*World Trade Review* (2025), **24**, 515–519
doi:10.1017/S1474745625100980

SPECIAL ISSUE ARTICLE

# (When) Can Trade Wars Be Good?

Henry Gao[1] and Weihuan Zhou[2]

[1]Yong Pung How School of Law, Singapore Management University, Singapore and [2]Faculty of Law & Justice, CIBEL, UNSW Sydney, Australia
**Corresponding author:** Henry Gao; Email: henrygao@smu.edu.sg

(Received 30 May 2025; revised 30 May 2025; accepted 30 May 2025)

**Abstract**
'Trade wars are good, and easy to win,' tweeted Donald Trump in 2018. The US–China trade war that followed proved otherwise – especially when confronting a major economic power. Yet, can trade wars ever be good? While the academic consensus holds they harm all participants, we argue that under certain circumstances they can produce positive outcomes. Set against the backdrop of the Liberation Day tariffs announced on April 2, 2025, this paper examines the limits of the Ricardian free trade model underpinning the current multilateral trading system, identifies when trade wars may serve strategic goals, and explores alternative rules to address state-capitalist distortions without costly, prolonged conflict.

**Keywords:** WTO; Trade War; Reform; Comparative Advantage; Liberation Day

'The WTO is dead.'

Perhaps not quite, but the persistent rumors of the demise of the WTO over the past two decades reflect deep structural dysfunction in the global trading system. Ironically, many of these issues stem from the WTO's original design: well–meaning but now obsolete rules that were crafted for a different era. In the post–war moment when the GATT was created and again when the WTO was launched in 1995, the goal was to liberalize trade among relatively like–minded economies. However, in a world with vastly different political economies–ranging from free-market democracies to state-capitalist autocracies–those same rules have become constraints.

## 1. The WTO's Systemic Limitations

The WTO's consensus rule, designed to ensure broad ownership of decisions, has become a de facto veto mechanism. Members now regularly block progress on negotiations where they have no direct stake, paralyzing the institution's key function to update its rulebook in response to new challenges and circumstances. The most-favored nation (MFN) rule, meant to prevent discrimination and promote uniformity, now acts as a straightjacket. Because any tariff concession offered to one country must be extended to all WTO Members, countries lack incentives to negotiate meaningful tariff reductions at the multilateral level, even though such concessions are readily offered at bilateral

This research is supported by the Yong Pung How Fellowship.

© The Author(s), 2025. Published by Cambridge University Press on behalf of The Secretariat of the World Trade Organization. This is an Open Access article, distributed under the terms of the Creative Commons Attribution licence (http://creativecommons.org/licenses/by/4.0), which permits unrestricted re-use, distribution and reproduction, provided the original article is properly cited.

https://doi.org/10.1017/S1474745625100980 Published online by Cambridge University Press

and regional levels, which has led to an explosion of preferential trade agreements (PTAs), now numbering 375.[1]

With global tariffs now at historical low levels, non-tariff barriers (NTBs) have emerged as a central friction point, as they do reflect legitimate regulatory goals such as environmental protection or public health. However, the WTO framework struggles to distinguish between protectionist NTBs and those rooted in public interest. Disputes over regulatory autonomy have stalled progress in streamlining services domestic regulation and reducing technical barriers. Meanwhile, the 'single undertaking' principle – 'nothing is agreed until everything is agreed'[2] – has created deadlock, as Members hold out on one issue to extract concessions on another. This logic of hostage–taking has undermined the flexibility and sequencing that modern negotiations require.

Another structural issue lies in the special and differential treatment (SDT) for developing countries. SDT was meant to 'ensure that less-developed contracting parties secure a share in the growth in international trade commensurate with the needs of their economic development'.[3] However, as economies such as China and India have risen to become major exporters while maintaining 'developing country' status, trust in the system has eroded. Advanced economies resist concessions without 'reciprocal and mutually advantageous arrangements',[4] while emerging powers resist the loss of SDT privileges which they regard as a 'political right'.[5] The result is gridlock.

Finally, the WTO's analytical framework has long been distorted by a legacy emphasis on production and exports, often at the expense of consumption and employment. This stands in contrast to the original vision of the postwar international economic order, as laid out in the Havana Charter, the precursor to the GATT. The Charter recognized that employment and consumption were not merely domestic concerns but integral to the functioning and fairness of the global trading system. It explicitly stated that employment was 'a necessary condition for the achievement of the general purpose and the objectives set forth in Article 1, including the expansion of international trade, and thus for the well-being of all other countries'.[6] However, this balanced vision eroded during the Cold War, when ideological and economic divides between the capitalist and communist blocs precluded meaningful trade. In that context, production capacity became the dominant metric of economic strength and strategic competition, sidelining broader concerns about labor markets and consumer welfare. As a result, the WTO is ill-equipped to respond to non-market economies that suppress domestic consumption and prioritize mercantilist production, leading to chronic global imbalances and overcapacity.

## 2. Trump's Trade War: Rule Breaking or System Fixing?

Since taking office on 20 January 2025, President Donald Trump has pursued a radical departure from WTO orthodoxy. His administration's 'America First Trade Policy'[7] and the imposition of sweeping

[1]'WTO | Regional Trade Agreements', https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx (accessed 23 May 2025).

[2]While some Members have started to explore other alternative approaches to negotiation, such as the joint statement initiative, others such as India and South Africa continue to block the negotiation citing the 'single undertaking' principle. See, e.g., C. Raghavan (2016) 'Doha "Single Undertaking" Not Dead and Is Retrievable', Third World Resurgence, No. 305/306, 5–8. https://www.twn.my/title2/resurgence/2016/pdf/305-306.pdf (accessed 23 May 2025).

[3]GATT, Article XXXVI.3.

[4]GATT preamble.

[5]A. Keck and P. Low (2004) 'Special and Differential Treatment in the WTO: Why, When and How?', WTO Staff Working Papers ERSD-2004-03, Economic Research and Statistics Division, World Trade Organization, 8–10.

[6]Havana Charter for an International Trade Organization (1948), Article 2.1, https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=X-1-b&chapter=10&clang=_en.

[7]The White House (2025) 'America First Trade Policy', The White House, https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/ (accessed 10 May 2025).

https://doi.org/10.1017/S1474745625100980 Published online by Cambridge University Press

'Liberation Day' tariffs[8] on 2 April challenge virtually every WTO principle: the MFN rule, the binding of tariffs, and the requirement to treat like products alike.

Most strikingly, by framing 'large and persistent … trade deficits' as 'an unusual and extraordinary threat to national security and the economy',[9] he directly challenges the foundational principle of free trade – the theory of comparative advantage dating back to David Richardo – which holds that nations benefit from trade even when pursued unilaterally, so long as each focuses on what it does relatively more efficiently.

The fact that even the United States – the anchor of the liberal trading order – has begun to question the value of comparative advantage underscores the need to reassess critically its relevance in today's global economy. Ricardo's theory rests on the assumption that countries differ only in relative productivity, and that such differences are natural, exogenous, and efficiency enhancing. His theory further assumes that all trading partners operate under similar institutional frameworks, like the UK and Portugal in his original model – liberal market economies with comparable labor and regulatory conditions. Yet this foundational premise collapses in a world where comparative advantage may be artificially created through a wide range of state intervention or a lack of it, such as industrial subsidies, wage suppression, and an absence of comparable labor or environmental standards. In such cases, trade flows are not purely a reflection of economic efficiency but carry a certain degree of unfairness and a number of distortions that could harm trading partners.

As Daron Acemoglu, Simon Johnson, and James Robinson have argued,[10] the distinction between 'inclusive' institutions that empower broad-based economic participation and 'extractive' institutions that concentrate on power and wealth is critical – yet the current trade rules fail to account for how these institutional differences shape trade outcomes. The MFN principle, which presumes a level playing field, becomes untenable when countries differ not just in endowments but in how they fundamentally organize production, labor, and capital.

## 3. Trade War as Corrective Mechanism

Against this backdrop, the Trump trade war does not have to be seen as an aberration but may provide an opportunity to reflect on and address major systemic problems in the global trading system. How? By compelling countries to internalize the negative externalities of their economic model. This may be achieved through several mechanisms. First, tariffs may function in ways that effectively diminish or neutralize comparative advantages created by (a lack of) state intervention such as industrial subsidies and low labor or environmental standards. Here, a major issue is that many economies currently maintain a variety of industrial policies and subsidies as well as different levels of labor or environmental standards. This makes it very difficult to determine the appropriate benchmarks or measure the extent to which comparative advantages are artificially created.

Second, by incorporating anti-transshipment provisions[11] – such as those found in the US–UK trade agreement[12] – other trading partners are enlisted to prevent goods made in China from being

[8]Executive Orders (2025) 'Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits', The White House, https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/ (accessed 10 May 2025).

[9]Ibid.

[10]D. Acemoglu, S. Johnson, and J.A. Robinson (2012) *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Business

[11]H. Gao (2025), 'The Art of a Trade Deal, Commonplace', https://commonplace.org/2025/04/16/the-art-of-a-trade-deal/ (accessed 13 May 2025).

[12]The White House (2025) 'General Terms for the United States of America and the United Kingdom of Great Britain and Northern Ireland Economic Prosperity Deal', The White House, https://www.whitehouse.gov/briefings-statements/2025/05/general-terms-for-the-united-states-of-america-and-the-united-kingdom-of-great-britain-and-northern-ireland-economic-prosperity-deal/ (last accessed 10 May 2025).

https://doi.org/10.1017/S1474745625100980 Published online by Cambridge University Press

rerouted through third countries to circumvent tariffs. This closes a key loophole and ensures that the cost of distortionary policies is borne by the country implementing them, rather than externalized onto trading partners. A major challenge with this approach lies in the fact that trade or investment decisions may well be driven by rational commercial decisions rather than strategic government policies or directives, or by a mix of motivations. Anti-circumvention instruments may harm normal business activities and the interests of host countries that require foreign capital and expertise to promote economic development.[13]

Moreover, the trade war introduced systemic fixes, whether intentional or not:

1. Breaking Consensus Deadlock: Bilateral negotiations circumvent the WTO consensus rule. Deals can be made without being held hostage by frivolous vetoes from third parties.
2. Escaping MFN Constraints: Bilateral deals reduce the pressure to multilateralize concessions in WTO negotiations, thereby preventing free-riding and making agreements easier to reach.
3. Addressing NTBs: Regulatory divergence is easier to resolve bilaterally, using mutual recognition agreements tailored to specific sectors.
4. Avoiding the Single Undertaking: Bilateral deals can be sequenced, with framework agreements followed by sectoral protocols – unlike the all-or-nothing multilateral approach.
5. Rendering SDT Obsolete: Without needing to formally revoke 'developing country' status, countries can negotiate based on self interest. India's quiet willingness to lower tariffs in bilateral talks,[14] despite obstructionism at the WTO, illustrates this dynamic.
6. Improving Enforcement: Bilateral deals can incorporate real-time enforcement tools, from transshipment monitoring to supply chain audits and ownership transparency.

## 4. The Role of Transshipment and Global Supply Chains

A key feature of Trump's trade policy has been the crackdown on transshipment – the practice of routing goods through third countries to evade tariffs. Agreements like the US –UK Trade Pact include provisions to block such tactics, often requiring partners to implement origin-verification regimes. This highlights a major weakness in the WTO: the lack of robust disciplines on transshipment and rules-of-origin manipulation.

Moreover, the trade war has elevated national security concerns related to supply chains and ownership. US bilateral deals now increasingly include clauses addressing investment screening, ownership transparency, and critical supply chain security. These provisions reflect growing skepticism of globalization as an unalloyed good. Instead, actions pivoting toward 'strategic decoupling' or 'de-risking', particularly with respect to China, have been on the rise.

## 5. Toward a Post-Trade War World?

Even so, bilateralism is not a panacea. It fragments the trading system, creating overlapping rules and jurisdictional uncertainty. Smaller economies risk being marginalized or bullied. Moreover, the WTO dispute settlement mechanism, once a pillar of rule-based trade, has been paralyzed since 2019 due to US obstruction of Appellate Body appointments. Without multilateral adjudication, trade frictions risk escalating into tit-for-tat retaliation.

A durable solution requires institutional reform. One path forward is a plurilateral approach – small groups of willing countries negotiating within the WTO framework but without requiring

[13]V. Crochet and W. Zhou (2023) 'Preventing the Anti-Circumvention Instrument from Undermining the Investment Development Path', *International & Comparative Law Quarterly* 72(3), 601–634.

[14]'Exclusive: India Offers to Slash Tariff Gap by Two-Thirds in Dash to Seal Trade Pact with Trump', *Reuters*, https://www.reuters.com/world/india/india-offers-slash-tariff-gap-by-two-thirds-dash-seal-trade-pact-with-trump-2025-05-09/ (accessed 13 May 2025).

https://doi.org/10.1017/S1474745625100980 Published online by Cambridge University Press

full consensus. Initiatives like the Joint Statement Initiatives (JSIs) on e-commerce, domestic regulation, and investment facilitation are promising examples. The Multi-Party Interim Appeal Arbitration Arrangement (MPIA) is also an attempt to overcome the 'consensus' hurdle but can be further developed into a fuller WTO plurilateral to restore a functional dispute settlement system.[15] These efforts could form the basis of a new 'WTO 2.0' that balances flexibility with coherence.

The US must also clarify its endgame. Tariffs should be seen as leverage, not policy. The goal should be to induce reform in partner economies and pressure the WTO to modernize – not to pursue autarky. Trade wars are only 'good' if they produce structural changes, not simply protectionist insulation. As economist Paul Krugman once noted, protectionism can be a second-best response to distortions – but it remains second-best.[16]

## 6. Conclusion

The world trading system is at a crossroads. The WTO's original architecture is cracking under the weight of economic divergence, geopolitical rivalry, and institutional sclerosis. President Trump's trade war, for all its legal transgressions and provocative rhetoric, may ironically force a long-overdue reckoning. By upending the status quo and confronting non-market practices head-on, it has exposed structural flaws that multilateral diplomacy long ignored, and in doing so it may offer the contours – albeit crude – of a reform agenda. As the WTO Director-General, Dr Ngozi Okonjo-Iweala, aptly noted, the current disruption presents 'a vital opportunity to address the system's weaknesses and reposition the WTO for the future', a sentiment that has led to 'broad agreement' among Members on the urgent need for institutional renewal.[17]

Trade wars are not good per se. But they can be useful – if tariffs are used as a means, not an end. Used judiciously, they can serve as shock therapy to a comatose system. The challenge now is to channel that disruption into durable institutional reform, starting with a realistic reevaluation of the WTO's principles in a world where not all economies play by the same rules.

[15]W. Zhou and V. Crochet (2025) 'Confronting Fragmentation: A Quest for a Plurilateral Appellate Mechanism under the WTO', *Journal of World Investment & Trade* 26(1), 275–300. Contrast H. Gao (2021) 'Finding a Rule-Based Solution to the Appellate Body Crisis: Looking beyond the Multiparty Interim Appeal Arbitration Arrangement', *Journal of International Economic Law*, 24(3), 534–550.

[16]P. Krugman (1997), 'What Should Trade Negotiators Negotiate About?', *Journal of Economic Literature* 35(1), 113–120, at 116–117.

[17]Trade Negotiations Committee (2025), 'DG Okonjo–Iweala: Broad Agreement on WTO Reform as "Central Priority" for MC14', World Trade Organization, https://www.wto.org/english/news_e/news25_e/tnc_07may25_e.htm (accessed 11 May 2025).

**Cite this article:** H. Gao, and W. Zhou (2025) '(When) Can Trade Wars Be Good?' *World Trade Review* 24(4), 515–519. https://doi.org/10.1017/S1474745625100980

https://doi.org/10.1017/S1474745625100980 Published online by Cambridge University Press