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**INTERNATIONAL TRADE AND FOREIGN POLICY:
TWO SIDE OF THE SAME COIN**

**COMÉRCIO INTERNACIONAL E POLÍTICA EXTERNA:
DOIS LADOS DA MESMA MOEDA**

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Republishing the article - updated, improved and expanded - in view of the recent re-election of Donald Trump and the foreseeable consequences for international trade and multilateralism.

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Abstract: The inseparable link between international trade and foreign policy is centuries old.

In this article we will address this issue, taking into account recent developments in the international system, with the more protectionist stances of the recent administrations of Donald Trump and Joe Biden.

Could we be entering a new international paradigm where free trade could be replaced by protectionism? We will try to answer this question by analysing the last two US administrations and the recent election of Donald Trump for a second term.

Keywords: Free trade; Protectionism; Trade wars; Donald Trump; Joe Biden.

Resumo: A ligação inseparável entre o comércio internacional e a política externa tem séculos de existência.

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Poderemos estar a entrar num novo paradigma internacional onde o livre-comércio poderá ser substituído pelo protecionismo? Tentaremos responder a essa questão com a análise das duas últimas administrações norte-americanas e a recente eleição de Donald Trump para um segundo mandato.

Palavras-chave: Livre-comércio; Protecionismo; Guerras Comerciais; Donald Trump, Joe Biden.

1. Introduction

The inseparable connection between international trade and foreign policy is not new. In fact, the rivalry between Athens and Sparta, which gave rise to the famous Peloponnesian War¹ over 2400 years ago, was also rooted in a trade dispute between the two Greek City-States. It involved not only two different political and social conceptions but also two distinct economic models. One could define them as an autarkic, closed, authoritarian, protectionist model focused on itself (Sparta), opposed to a more open, internationally-oriented, cosmopolitan, and liberal model (Athens). This dichotomy between a more closed, protectionist, inward-focused economic model and a more cosmopolitan, open to the outside world, free-trade conception has persisted to this day. In the 17th century, most of Europe adhered to a mercantilist economic conception alongside absolute governments. The “Glorious Revolution”² of 1688/89 paved the way for a more liberal political and economic conception. John Locke, considered one of the founding fathers of political liberalism, was also a Physiocrat and an advocate of free trade. Later, in the 18th century, Adam Smith and subsequently David Ricardo staunchly defended economic liberalism and openness to international trade. Interestingly, it was an international treaty signed between Portugal and England in 1703, the Methuen Treaty³, that served as inspiration and conclusive evidence for both Adam Smith and David Ricardo regarding the virtues of open international trade and specialization. The theories of both economists (Adam Smith’s theory of absolute advantage and David Ricardo’s theory

¹ https://www.worldhistory.org/Peloponnesian_War/ (Accessed 08/11/2024).

² <https://www.history.com/topics/european-history/glorious-revolution> (Accessed 08/11/2024).

³ <https://www.encyclopedia.com/humanities/encyclopedias-almanacs-transcripts-and-maps/methuen-treaty-1703> (Accessed 08/11/2024).

of comparative advantage) demonstrated – and still demonstrate – that free trade is more advantageous for the majority of consumers in countries involved in international trade.

Of course, there are also opposing positions grounded in arguments such as the need to protect nascent industries, safeguard clauses, protection of employment and domestic production, or even more critical conceptions of the structure and functioning of the international trade system, such as Prebisch-Singer's theory of dependence⁴ or Immanuel Wallerstein's World-System theory⁵, among others. These more protectionist theories alternate at the top of the international system's agenda with theories that advocate free trade. They evolve, adapting to the circumstances of the times, taking on new designations such as multilateralism versus unilateralism. However, fundamentally, we always return to the old dichotomy between autarky and trade openness.

2. The GATT and its successor WTO (World Trade Organization)

The current structure of international trade is essentially based on the rules and norms adopted within the framework of the World Trade Organization (WTO)⁶. It is important to remember that this organization, established in 1995 following the Marrakesh Conference, had its precursor in the General Agreement on Tariffs and Trade (GATT)⁷, which emerged from the Havana Conference of 1947/48. It was during the duration of the GATT, which lasted about half a century, that the major principles, norms, and clauses now incorporated into the WTO were approved and adopted. The WTO has significant differences from its predecessor; foremost, it is a true international organization, whereas the GATT was merely an agreement. The WTO has innovative permanent bodies such as the Dispute Settlement Body and the Trade Policy Review Body, which did not exist in the GATT.

⁴ <https://www.encyclopedia.com/social-sciences/applied-and-social-sciences-magazines/prebisch-singer-hypothesis> (Accessed 08/11/2024).

⁵ <https://www.sciencedirect.com/topics/social-sciences/world-systems-theory> (Accessed 08/11/2024).

⁶ <https://www.wto.org/> (Accessed 09/10/2024).

⁷ https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm (Accessed 09/10/2024).

Moreover, its scope is broader, encompassing issues related to services, patents, trademarks, copyright, and international investment.

The GATT faced various criticisms, much like the WTO does today, primarily because it was considered a system that disproportionately benefited developed Northern countries to the detriment of what we now call the Global South. For example, proponents of dependency theory pointed out the glaring injustice of the international trade structure, which, according to them, perpetuated a permanent dependency of the developing South on the industrialized North. They illustrated this situation with the “deterioration of the terms of international trade”⁸ or the protectionism applied to agricultural products by some European countries and the United States, while extolling the supposed virtues of international free trade. In response to these criticisms, a new United Nations agency, UNCTAD⁹, was established in 1964. Its objective was to achieve fairer regulation of international trade, taking into account the specific situation of developing countries and their full integration into the dynamics of international trade flows. The ultimate goal was even to replace the GATT with this new institution. However, UNCTAD never succeeded in achieving its ambitious goals, and the GATT remained the primary forum for issues related to international trade.

It must be said, nevertheless, that the GATT achieved progressive liberalization of international trade and enshrined clauses such as the most-favored-nation clause, national treatment of imports, prohibition of quantitative restrictions (despite numerous exceptions), and safeguard clauses. In addition, advances were made in successive rounds of negotiations, which are now being continued by the WTO.

3. New international political context, resurgent new (old) economic paradigms

From the end of the Cold War until at least the early years of the 21st century, we lived in a unipolar period that definitively es-

⁸ <http://encyclopedia.uia.org/en/problem/deterioration-international-terms-trade> (Accessed 09/10/2024).

⁹ <https://unctad.org/> (Accessed 09/10/2024).

tablished what was known as the liberal international order. As the name implies, this order was based on rules and norms derived from the multilateral system – international institutions such as the United Nations¹⁰, the IMF and the World Bank¹¹, the WTO, among others – accepted by the majority of States. It ultimately enshrined liberal political systems (democratic, multiparty) and an economic system based on market economy and free trade. Naturally, there were always exceptions to this paradigm, but those who challenged it were considered pariah States or lacked sufficient power to undermine the system. This truly unipolar system lasted for approximately two decades, between 1990 and 2010. Since then, new powers have gradually emerged, while others have strengthened, and the hegemonic power has experienced erosion, challenging the prevailing paradigm. The rise of China, the increasing assertiveness of Russia, and more recently, the critical positions of the Global South¹² towards the liberal international order have been particularly evident. This is the international context, but the domestic context of certain countries, such as the United States and the UK, among others, has also decisively contributed to this situation. The election of Donald Trump and Brexit, in 2016, although in a lesser extent, were defining moments in this new context.

The agenda of Donald Trump, embodied in the slogan “Make America Great Again” (MAGA), resulted in a significant erosion of multilateralism, a much more protectionist stance, and successive attacks on regional integration processes, leading to the indefinite postponement of some, such as the Transatlantic Trade and Investment Partnership (TTIP)¹³ or the Trans-Pacific Partnership (TPP)¹⁴, or the renegotiation of others, such as the NAFTA agreement, which was renamed USMCA¹⁵. The imposition of tariffs and customs du-

¹⁰ <https://www.un.org/en/> (Accessed 06/10/2024).

¹¹ <https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-World-Bank-New> (Accessed 06/10/2024).

¹² <https://globalsouthstudies.as.virginia.edu/what-is-global-south> (Accessed 03/10/2024).

¹³ <https://ustr.gov/ttip> (Accessed 09/10/2024).

¹⁴ <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text> (Accessed 06/10/2024).

¹⁵ <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement> (Accessed 09/10/2024).

ties on various countries and products, under the argument of protecting American jobs and local production (a typical protectionist excuse), led to a full-blown trade war - mainly with China - which, as expected, retaliated with similar measures. Interestingly, the new Biden administration is not expected to significantly change these measures; even the new slogan “Buy American” is not very different from the previous one. Fiscal programs and incentives such as the IRA and CHIPS¹⁶ are clearly protectionist, although wrapped in different and softer rhetoric.

China joined the WTO in 2001. For 15 years, the world benefited from much cheaper goods from China that flooded international markets. While those goods were primarily low-cost consumer products, some of dubious quality, there were no major concerns. When China began to move up the value chain and directly compete with high-value-added products, such as automobiles, mobile phones, computers, airplanes, solar panels, etc., it started to pose a threat to European and North American production. This made them “anxious” and led to discussions of dumping, unfair trade practices, illegal subsidization, etc. Coincidentally (or not), China started to be seen as a strategic competitor, and the rhetoric shifted from purely economic to the political sphere. The WTO rules and the defense of international trade, which had served when Western hegemony and its interests prevailed, were no longer suitable for the new international context. Interestingly, China is now the biggest advocate for the WTO.

Clearly, China is not innocent in this matter. Since Xi Jinping’s rise to power in China, Chinese assertiveness has increased, with a clearly challenging stance towards Western hegemony. This has resulted in the creation of new groups and organizations alternative to those that have been in place for decades, projects such as the Belt and Road Initiative (BRI)¹⁷, challenges to the *status quo* in the South China Sea and the Taiwan Strait, confrontational attitudes towards the rights of Uighur and Tibetan minorities, slashing Hong-Kong autonomy and privileged relations with rogue states like Iran

¹⁶ <https://www.digitimes.com/news/a20230417VL202/chips-act-ira-us.html> (Accessed 09/10/2024).

¹⁷ <https://eng.yidaiyilu.gov.cn> (Accessed 03/10/2024).

or North Korea, among other actions considered challenging to the so-called liberal international order.

This political and strategic confrontation inevitably spilled over into the economic field, and that's where we start talking about "trade wars," which, as mentioned before, are the other side of the same coin. Political conflict takes on new dimensions that also encompass the economic and commercial spheres. In this context, new (old) economic paradigms, such as protectionism in its various forms, resurface. Regarding the US, Donald Trump's protectionism was straightforward, based on the imposition of tariffs and customs duties aimed at creating barriers and hindering free international trade and the entry of foreign goods. It's a classic approach that, as we have seen, is not new. The political rhetoric always revolves around "protecting" American jobs, "protecting" local production, reacting against foreign unfair trade practices that use commercial dumping¹⁸, as well as new forms of dumping, such as currency dumping¹⁹, environmental dumping²⁰, and social dumping²¹. Usually, these attitudes are taken into account considering domestic political issues, such as pleasing certain groups that form the political support base of the ruler who adopts these measures or aligning with slogans launched during election campaigns. It can also involve "inventing" an external enemy to rally the "troops" and divert attention from the real problems affecting them. Unfortunately, as usual, these types of policies end up not achieving their objectives. Apparently, in some cases, they may have short-term success, but in the long run, they are almost certainly destined to fail. Firstly, because affected trading partners will retaliate by imposing tariffs and restrictions, thus hitting exporters. Secondly, because consumers, in general, end up seeing the costs of goods increase and their choices diminished. In fact, even the idea of preserving American jobs was not successful, as many companies decided to relocate their production bases to other countries, taking advantage of generous tax incentives.

¹⁸ <https://www.investopedia.com/terms/d/dumping.asp> (Accessed 03/10/2024).

¹⁹ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3469698 (Accessed 03/10/2024).

²⁰ <https://www.sciencedirect.com/science/article/abs/pii/S0014292194900922> (Accessed 03/10/2024).

²¹ <https://www.imf.org/external/pubs/ft/fandd/1997/12/pdf/golub.pdf> (Accessed 03/10/2024).

Joe Biden's protectionism, as mentioned earlier, is different. It maintains some of the inherited customs duties but adopts a more fiscally based protectionism, which involves subsidizing, incentivizing, and supporting American companies and production based on concerns (whether genuine or as an excuse) related to combating inflation, environmental transition, and strategic and national security considerations. All of this is done through the subsidization of electric vehicles and their various components, as long as they are "made in America," or through fiscal incentives for "green and low-carbon" companies that produce high-value-added goods such as chips/semi-conductors in the USA. The IRA (Inflation Reduction Act) and CHIPS (CHIPS and Science Act) programs are true indirect subsidies that have faced strong criticism from the European Union, Canada, China, and others. A subsidy²² is a support granted by the State and/or public entities aimed at giving domestic companies an advantage over their foreign competitors. Direct subsidies, also known as State aid, are generally prohibited by the WTO, with only a few specific situations where they might be allowed, but those are exceptions rather than the rule. On the other hand, indirect subsidies, which can take various forms, from diverse fiscal incentives to credit bonuses, insurance subsidy, or even support for internationalization in different modalities, have a more ambiguous and complex legal framework.

Both Donald Trump's and Joe Biden's protectionism²³ run the risk of triggering adverse reactions from foreign competitors, which ultimately can lead to a trade war²⁴. This would involve reciprocal and potentially retaliatory measures that could take various forms (such as anti-dumping measures, countervailing measures, anti-subsidy actions, or safeguard clauses) and usually tend to escalate to political levels. Now we understand why France has been urging the European Commission to also take similar measures to support the European electric car industry²⁵, which is already facing Chinese competition and risks losing competitiveness to its North American counterparts.

²² <https://www.investopedia.com/terms/s/subsidy.asp> (Accessed 04/10/2024).

²³ <https://www.thebalancemoney.com/what-is-trade-protectionism-3305896> (Accessed 04/10/2024).

²⁴ <https://www.investopedia.com/terms/t/trade-war.asp> (Accessed 04/10/2024).

²⁵ <https://www.electrive.com/2023/05/12/france-to-push-european-made-evs-with-new-subsidy-requirements/> (Accessed 05/10/2024).

It is never a good time for such a situation (a trade war) to occur between the two sides of the Atlantic, especially now in the current international context, with Russia's aggression against Ukraine, which requires transatlantic unity to address this tremendous challenge.

4. Protectionism and Trade Wars

"The great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race" (John Stuart Mill, *Principles of Political Economy*, London: Longmans, 1909, p. 582).

The above quote brings forth the postulate that economic interdependence, international trade, and economic integration are fundamental guarantees of peace, significantly reducing the chances of military conflict (Liberal Peace Theory)²⁶. Therefore, we can infer that the opposite, namely protectionism, autarky, and unilateralism, can contribute to an exponential increase in military conflict between States. This propensity tends to increase if the States in question are not democratic (Democratic Peace Theory)²⁷, which greatly reduces the possibility of military conflict between the European Union and the United States but increases the chances of such conflict between the United States and China.

In addition to being of dubious effectiveness, as we have already observed, protectionism has an even more dangerous aspect, which is the potential to escalate trade wars under certain conditions. The current situation of potential trade confrontation between the European Union on one side and China and the United States on the other, although obviously with significantly different contours and motivations, demonstrates the causality of protectionist policies, which can

²⁶ <https://blogs.gwu.edu/ccas-panamericanos/peace-studies-wiki/peace-studies-wiki/approaches-to-peace/democratic-liberal-peace/> (Accessed 05/10/2024).

²⁷ <https://www.e-ir.info/2012/02/18/the-democratic-peace-theory/> (Accessed 05/10/2024).

vary in nature but always aim to protect domestic companies and production from international competition. Additionally, security or strategic considerations, as well as concerns for the environment, public health protection, or the safeguarding of trademarks, patents or copyrights, can be added to justify and often mask what is truly at stake: the safeguarding of domestic goods, enterprises and employment or the need to please political groups and sections of the electorate who are (or may become) supporters of the politician making these decisions.

5. Addendum

At the time of writing, Donald Trump has just been re-elected President of the United States of America. What we wrote above remains unchanged. Trump's second term is expected to be a sequel to his first in terms of international trade and multilateralism. Protectionist policies will continue, probably with greater intensity. The objectives and arguments are always the same: 'Protect American jobs', 'protect American industry', 'retaliate against the bad trade practices of our partners', 'the Chinese do social, currency and environmental dumping', 'the Europeans heavily subsidise their agriculture', etc, etc. The consequences will also be as expected: more protectionism, more isolationism, unilateralism, trade wars, greater international tensions and an eventual end to the so-called 'International Liberal Order' that has governed us since the end of the Second World War. As someone once wrote, 'The old order is over'! It remains to be seen what the 'New' will look like and what consequences this new international system will have for the world.

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