

## The Impact of Trade Disputes on Global Trade

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### ABSTRACT

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WTO was established to promote trade liberalization as part of the globalization process, but its founders gradually changed mind in XXI century by questioning commitments achieved in the Uruguay Round and Doha Ministerial Conference. President Trump reshaped US trade policy by adopting protectionist measures and starting trade wars with its trade partners. This article intends to respond to the question "What are the causes of trade wars and what would be their implications for the multilateral trading system?" The hypothesis is that trade wars happen either for inequality concerns in trade relations or in the sake of more profits with optimal tariffs. The findings of the research are that even stronger economies face difficulties in winning a trade war and thus will have little options other than seeking solutions in the multilateral trading system and its institutions, reason for what the world can be optimistic about the future of the multilateral trading system. International trade policy makers and business community leaders were preached in the XX century that trade liberalization could serve an effective mean to achieve economic growth and prosperity. Industrial countries encouraged developing nations that to become competitive in the global trade, to gradually remove trade barriers and encourage foreign investors to enter their markets, bring fresh funds and create new employment opportunities.

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## 1. Introduction

GATT and WTO were tasked to advocate for the new liberal theory of trade, encouraging free movement of goods, services and investments. However, this dominant trend was interrupted by the twin towers terrorist attacks of 9/11, creating a security atmosphere in international trade; China

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accession to WTO, pandemics and the 2008 international financial crisis forcing governments to adopt protective trade policies to neutralize the negative impact of the crisis in the absence of financial resources. Before crisis, countries were able to agree appropriate means and mechanisms to solve trade disputes, however during Trump administration the concept of “trade war” was repeatedly used and measures were adopted to enforce it. This article is to respond to the question that “How trade discrepancies happen and what are the implications for the involved parties and global business environment”? The hypothesis is that “trade discrepancies and wars might happen either for inequality concerns in trade policy or optimal tariff theory, convincing countries to adopt new positions in spite of their previous agreements and commitments”. Although the concept of “Trade War” is not a brand new terminology in international trade, its scope and consequences in the recent years have not been experienced before. A thorough review of the previous trade disputes show that that former divergences were mainly of trade nature, while the last had socio-political implications, being caused by a fear of change in the leadership of global trading system and consequently, the world liberal order.

The main findings of this article are that trade policy growth effects, if existing, could come from unconventional channels, since conventional trade theory does not support claims of huge positive payoffs from free trade. In addition, the distributional effects of trade policy could swamp concerns about efficiency. A descriptive- analytical methodology is used to analyze consequences of antagonistic approaches for the multilateral trading system. The paper structure is based on a literature review, theoretical dimension, history of trade disputes and wars, trade challenges and the future course of multilateral trading system

## **2. Literature Review**

Heckscher Ohlin was one of the first economists who elaborated on international trade and trade wars, defending the thesis that a country will

specialize its production and export on a good which requires relatively much of the factors that the country has plenty of; and will import the goods which are intensive in the use of the country's scarce factors (Lundberg, 1995, 54). In a non-cooperative two-country Heckscher-Ohlin model of trade, bigger countries have more possibilities of winning a trade war. However, a country whose preferences exhibit a sufficiently large degree of substitutability relative to those of its rival may win a trade war regardless of its size (Heckscher, 1919: 211). Harry Johnson considered a trade war as a process in which each country imposes an optimal tariff assuming that the other is passive and the countries alternate in tit-for-tat fashion until they reach a point where neither country can gain from a change in its tariff when its turn to retaliate comes. Johnson trade theory shows his views that one country may win a tariff war if its welfare in the post-war equilibrium may be higher than welfare under free trade (Johnson, 1971: 417).

Torrens and Mill, in particular, recognized that an appropriately chosen tariff could raise national income, but were primarily interested in arguing that to use the tariff for such a purpose was immoral (Becker et others, 2020: 14). Hoekman, Mavroidis and Saluste analyzed a set of data related to trade dispute dossiers in the WTO Dispute Settlement Body and concluded that the DSB is an essential organ of WTO, but its functionality could be improved by shortening the settlement process and on time solutions (Hoekman, Mavroidis, Saluste, 2020: 116). Faizel Ismail, former South African Ambassador to WTO, believed that because of global trade imbalances, WTO has been facing a challenge of reform from its inception; however there has been main two waves of reforms in a quarter century of WTO life: After the collapse of Doha Development Agenda, and after the crisis of WTO Appellate Body (Ismail, 2020: 29)

### **3. Theoretical background**

International trade is normally studied in the context of new liberalism, since it has been dealing with trade liberalization and based on the concept of

comparative advantage, first developed by British economist David Ricardo that attributed the cause and benefits of international trade to the differences in the relative opportunity costs of producing the same commodities among countries. A comparative advantage gives companies the ability to sell goods and services at prices that are lower than their competitors, gaining stronger sales margins and greater profitability. Trade dispute is an end of interactive trade theory, in which the policy of one country affects the policy choices of its partners, and thus their welfare. Interactive trade theory has evolved in four periods of mercantilist, classical, modern and contemporary era. In a mercantilist state the terms-of-trade will be a secondary consideration—as will the trade volume. Instead, trade surpluses, revenue and the effect of policy on the relative power of the state, will be key (Weingast, 2017: 19). Early classical economists, Adam Smith in particular, were more worried with liberal trading relations, in particular, with the wealth of the nation and not the wealth of the state. Recognizing that an appropriately chosen tariff could raise national income, they argued that to use the tariff for such a purpose was immoral (Depoorter, 2015: 232).

The “modern” era of interactive trade theory sees the development of the “new welfare economics”. Johnson inaugurates the systematic study of trade wars and his analysis of an optimal tariff. Countries that are not WTO members, or WTO members with less commitment to its agreements, systematically set higher tariffs on imported goods. Moreover, countries with higher aggregate market power have on average higher tariffs. In short, there is strong evidence in favor of the optimal tariff argument (Broda et al, 2006: 311). The “contemporary” period begins with the boom in game theoretic research in the 1980s. The John Forbes Nash equilibrium defines the trade disputes and emphasizing the globally low tariffs after GATT/WTO negotiations to explain how countries move away from trade wars, not how they move toward them. The modern theory of trade wars sees it as a process and given the historically low levels of trade protection, the great majority of modern game theoretic research on trade disputes is about how cooperation

can be sustained—i.e. trade peace. A very large literature emphasizes the role of institutions, especially the WTO, in sustaining cooperation. Harrison and Rutstrom tried to conceptualize trade wars and trade negotiations under the Applied Game Theory, in which they consider the unpredictability of market conditions effects on the big trading countries and the need to consider the strategic aspect of trade protectionism. A cooperative/ non cooperative scenario in the game theory could provide possible solutions to the level of protectionism in a trade war(Harrison and Rutstrom, 1991: 1).

#### **4. Trade disputes: past and present**

The history of trade discrepancies dates back to the ancient empires of Persia, Greeks, Romans and Byzantines, when both war and trade were employed for territorial expansion and wealth creation. Trade was mainly promoted with Sassanid, and used sometimes as counter –measure to force their rivals to surrender. During the 6<sup>th</sup> century, Asia, Africa and Europe were interconnected by the Silk Route. The King Khosrow Anoushirvan, under pressure by both Byzance and Roman empires, found out that the Silk Route trade was not only benefiting Persia, but also enriching its rival empires. In order to cut their financial ability to fund the wars, he conquered Yemen first, decided to impede silk trade via Silk route next, and continued silk trade by sea, depriving Romans and Byzantines from one of their main revenue resources (Imanpour & Koushari, 2011: 17).

The conquer of Latin America was a golden opportunity for Spaniard and Portuguese to boost their trade during almost 300 years, but it also encouraged British, French, German and Dutch armies to take advantage of their strong naval forces to benefit from the shipments sent from Latin America, and the slave trade. Madrid and Lisbon reactions were the cause of inter-European trade measures to safeguard their interests. The “Anglo-Dutch wars” (1652-1784) refer to four rounds of conflict between the English and the Dutch for control over the seas and trade routes (Geni, 2021). The First “Opium War” was fought between the Qing dynasty and the

British Empire (1839-1842) over ban on trafficking of the substance by the British East India Company to China. This led to China losing Hong Kong to Britain. During the second Opium war (1856-1860), Britain along with France forced China to open all of China to foreign merchants and exempt foreign import duties. Both the wars weakened the Qing dynasty and led to modernization of China.

To protect the falling stock market and domestic industry, US president Herbert Hoover signed the “Smoot-Hawley Tariff Act” to protect the US farm sector, but later expanded the scope to include about 20,000 products from various sectors. While the US successfully reduced its import dependence over the next couple of years, the retaliatory measures from other countries led to 61% dip in US exports by 1933. The trade war only accentuated the Great Depression. In early 1960s, France and Germany imposed high tariffs on cheaper American chickens. The US retaliated with imposing higher tariffs on a bunch of commodities including French brandy and Volkswagen buses, causing a conflict of interest known as “chicken war”. However, France and Germany didn’t buckle under pressure even though consumers from both sides of Atlantic Ocean were the real losers.

The “Pasta War” occurred when the Regan administration raised tariffs on European pasta in 1985 to show its unhappiness on the discrimination against its Citrus products. Europe retaliated in kind with higher tariffs on American lemon and walnuts. In August 1986, both sides signed an agreement ending the citrus dispute and one year later the pasta dispute was over.

The European decision to restrict import of bananas to its colonies in Africa and Caribbean by imposing heavy tariffs on import of Latin American bananas in 1993 was the cause of “Banana War”. Since most of the banana farms in Latin America are owned and managed by American multinationals, the US filed eight separate complaints in the WTO, making EU and 10 Latin American countries to sign an agreement to formally end

all the eight WTO cases, ending the 20 year long banana war (Das, 2021: 314).

The "beef war" has three different connotations in international trade. The first one refers to the UK–EU Beef War over the mad cow disease. The second is in regard with the European Union ban on the importation of meat that contained artificial beef growth hormones. Canada and the United States opposed the measure by complaining to the WTO Dispute Settlement Body. In 1997, the Body ruled against the EU (Colgan, 2005: 4). The Belarus-Russia "milk war" began in an unusual manner. In 2009 Russian Prime Minister Vladimir Putin visited Minsk and offered a stabilization loan worth \$500 million in Russian roubles contingent on its recognition of independence of Abkhazia and South Ossetia from Georgia. He also expressed Russian interest in the privatization of Belarusian milk industry. Minsk took this as a sign Russian hegemonic tendency and refused to take money. Russia then banned the import of dairy products from Belarus, citing alleged health concerns. The trade conflict ended the same year, when Russia announced that it would lift the ban. (Cochilla, 2000: 97).

The "GMO Trade War" between US and EU happened when European Union opposed genetically modified (GM) crops, based on a French import restriction on Monsanto GM corn in 2007. Washington responded by penalising EU and particularly countries which did not support the use of GM crops (Ben, 2018: 287). In "Softwood lumber dispute", Canada largely won a case before the World Trade Organization in a long-running dispute with the United States over U.S. duties imposed on Canadian softwood lumber exports as a remedy to Canadian provincial government subsidies, enabling them to offer more competitive prices. The agreement expired in 2015, prompting the Trump administration's subsequent move to impose tariffs of up to 17.99% against what it saw as unfair subsidies for Canadian exporters of softwood lumber, which is used in home construction (WTO, 2010).

## 5. Trade Challenges with Trade Heavy Weights

In 2018, Donald Trump initiated a tariff crusade against China and other global trading partners with a shortsighted analysis on the effects of a potential trade war, leading to an abrupt departure from US historical leadership in integrating global markets. Eluding to “Unfair trade practices” of some countries, in particular China; related to technology, intellectual property and innovation; US imposed higher tariffs on Chinese products, pushing Beijing to unveil tariffs on American steel and aluminum. US also penalized ZTE and Huawei, the two Chinese tech giants for breaching American sanctions against Iran and North Korea”. He promised to apply tariffs on a number of trade partners who had manipulated their way into stealing American jobs and contributing to their malaise. US decision to impose higher tariffs on aluminum and steel from the main American trade partners pushed them, including China, India and Brazil to retaliate against the action, culminating a trade war in 2018, although retaliatory measures against the US have been fairly limited in sectors like autos, commodities and financials.

As of 31 Jul 2018, US enacted 25% on \$34 billion worth of Chinese goods; 20% on washing machines, 30% on solar energy modules, 25% on steel and 10% on aluminum. US also threatened to charge 25% on another \$16 billion worth of Chinese goods, 20% on all imported cars, trucks and 25% on auto parts(Abad, 2019, 2). By late 2019, the US had imposed tariffs on \$350 billion of Chinese imports, and China had retaliated on \$100 billion US exports. China had more attractive retaliatory tools at its disposal and announced a specific list of goods subject to counter-tariffs, choosing goods of political importance (e.g., agricultural exports) and calibrating the amount to be exactly equal to the amount of US tariffs that these counter-tariffs are responding to. To strengthen the above measure, China threatened to use USTs acquired during the international financial crisis. China accumulated US dollar assets during the 2000s to prevent its currency from appreciating too quickly and to continue benefiting from its access to American market.

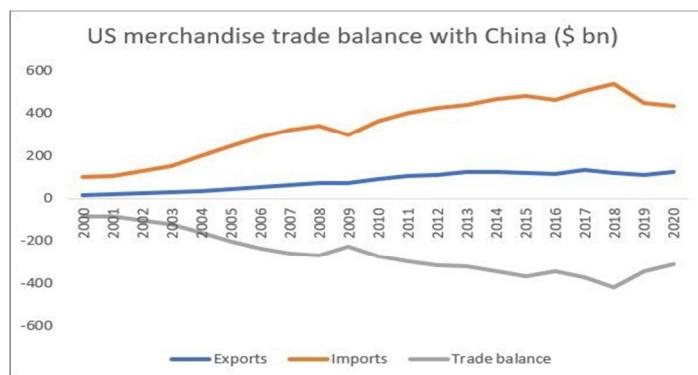
On these grounds, the US ultimately implemented five tariff rounds on Chinese exports, with China retaliating at each stage. The US and China canceled a sixth tariff wave in December 2019 in anticipation of the Phase One agreement. Once the deal was signed in January 2020, both sides agreed to reduce the tariffs from the September 2019 wave by half, but the tariffs remain in place as of September 2021.

In terms of magnitudes, the US imposed tariffs (including other trade partners) on 17.6% of its 2017 imports. Imports as a share of 2016 GDP was about 15%, so the US raised tariffs on import transactions corresponding to about 2.6% of GDP, with average tariffs increasing from 3.7% to 25.8%. On the export side, trade partners retaliated on 8.7% of 2017 exports (Fajgelbaum et al. (2021a; 27). Exports as a share of 2016 GDP was about 12%, so trade partners imposed retaliations on exports corresponding to about 1% of US GDP, with average tariffs rising from 7.7% to 20.8%. So, the US and Chinese tariffs targeted imports and exports amounting to 3.6% of US GDP. China raised tariffs on about 11% of imports, and about 18% of their exports were targeted by the US (Chang et al. 2021). With import and export shares of 2017 GDP of 17.9% and 19.7%, respectively, the trade war affected transactions equivalent to about 5.5% of China's GDP.

After long, complicated and complex negotiations, the first Phase of trade deal between the United States and China was signed on 15 January 2020 and was supposed to enter into force on Valentine's Day, on Friday, 14 February 2020. The deal was a result of US exercise of political power and unilateral WTO inconsistent tariffs in order to extract trade concessions, confirming the hypothesis on trade discrepancies and disputes for trade imbalance, inequality concerns in trade policy or optimal tariff priority. Nevertheless, the WTO was unhelpful in addressing the US economic aggression against China. This failure to protect a Member from illegitimate unilateral measures, as happened before in case of Cuba, Iran and Venezuela; is one of the significant manifestations of the often-mentioned

'crisis' of the WTO, and actually is one of the subjects on which the proposed 'reform' of the organization should focus (Lundenberg, 2020)

China was seen as the major problem and greater source of the trade deficit, since the bilateral US merchandise trade deficit with China had increased significantly since 2000, and especially in the periods 2004-08 and 2011-18, as shown in Figure 1.



**Figure 1.** Bilateral US deficits with China

Networkideas (2021)

Concerns of US trade policy with regard to China have been not just the overall imports from China, but the growing significance of high-technology imports. China succeeded in diversifying and upgrading its own export basket significantly in the past two decades, through an active policy emphasis on domestic technology development, aided by rules that required foreign investors to set up joint ventures with Chinese counterparts, in which the technology would be shared. This was done voluntarily and even willingly by US multinational companies anxious to enter the fastest growing market in the world and also to use China as a base for further exports. Yet it is this strategy which is now being seen as having created a threat for the US in the form of rapid technological advancement in China.

The key lesson from this period is that trade wars are difficult to win, and it takes an inordinate amount of time to reverse their pernicious effects”.

Interestingly, during the pandemic, US reliance on Chinese imports appears to have grown rather than declined. Imports into the US from China in the first half of 2021 were on average 46 per cent higher than in the first half of 2020. The supply chain issues because of the pandemic that affected Wuhan and other provinces of China in the early months of 2020 were obviously addressed relatively quickly, to enable renewed production and exports to the rest of the world at a time when other countries still faced renewed waves of the pandemic that affected economic activity and production in particular (Chandrasekhar & Ghosh, 2021; 6).

This explains the moves to restrict China’s access to semiconductor chips that are essential for new 5G-enabled smart phones, an area in which China’s ability to develop its own domestic suppliers has been limited. Currently, China imports around \$300 billion worth of chips in a year, of which more than half is then re-exported in finished electronic products. The most advanced Chinese company making these chips, Semiconductor Manufacturing International Corporation (SMIC) uses imported technology and inputs to make the chips. But now all US equipment suppliers need to apply for a license from the US government before they can sell to SMIC. Similarly, fines and sanctions have been imposed on the giant Chinese telecoms giant ZTE. The problems and sanctions faced by Huawei, for alleged espionage and ties to the “techno-authoritarianism” of the Chinese state, are other reasons of US position.

In NAFTA, the US administration had focused on trade deficit reduction as the key objective of any NAFTA renegotiation. Responding to American decision, Canada imposed tariffs on approximately \$13 billion of US goods in response to the steel and aluminum tariffs. The %35 and 20% of U.S. tariff on Mexican imports suggested by Trump caused optimal Mexican responses consistent with its World Trade Organization disciplines. The U.S. had the intention to relocate manufacturing activity from Mexico to the U.S,

to make Mexico suffer substantial damages from U.S. tariffs, even under a policy of optimal retaliation. In certain moment, US also threatened to apply an incremental 5% monthly increase in tariffs linked to illegal immigration of people from Central America, no logical linkage with the trade war. Mexico's smaller size and heavy dependence on the U.S. market indicates substantially lower tariffs in the Nash equilibrium. After several rounds of negotiations US was finally able to convince its partners to commit themselves to a new deal called USMCA, which could be considered as the only Trump trade policy achievement.

The European case was rather different and Brussels' approach was conciliatory at the beginning and antagonistic at the end. The Trump Administration initially threatened to apply a 25% tariff on auto imports, prompting the EU to respond that it would impose a reciprocal tariff targeting states sensitive to President Trump's political base. In the US, there are 14 domestic and international auto manufacturers which support more than seven million workers, invest more than \$20 billion in research and development, and contribute approximately \$200 billion in federal and state taxes.

## **6. Future Course of WTO: De-globalization or Re-globalization?**

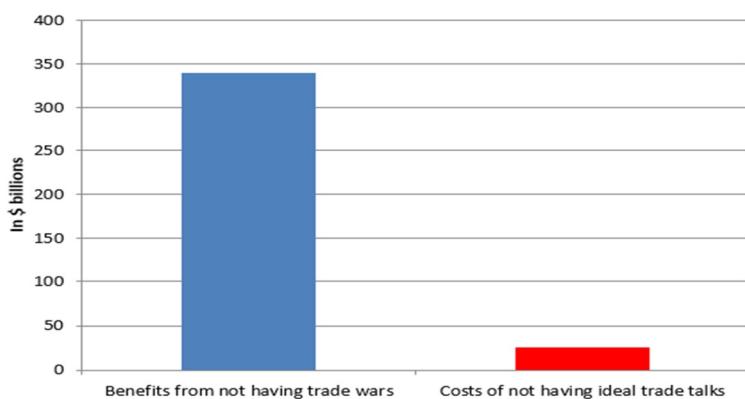
The WTO is the fruit of half a century of multilateral trade liberalization. It should be bear in mind that the WTO's success does not only depend on how well it promotes trade talks but also on how well it prevents trade wars. And its track record seems much better in this regard. A casual look at the data already suggests that the WTO's success at preventing trade wars is likely to far outweigh its failure to promote trade talks. Before GATT, the average tariff applied during the trade war of the 1930s was around 50% (Bagwell and Staiger 2002), the average tariff applied by WTO members today is only around 5%, indicating that global trade policy cooperation has already its main goal. Although the WTO is still considered by some as a "rich men club" and power based organization, there is a general consent on

its relative inclusiveness and universality. Developing countries have been able to increase their share in the global trade and achieve some of their development objectives using trade as an engine. China, India and Brazil have replaced Japan, Canada and Australia in the leadership of the organization and QUAD group is no more all developed countries. Most Favored Nation has served as a pillar of nondiscriminatory trade policy and small Central American countries have been able to complain against their super power neighbor to the WTO Dispute Settlement Mechanism, and win. WTO is still far from being a fair organization, nevertheless its legal apparatus Dispute Settlement Body and Appellate Body have played a pivotal role in the fairness and inclusiveness of the Organization. Therefore, the global trade continues contributing to the process of re-globalization.

Developing countries were much hopeful that with Doha Development Agenda the organization will be even better positioned to serve their trade and development interests, but the conditionality imposed on the implementation of the agreement gave the impression of a change of mind and attitude in developed countries towards the multilateral trading system they had cemented during 70 years. Bilateral and plurilateral agreements gradually replaced consensus decisions of all members. Nomination of DSB and Appellate Body judges were blocked by American administration claiming they have gone beyond their responsibilities. WTO-plus agreement were signed between US and trade partners, invalidating practically their commitments in WTO context. Protectionist policies started to be adopted by US after the election of Donald Trump in favor of large traditional corporation in the energy, auto and defense industries, supported and followed by some East European and Latin American governments. Trade disputes were substituted by trade wars, causing great uncertainty and doubts in the multilateral trading system, signaling a process of de-globalization. Although the majority of WTO members are satisfied and defending the functioning of DSB and Appellate Body, United States criticizes the body approach and litigations for taking decisions beyond its

After Chinese membership in the World Trade Organization and their aggressive trade policy, US realized they had underestimated Chinese potential and started to find means and mechanisms of maintaining their superiority in the world economy, something badly affected because of 2008 international financial crisis. Chinese double digit annual economic growth and American infrastructure weaknesses sound the alarm for Washington. The need to contain China was raised seriously, but calmly, during Obama presidency, continued as an open trade war with Trump administration, and Biden is now following a less spoken more practiced multi-dimensional conflict between the two superpowers.

Efficient trade talks and fully escalated trade wars could be used to study the effects of moving from applied tariffs, focusing on the six major players in recent trade negotiations (Brazil, China, EU, India, Japan, US) and the rest of the world. “The failure of the WTO to promote trade talks costs up to \$26 billion per year and the success of the WTO at preventing trade wars is worth up to \$340 billion per year (Figure 1). To put these numbers in context, a move to autarky would cost the world \$1.461 trillion per year, so that a trade war would eliminate around 23% of the gains from trade”.



**Figure 2.** Successes and failures of the WTO

Ossa (2019: 11)

“As a result, it can take a unified view of trade policy according to which governments use tariffs to manipulate their terms-of-trade, shift profits away from other countries, and protect politically influential industries”. (Maggi, 2015; 9)

There has also been a whole American battery of revisionist trade policy measures, with Trump administration withdrawal from international negotiations in the Trans-Pacific Partnership (TPP), Paris Climate Agreement and Iran Nuke Deal(JCPOA). US also decided to leave UN specialized agencies like UNESCO, WHO, UNHRC, UNRWA and UPU; weakening as well the World Trade Organization and NATO. The revision and replacement of the North American Free Trade Agreement (NAFTA), the announcement of establishing special tariffs on EU auto imports and imported metals from Latin America didn’t even leave traditional partners immune.

The election of Biden and his slogan “US is back” created the hope of a reversal foreign and trade policy, shortly confirmed by US re-entry in Paris Climate Agreement, but later gradually faded for the continuation of Trump decisions specially in trade policy and trade related organizations. The trade war has continued and morphed into a technology war. The US has made aggressive moves to restrict China the knowledge and inputs required to produce frontier goods and services, as well as access to markets—most of all affecting semiconductor production and the 5G technology in which the China was becoming a global market leader. The argument for such an aggressive strategy by the US is typically framed in terms of “national security” considerations, but it is clearly about staking a claim to the economic territory of the future, whether in the form of communication technologies or renewable energy solutions. It remains to be seen how this will play out over the next few years.

Biden administration has not yet made any serious gesture regarding TPP; JCPOA continues in limbo because of Washington reluctance on lifting sanctions against Iran; US cooperation with UN agencies still in doubts and

questions; WTO crisis in relation with the nomination of judges of the Appellate Body and the implementation of Doha Development Agenda is not yet over and will most probably continue in the near future. WTO is also facing other pending issues like the decision making process, implementation of previous agreements particularly Doha Development Agenda, Special and Differential Treatment, and new issues. US tries to establish a linkage between trade wars to larger issues such as technology and national security to question WTO dispute settlement panels litigations. By raising cyber security concerns, Washington launched the idea that the issues are far complex and WTO is not in a position to address the appropriateness of WTO Members' trade measures. (Wolff, 2019; 3)

The position of US in the above mentioned subjects could influence the future course of the organization and show the commitment of Washington to multilateralism and its will to maintain a strong WTO. An opposite US position will erode its future role in resolving trade disputes and enhance bilateralism and protectionism. The WTO does not prevent wars, but it does help maintain peace.

## **7. Concluding remarks**

The objective of this article was to respond to the question of "How trade discrepancies happen and what would be the implications for the involved parties and global trade"? Efforts were made to demonstrate that trade wars could happen because of a conflict of interest on trade policies and/or behaviors of two or few world traders, but might have far reaching consequences at international level. Phenomena like conflicts, rising nationalism and populism; global and national income inequality, turbulence in employment markets due to new technologies and pandemics, are not conditions conducive to trade liberalization. US, the traditional driving force of multilateralism took a new approach towards the global trade to optimize its share in the world trade, diminish its trade deficit vis-à-vis partners and contain China by any possible mean, including a direct bilateral

confrontation as well as pressure in the World Trade Organization. At the beginning of 2017 a dramatic change in the global trade picture occurred with the British referendum supporting the exit of the UK from the EU. Trump protectionist statements on using tariffs and trade agreements as a central piece of his foreign policy had a domino effect in Central Europe and Latin America. The result of all mentioned conspiracy theories and blame games was the conversion of the most globalized and globalist economy to a protectionist government with a long list of trade remedies, embargos and sanctions against a range of different countries from its closest allies to traditional rivals, with considerable repercussions for the global trade. An analysis of the evaluation of US trade wars showed the impact on US welfare was either zero or negative. One may also conclude that an increase of US protection against China, EU and Mexico, followed by a similar retaliation, clearly constituted an overreaction in terms of trade policy, with larger American losses when the US increase in protectionism and trade retaliation is large, compared to moderate increase. Coupled with the Covid 19 negative impact, the global economy is concerned with a slower growth in China, Japan and Europe with a consequent declining effect in world trade and global GDP.

To neutralize it, many member countries seek to incorporate the role of institutions, especially WTO, in sustaining cooperation, while others are of opinion that a more strengthened US cooperation will put the multilateral trading system back on track. At the same time there have been some positive developments in regard of international trade. The G20 leaders have endorsed the value of WTO and called for its reform, while the developing members have emphasized their satisfaction and expressed hopes to reach some sort of agreement in the coming Ministerial conference. The Dispute Settlement Mechanism is being discussed more seriously and closing the gap in differences over the Appellate Body, giving the impression that some light at the end of the tunnel will hopefully be seen.

The proposals on seeking new rules can be a starting point to diffuse tensions on some contentious issues. US-China negotiations are being encouraged and members are moving ahead to prepare joint initiatives.

The stronger the WTO as an institution and set of rules, the more likely it can play positive role in providing a response to trade conflicts and shortcomings. Developing countries look decided on the conservation and enhancement of the multilateral trading system, to make their voices heard with the view to restrain rounds of mutual retaliatory measures and to prove that free trade and sustainability can go hand in hand.

The US- China geo-economic rivalry is not going to be settled any time soon, but the cooperation- competition pattern will likely substitute a direct trade war style, since trade war has been accompanied with great costs to involved parties. The midterm results of the trade war have not met the expectations of US administration, since the \$735 billion merchandise trade deficit of the US in 2016 actually continued to increase thereafter, to as much as \$911 billion in 2020. Therefore, alternative forms of multilateralism based on new values on global governance in the 21<sup>st</sup> century are under consideration in different parts of the world. The US-China Trade Policy Working Group concerned with de-escalating the trade war and against a polarized view of the world saw in 2019 the need for an alternative approach to globalization, based on peaceful coexistence and tolerance for different economic paths and systems. UNCTAD position that the current climate crisis and the need to deliver on the Sustainable Development Goals require “a well-funded, democratic and inclusive public realm at the global as well as the national level”(UNCTAD, 2019)

The Chinese Belt and Road Initiative, the QUAD, AUKUS, the Indo-Pacific Alliance and BRICS have begun to provide the world with new insights on the possibilities for a different type of economic engagement, some emphasizing on free trade and others on the need to focus on “development”. These ideas on the values and principles that should underpin a new globalization and global governance in the 21st Century are

similar to the hypothesis of this article that “trade wars might happen either for inequality concerns in trade policy or optimal tariff theory, convincing countries to adopt new positions in spite of their previous agreements and commitments”, but at the end they tend to believe trade policy growth effects, if existing, could come from unconventional channels, since the distributional effects of trade policy, could swamp concerns about efficiency. The world can be optimistic about the future of the multilateral trading system to endure and even strengthened. The question is how to build a secure world and the development of the world’s resources for the benefit of all its peoples.

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