstrating its determination to tax imports from allies as close as Canada, the European Union or Korea. The new North American agreement, which the administration has cited as an example to follow for future free trade agreements, includes an anti-China clause in article 32.10.4, which states: "Entry by any Party into a free trade agreement with a non-market country, shall allow the other Parties to terminate this Agreement on 6-month notice and replace this Agreement with an agreement as between them (bilateral agreement)".

III. CONSEQUENCES OF THE TRUMP ADMINISTRATION'S COMMERCIAL POLICY

Two types of consequences: those for the global economy that are severe but not catastrophic, even in the most extreme scenarios of collapse of international trade; and those for world order and governance, which are devastating, even in the most moderate scenarios of trade disputes.

• Economic consequences: severe for trade but not catastrophic for the economy as a whole, even in the worst scenarios of generalized trade warfare.

On a strictly economic level, the direct and indirect consequences of the Trump administration's trade policy on the international trade and economy of the countries concerned are determined by the extent of the United States' customs measures and the response of the targeted countries.

In the short to medium term, the effect of the measures taken and announced (not including the duties mentioned on all imports from China) and the retaliation of the targeted countries is limited, as these measures only cover a small portion of trade. According to IMF simulations, the impact of the measures would be negative for the United States (-0. 2% of GDP over the next 2 years, -0.3 % over a 5-year period), less than for China (-0.6 % of GDP over a 5-year period) the effect would be negligible for the European Union and Japan, comparable to that of the United States for the world as a whole. Additional tariff measures by the United States, retaliation by its partners and effects related to uncertainty and worsening financial market conditions are needed to model a more substantial macroeconomic impact: -1 point for the United States, -1.6 point for China, -0.8 point for the world. In the event of a widespread "trade war", which could result from a cascade of tariff increase measures, the impact on international trade and the global economy would be massive. First, a significant number of countries could be involved. Then, the customs duties they could apply to each other could fly away and converge towards the optimal customs duties suggested by theory in the event of a breakdown in cooperation in this area. Some believe that the level of customs protection of the main economic powers (European Union, United States, China, Japan, Brazil, India) could increase by 60 points if they set their customs duties unilaterally. Others stop at a lower average increase (30 points), but nevertheless considerable, including +14 points for the United States and +25 points for the European Union.

The effect of such tariff increases would be devastating for international trade flows. Based on a simple theoretical model, Krugman (calculates that the drop-in world exports could reach 70%, which would bring globalisation (measured by the weight of exports in world GDP) back to its 1950s level. But the effect on the economy (GDP) would be much smaller for a large country. The economist calculates that it would result in a permanent 2% drop in GDP in the case of the United States. Noting that the loss of GDP from the potential caused by the 2008 crisis reached a maximum (temporary, he concedes) of 6%, he comments: "simple trade models, while they do say that trade wars are bad, don't say that they're catastrophic". A simulation of the effects of a trade war presented by the French Economic Analysis Council, which expects a 60% increase in tariffs on manufacturing goods, leads to results that are in line with Krugman's theoretical intuitions. The effects on international trade are massive for France, such a scenario would lead to a 42% decrease in extra-EU trade. The loss of GDP is much less. It would be 3% for the European Union, including 3% for Germany and less than 2.5% for France, compared to 3.5% for the United States, 3.3% for China, 5.2% for India, 5.9% for Japan, 7.2% for Russia. The drop in GDP for France (-2.5%) is to be compared to the loss of GDP compared to the potential that France suffered following the recession of 2008-2009 (-5.5%). The simulation of the ACE shows that the countries of the European Union are partly protected by their membership of the European internal market. These estimates do not take into account the negative dynamic effects of an increase in customs barriers on long-term growth, in particular through the emergence of an administered economy and the weakening of competition that is not conducive to innovation and the proper allocation of factors of production. A trade war scenario limited to the United States and China, with a tariff of 25% applied to all products traded between the two countries, would cause a 60% drop in bilateral trade and a partial redirection of flows to the rest of the world, resulting in an increase in Chinese exports to the European Union (+10%) and European exports to the United States (+7%).

• A deleterious impact on the governance of global trade and international cooperation

The trade policy agenda published in March 2018 by the Trump Administration mentions the reform of the multilateral trading system as one of the main objectives, stating the Trump Administration wants to help build a better multilateral trading system and will remain active in the World Trade Organization (WTO). In practice, the trade policy pursued by the Trump administration poses a twofold threat to the WTO: by taking the risk of permanently fragmenting world trade and by undermining the multilateral regulation incorporated into the WTO. The states closest to the United States, through geography, economic and financial ties, values and military alliances, and which, in addition, share Washington's frustrations and grievances against China, have acknowledged the determination of the administration's policy and have sought to preserve their interests by accepting, under pressure and threat of tariffs, to modify existing trade agreements (Korea, Mexico, Canada) or negotiate new ones (Japan, European Union). In the current context of tensions between the United States and China, preferential trade agreements are attractive because they are a commercial "insurance policy" by providing a certain legal guarantee of market access. They also constitute a geopolitical "insurance policy" by recognizing the existence of mutual interests, including between rival powers, as illustrated by the ongoing rapprochement between Japan and China.

However, the result of a proliferation of bilateral agreements (not in conformity with WTO principles) will provide an additional impetus to the fragmentation of global trade in goods and services. The phenomenon is not new: by mid-2018, the WTO lists 288 regional trade agreements (RTAs) in force, compared to 179 in 2008 and 64 in 1998. The proliferation of these agreements is likely to be at the expense of multilateralism. Preferential trade agreements essentially institute a reduction of barriers to trade and direct investment between a limited number of partners. They are by nature discriminatory and thus constitute an exception to the fundamental principle of the multilateral system of non-discrimination between trading partners, authorised, subject to compliance with certain rules, by Article XXIV of the GATT. A reorganisation of world trade around bilateral agreements, with their own rules of origin, their "deep" norms and their own conflict resolution mechanisms would in itself imply a weakening of the WTO and a dilution of global governance. It would be unable to restore the level of confidence in the strength of the reciprocal commitments provided by the WTO and thus guarantee economic operators the long-term visibility necessary for export, production and investment choices.

The logic of the administration's policy towards Beijing carries a more serious risk, that of partitioning the world economy into two rival trade and financial blocs, one centred on the United States and the other on China. Admittedly, for China, being confined to a "Chinese world" to be built is not an optimal perspective. This would limit its companies' access to essential markets, goods, services, technologies and financing, whose ambitions have not been sufficient to guarantee their availability in the near future. China imports almost all of the high-end microprocessors it uses in the manufacture of computers and servers. It spends more on imports of microprocessors (its largest import expenditure item: $261 billion in 2017), than on imports of crude oil ($163 billion). "We are still decades behind developed countries and the road to becoming a great manufacturing power remains long" a director of China's Ministry of Industry and Information Technology publicly admitted. In addition, China would be deprived of the benefits of the ambiguity of its status in the WTO and the freedoms it takes with WTO rules on the role of state-owned enterprises, state subsidies and intellectual property protection. Nevertheless, unless it quickly leads it to comply with US demands, it is likely that the Trump Administration's trade policy will encourage China to accelerate its efforts to build a global network of economic relations alternative to the US-dominated one.

According to Mohamed El-Erian, Allianz's Chief Economist, this would involve building on the extension of bilateral payment agreements with developing countries, the establishment of new international institutions and strengthening its regional influence through the BIS initiative. The situation thus created would hardly resemble that of the Cold War, in which the Soviet adversary was not a credible economic competitor. Seeking to weaken China's dynamism and its progress towards first place in the world economy by imposing a partial embargo on China's access to markets, technologies, financing and, more generally, to the United States' resources, including institutional resources, the Trump Administration's policy towards Beijing amounts to applying a broader logic of sanctions. This policy will necessarily be confronted with nagging questions about its effectiveness and cannot constitute a dominant strategy, in the sense of game theory. It is intended to be abandoned, possibly by unilateral proclamation of victory, or to give way to another strategy based on means other than the economy, to contain China's rise.

***

Tensions in the global trading system will continue. On the American side, the Trump administration's policy enjoys bipartisan support, based on the Republican Party's conversion to economic nationalism, traditionally favourable to free trade, the Democratic Party's traditional mistrust of free trade and globalization, further reinforced by the rise of the socializing left, and an equally bipartisan hardening of the American attitude towards China. It is therefore likely that the administration's trade policy, including its geopolitical dimensions, will not be fundamentally challenged, even in the event of a democratic victory in legislative and presidential elections in the coming years.

With regard to China, its leaders did not miss the opportunity to champion trade multilateralism from the outset of the Trump presidency, but they were clearly caught off guard by the vigour and determination of Washington's blows to Chinese interests. They have not adopted a strategy to counter them, contenting themselves with limited measures of customs retaliation and support for the economy, mainly monetary, at this stage. Beijing's clear interest in preserving an open trading system should encourage it to agree to negotiate arrangements to ease the most pressing demands of the United States and the European Union.

The values and interests of the European Union and its Member States, as well as the minor (and rather positive) trade impact for them of a limited US-China trade war, condition them to act as defenders of trade multilateralism and to offer themselves as mediators between the United States and China. As Pascal Lamy said, "[w]ether we like Trump or not - and I do not like Trump, I think he must be credited with one thing, which is to have put this issue of WTO reform on the table". In line with the "Gattopardism" that characterises most of its initiatives, the European Union has presented a comprehensive approach to the modernisation of the WTO and has started to engage with other partners, notably the United States and Japan, in the context of trilateral discussions, and China, in the specialised working group set up at the last EU-China Summit.

At this stage of tensions between China and the United States, the European narrative and the content of its proposals for reform of WTO rules on subsidies, the definition of state-owned enterprises and the dispute settlement mechanism converge with US positions, in the hope of preventing a US withdrawal and convincing China to make the concessions expected by the European Union and the United States. The European stance should only evolve in the extreme case, envisaged by Pascal Lamy, Pierre Vimont and others, where the American-Chinese rivalry would sharpen to the point that the United States would decide to impose sanctions on China that go beyond the current trade measures and force their application extraterritorially, based on precedents such as Iran's.

In this case, the European Union could be tempted to use its own single market power, comparable to that of the United States, to counterbalance it by taking retaliatory measures, commercially or even beyond, by setting up European extraterritorial mechanisms. But the European Union would face a strategic dilemma testing transatlantic alliance ties at the same time as the aspiration for European strategic autonomy.

Patrick Allard

Permanent Consultant, Centre for analysis, prevision and strategy of the French Ministry for Europe and Foreign Affairs

Publishing Director : Pascale JOANNIN

THE FONDATION ROBERT SCHUMAN, created in 1991 and acknowledged by State decree in 1992, is the main French research centre on Europe. It develops research on the European Union and its policies and promotes the content of these in France , Europe and abroad. It encourages, enriches and stimulates European debate thanks to its research, publications and the organisation of conferences. The Foundation is presided over by Mr. Jean-Dominique Giuliani.