Section III

Changing Economic Fortunes for Europeans and Americans: Implications for Foreign Policy

Chapter 5

Changing Economic Fortunes for Americans: Implications for Foreign Policy

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Since the inauguration of President Donald Trump in January 2017, his administration has called into question long-standing defense commitments to its alliance partners, values such as human rights and democracy promotion, and rules of global trade and commerce that were negotiated largely at the behest of the United States. On his third day in office, the new president announced that the United States would pull out of the Trans-Pacific Partnership (TPP), an ambitious trade deal a decade in the making that would have set new rules for commerce with Japan and ten Asia-Pacific nations. Over the next several months, he withdrew from the Paris climate accords, threatened to withdraw from the North American Free Trade Agreement (NAFTA) with Canada and Mexico, and demanded the renegotiation of a 2012 trade deal with South Korea that previous administrations had considered a model for the future.

The about-face was so striking that Canadian foreign minister Chrystia Freeland concluded in a June 2017 speech that "many of the voters in last year's presidential election cast their ballots animated in part by a desire to shrug off the burden of world leadership. To say this is not controversial: it is simply a fact." The United States, she said, "had come to question the very worth of its mantle of global leadership."[1]

What happened? The November 2016 election clearly caught many Americans, and the world, off guard. While the United States has certainly faced economic struggles since its housing crisis triggered the Great Recession in 2008, by 2016 it had entered the third longest period of economic expansion since the end of World War II. Some 15 million jobs had been created since the end of the recession, and the unemployment rate had fallen below five percent. Housing prices were recovering, and American companies were hitting record levels of profitability. And yet voters handed

1 "Chrystia Freeland on Canada's Foreign Policy: Full Speech," *Macleans*, June 6, 2017, http://www.macleans.ca/politics/ottawa/chrystia-freeland-on-canadas-foreign-policy-full-speech/.

the election to Trump, who had run a dark campaign warning that the United States was facing an economic "carnage" from lost jobs and shuttered factories that required a sharp change in direction, especially in America's trade and economic relations with the world.

Trump's campaign succeeded in tapping into the economic insecurity and anxiety that lie just below the optimistic headline numbers in the United States. What many missed was that the rosy economic figures disguised a deep and growing economic divide. The top earners—those in the top 20 percent or so—have seen big gains for many years, with their wages and benefits doubling in real terms since the mid-1980s. But the remaining 80 percent have been treading water. Since 2000 in particular, the economic circumstances of many Americans have been stagnant or slipping. While the official unemployment rate is near historical lows, the percentage of working-age adults in the labor force fell by nearly 5 percentage points from 2000-2016, from 67.3 percent to 62.7 percent, a huge decline.[2] And nearly half of all the jobs created coming out of the recession paid near minimum wage, in sectors such as retail sales, food services, and home health care. Median earnings in the United States have been flat since 2000, and have shown little growth for decades; since 1979, the median weekly earnings of full-time workers have risen by just 5 percent adjusted for inflation.[3] Economic mobility has also faltered. As former Federal Reserve chairman Ben Bernanke put it in a recent speech: "One of the pillars of America's self-image is the idea of the American Dream, that anyone can rise to the top based on determination and hard work."[4] That idea now seems part of America's past. For children born in the 1940s, some 90 percent would go on to earn more as adults than their parents had. For those born in the 1980s, however, only half achieved similar success.[5]

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[2] Bureau of Labor Statistics, "Labor force participation: what has happened since the peak?" Monthly Labor Review, September, 2016, https://www.bls.gov/opub/mlr/2016/article/labor-force-participation-what-has-happened-since-the-peak.htm.

[3] Federal Reserve Bank of St. Louis, "Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over," 1979-2016, at https://fred.stlouisfed.org/series/LEU0252881600A.

[4] Ben S. Bernanke, "When Growth is Not Enough," Remarks prepared for delivery on June 26, 2017, at the European Central Bank Forum on Central Banking at Sintra, June 26, 2017, https://www.brookings.edu/wp-content/uploads/2017/06/es_20170626_whengrowthisnotenough.pdf.

[5] Raj Chetty et. al, "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," NBER Working Paper 22910 (December, 2016), http://www.nber.org/papers/w22910.

In his successful election run, Trump channeled that economic anxiety into a larger critique of America's position in the world. The short version: Americans were suffering because they were too generous to the rest of the world, taking in immigrants and defending allies, and because the country's political elite had negotiated a series of flawed international deals that had harmed the U.S. economy and ordinary American workers. In his most detailed campaign speech, given in June of 2016 in the once thriving steel town of Monessen, Pennsylvania, Trump charged that the steel and other factory jobs had been lost because "our politicians have aggressively pursued a policy of globalization—moving our jobs, our wealth, our factories to Mexico and overseas." That policy, he argued, had made the country's financial elite wealthy "but it has left millions of workers with nothing but poverty and heartache." In the speech, he promised that through tougher trade policies and a new "America first" approach that put the country's national interests above its global responsibilities, "we can turn it all around, and we can turn it around fast."[6]

Whether the mercurial Trump proves to be a one-term president or not, the Trump presidency marks the biggest turning point in America's foreign policy, especially its international economic policy, since President Franklin Roosevelt signed the Reciprocal Trade Agreements Act of 1934, which renounced protectionism and set the United States on a course for deeper economic engagement with the world. The change in direction is being driven by the country's domestic economic circumstances, and in particular the growing frustration of American voters with an economy that seems to work well for too few. That was the fuel behind not only Trump's campaign, but that of Vermont independent Bernie Sanders, who very nearly snatched the Democratic nomination away from the more orthodox Hillary Clinton.[7] While the United States is unlikely to embrace the full-throated version of Trump's economic nationalism, the country has now moved into an era in which it will pursue a more narrowly self-interested foreign policy than it has for the past three quarters of a century. For many decades, the United States has generally favored policies that were designed both to strengthen the economies of allies and to ensure their security, believing these would support U.S. interests. In the future, U.S. relations with even its closest allies are likely to be more transactional,

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6 "Full Transcript: Donald Trump's Jobs Plan Speech," *Politico*, June 28, 2016, https://www.politico.com/story/2016/06/full-transcript-trump-job-plan-speech-224891.

7 See Edward Alden and Rebecca Strauss, "Is America Great? How the United States Stacks Up," *Foreign Affairs*, February 1, 2016.

based on shorter term concerns over relative gains than on longer term convictions of mutual self-interest.

The consequences of this shift will depend not just on how aggressively the United States pursues this new path, but also on how America's allies and largest trading partners—especially Europe, China, Canada and Mexico—respond. If other countries are able to assume a bigger role in safeguarding and expanding trade rules, in pursuing more balanced trading relationships and in sharing the security burden, then this more narrowly self-interested U.S. foreign policy can likely be accommodated with minimal disruption. But if these countries respond—either from conviction or in the face of their own domestic political pressures—by similarly asserting their own narrow national interests more forcefully, then the result is likely to be far more disruptive.

Foreign Policy Begins at Home

It is not much of an exaggeration to say that America's foreign policy is made by its largest and most prosperous cities—Washington and New York, of course, but also the technology powerhouses of San Francisco, Boston and Seattle, global trading cities like Los Angeles, Miami and Atlanta, and energy hubs like Houston and Dallas. The elites of the government and corporate worlds live in those cities, and their experiences have shaped the American approach to the world.

From the perspective of those cities, it was hard to see anything terribly wrong with America's position in 2016. While there are fierce debates among economists over the impacts of globalization on the United States and other advanced economies, the growth of a truly global economy has been a blessing to most of America's bigger cities. At the end of 2016, all of the world's ten largest public companies by market capitalization were based in the United States—three (Apple, Alphabet and Wells Fargo) are headquartered in the San Francisco Bay area, two (Microsoft and Amazon) in Seattle, one (General Electric) in Boston, one (J.P. Morgan Chase) in New York, and other three scattered around the country.[8] The global economy has been a boon for the world's best companies, and a disproportionate number of them are located in America's top cities.

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[8] "List of public corporations by market capitalization," Wikipedia, https://en.wikipedia.org/wiki/List_of_public_corporations_by_market_capitalization#2016.

The country's wealth has also concentrated in those cities. Charles Murray, the American Enterprise Institute scholar, coined the term "super zips" to describe those neighborhoods in the United States where income, wealth and educational achievement far outstrip the norm in the country. A 2013 *Washington Post* analysis identified 650 of these Super Zips where both income and educational achievement were in the top five percentile for the country. Almost all of them are in the major urban areas. The cities with the largest clusters of these wealthy neighborhoods are Washington, D.C., Manhattan, Boston and the San Francisco Bay area.[9]

It is no wonder, then, that America's policy elite missed the popular discontent that put Trump in the White House. Perhaps the most striking statistic in an election filled with them is that Donald Trump won nearly 2,600 countries across the country, compared to fewer than 500 for Hillary Clinton. But Clinton's counties—mostly in the larger cities—contributed two-thirds of all U.S. economic output.[10] Never before has a president been elected who represents such a small share of the nation's economic base. While many are rural counties that had long leaned Republican, the peculiarities of the Electoral College and the distribution of independent voters meant that the election was decided in the most manufacturing dependent states in the country, the ones that had been hit hardest by a combination of increased trade competition, especially from China, and increased automation.

The United States lost more than one-third of its manufacturing jobs in the 2000s, nearly 6 million jobs. Many of these had been unionized positions that paid high wages and benefits to employees with no more than a high school education. In terms of the percentage of manufacturing jobs lost, North Carolina was the hardest hit state in the country, and Michigan, Pennsylvania and Ohio were not far behind. Add in Wisconsin, which was also in the top 10 in manufacturing jobs lost in the 2000s, and those were the states that delivered the election to Trump.[11]

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9 Ted Mellnik, Carol Morello, "Washington: A World Apart," *Washington Post*, November 9, 2013, http://www.washingtonpost.com/sf/local/2013/11/09/washington-a-world-apart.

10 Mark Muro and Sifan Liu, "Another Clinton-Trump divide: High-output America vs. low-output America," Brookings Institution, November 29, 2016.

11 Robert E. Scott, "The Manufacturing Footprint and the Importance of U.S. Manufacturing Jobs," Economic Policy Institute Briefing Paper #388, January 22, 2015, http://www.epi.org/publication/the-manufacturing-footprint-and-the-importance-of-u-s-manufacturing-jobs/.

A central premise of U.S. foreign policy since World War II has been that America's successes abroad would be accompanied by rising living standards at home. That claim was most explicit in the selling of free trade agreements with other nations. President Bill Clinton, for example, called the agreement that brought China into the World Trade Organization (WTO) in 2001 "a hundred to nothing deal for America in terms of the economic consequences," because China would have to remove many trade barriers while the United States would only have to agree not to impose new ones. It was also implicit in America's alliances in Europe and Asia, in its military commitments overseas, in its relatively open and generous immigration policies, and in its economic aid to poorer countries. The basic bargain with Americans was the prosperity and stability abroad would help secure prosperity and stability at home.

That bargain lasted, though it was certainly strained, through to the end of the 20th century. While the United States has never regained the combination of surging productivity and rising wages that characterized the extraordinary period from 1945 to 1973, the economy continued to serve most Americans well most of the time. The recession of the late 1970s and early 1980s was followed by the boom years of the Reagan recovery, and the milder recession of the early 1990s was followed by the Clinton boom that saw unemployment fall below 4 percent and wages rise significantly across all income groups.

All that ended with the onset of what Nicholas Eberstadt has called "our miserable 21st century."[12] From 2000 to 2016, Eberstadt notes, per capita growth averaged below one percent a year, less than half of the 1948-2000 average of 2.3 percent. A shrinking percentage of Americans held jobs, and their working hours declined. Americans lost ground over the first 15 years of the decade in almost every measure of well-being—income, employment, and health, while more recently even life expectancy has begun to fall slightly. It is only in the past two years that U.S. incomes have finally started to recover; in 2016, the median household income rose 3.2 percent to just over $59,000, following an even strong 5.2 percent gain in 2015. Even more striking than the weak income growth numbers is the rise of economic insecurity, the growing number of American families that live uncomfortably close to the brink of financial ruin. The Federal Reserve reported in 2016 that in the previous year more than 30 percent

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[12] Nicholas E. Eberstadt, "Our Miserable 21st Century," *Commentary*, February 15, 2017. https://www.commentarymagazine.com/articles/our-miserable-21st-century/.

of Americans had said they were "struggling" economically or "just getting by." A remarkable 46 percent said they would not be able cover an emergency expense of $400 without borrowing money or selling something.[13]

There is still no consensus on why U.S. performance weakened so sharply after 2000. The groundbreaking work of economists David Autor, David Dorn and Gordon Hanson demonstrated that import competition was no small part of the picture.[14] The rise in imports from China after it joined the WTO in 2001 was responsible, they suggest, for about a third of the total job loss in manufacturing in the 2000s. But perhaps more importantly, the effects were concentrated in communities where one of two large manufacturing plants compromised most of the local economy. *Janesville*, Washington Post reporter Amy Goldstein's book about what happened to Janesville, Wisconsin following the shuttering of the General Motors factory in House Speaker Paul Ryan's home town in 2008, is a striking case study. GM paid its senior employees $28 an hour plus generous benefits, and the nearby suppliers like Lear, which also closed shop, were not far behind. But the next best jobs in the town for those with similar education was a prison guard, which paid half as much and required more than a year of retraining.[15]

While more of the job losses in manufacturing are rightly attributed to technology, both of the big economic trends of the past several decades—the growing power and deployment of modern information technologies, and the spread of the global economy to encompass large developing countries like China and India—have rendered the position of the average worker in the advanced economies more precarious. Globalization has put not just manufacturing workers but an increasing number of service sector workers in the advanced economies directly in competition with counterparts in the developing countries earning a fraction of the wage. The seminal work by former World Bank economist Branko Milanovic and his colleague Christoph Lakner has shown that the big winners in the global economy from 1988 to 2008 were the very wealthy in all countries, and a much broader share of workers in the fastest-grow-

[13] Federal Reserve, "Report on the Economic Well-Being of U.S. Households in 2016," May 2017. https://www.federalreserve.gov/publications/files/2016-report-economic-well-being-us-households-201705.pdf.

[14] David H. Autor. David Dorn, Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," NBER Working Paper 21906, January 2016, http://www.nber.org/papers/w21906.

[15] Amy Goldstein, *Janesville: An American Story* (New York: Simon & Schuster, 2017).

ing developing economies, especially China.[16] The poorest in Africa were largely locked out of the gains, but there was only one group that actually lost ground—those in roughly the 80th percentile of global wealth. These are the working and lower middle classes in the United States, Europe and other advanced economies. A significant percentage of voters in the advanced economies has come to see themselves, not unreasonably, as the losers from globalization.

Europe, of course, has experienced its own political fallout from these trends. The Brexit vote and the strength of anti-immigrant parties in France, Germany and Denmark were fueled in part by the same economic discontent that turned voters to the Trump in the U.S. swing states. While Brexit supporters may have rallied around the issue of controlling immigration, the strongest Leave votes were in the regions of the UK that were most exposed to rising import competition, especially from China.[17]

But America's policy failures were in some ways deeper than those in Europe. While most European nations have fairly robust protections for workers who lose their jobs, for whatever cause, the same is not true in the United States. Bernanke argued in his speech (and I make a similar case in my book *Failure to Adjust*) that one of the biggest mistakes in the United States has been the failure to develop a comprehensive set of policies to help workers and communities suffering from economic disruption to adapt. The need to "compensate the losers" from freer trade is standard wisdom among economists, and was advocated by some political leaders as far back as John F. Kennedy before he became president. But for a variety of reasons—including weak union representation, opposition from business, and the increasingly anti-government ideology of the Republican Party—the United States never developed effective measures to cushion its workers from labor market shocks. According to the OECD, the United States spends just 0.1 percent of its GDP on "active labor market polices" designed to assist workers in moving from one job to the next and retraining for new careers if necessary. The European average is five times as much, and some countries like France, Sweden and Denmark spend 10 times as much or more. Nor are the few programs in the United States that do

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[16] Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization* (Cambridge: Belknap Press, 2016).

[17] Italo Colantone and Piero Stanig, "Globalisation and Brexit: areas that voted to leave were most affected by the Chinese import shock," London School of Economics, http://blogs.lse.ac.uk/brexit/2016/11/23/globalisation-and-brexit-areas-that-voted-to-leave-were-most-affected-by-the-chinese-import-shock/.

support workers terribly effective. Trade Adjustment Assistance (TAA) provides relatively more generous income and retraining for American workers who can prove they lost their jobs to import competition or outsourcing, but it covers just a tiny fraction of the unemployed and has done little to help even those workers it serves find new jobs at similar pay levels.

The Autor/Dorn/Hanson research reached the striking conclusion that very few of the workers in the locations hit hardest by import competition in the 2000s had retrained for anything at all. Instead, nearly 10 percent of those losing jobs had ended up on Social Security Disability, a program that provides for lifetime pension payments and Medicaid coverage to those who can demonstrate to a doctor's satisfaction they are unable to return to work. Few if any of these workers will ever get another job. In the U.S. regions most exposed to Chinese import competition, the increase in per capita Social Security Disability payments was 30 times the cost of increased TAA spending. The problem is again, in part, geography. The jobs have been disappearing in the smaller cities and large towns in the American heartland, and the obstacles to moving to where the jobs are being created in the larger cities are immense—including educational requirements, high housing costs and the lack of any financial support for relocation (the TAA program, the most generous available, offers the miserly sum of $1,500 for workers who want to move to find better job prospects). Americans used to be the most mobile people in the world, which helped to facilitate adjustment in the absence of significant government support for the unemployed. Today Americans move less than half as often each year as they did in the 1950s; the fall in mobility has been especially sharp in the 2000s, so that Americans now move at roughly the same rate as Europeans.[18]

That these disturbing trends might rebound onto America's foreign policy choices is not surprising. Richard Haass, in his 2013 book *Foreign Policy Begins at Home*, warned presciently that "the biggest threat to America's security and prosperity comes not from abroad but from within."[19] Haass's concerns in the book were more of the slow-burning variety—the

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[18] Fatih Karahan and Darius Lee, "What caused the decline in inter-state migration in the United States?" Liberty Street Economics, October 17, 2016, http://libertystreeteconomics.newyorkfed.org/2016/10/what-caused-the-decline-in-interstate-migration-in-the-united-states.html.

[19] Richard Haass, *Foreign Policy Begins at Home: The Case for Putting America's House in Order* (New YorkBasic Books, 2013).

growing burden of federal debt, crumbling infrastructure, a highly unequal education system, and outdated immigration rules. These are problems that, left unaddressed, will continue to erode U.S. capacity and its ability to shape world events. But the turnaround was more sudden. With Trump's election, America's about-face to the world has been abrupt.

Trump and the New Nationalism: How Far Will It Go?

Since taking office in January, 2017, President Trump has kept much of the world guessing about just how persistently and aggressively he will pursue a more nationalist foreign policy. There are certainly signs of a sharp break with the past.

Upon entering office, he pulled the United States out of the TPP with Pacific Rim nations, which he had called "another disaster done and pushed by special interests." The TPP was the centerpiece of the Obama administration's "pivot to Asia," and was intended to increase the pressure on China to resume free market reforms. Trump's decision has left the United States without an economic anchor in the region, and given China a much freer hand.

Trump reneged on U.S. commitments to reduce greenhouse gas emissions under Paris Climate agreement, calling it "simply the latest example of Washington entering into an agreement that disadvantages the United States to the exclusive benefit of other countries, leaving American workers—who I love—and taxpayers to absorb the cost in terms of lost jobs, lower wages, shuttered factories and vastly diminished economic production."[20]

Trump also came to the brink of withdrawing the United States from NAFTA, and then reluctantly agreed to an accelerated renegotiation schedule designed to produce a new agreement by early 2018. But the U.S. demands in the negotiations have been so extreme that both Mexico and Canada are developing plans for their economies if NAFTA were to disappear.

On immigration, Trump's signature campaign promise was to build a wall on the southern border with Mexico and force Mexico to pay for it.

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[20] "Statement by President Trump on the Paris Climate Accord," June 1, 2017, The White House, https://www.whitehouse.gov/the-press-office/2017/06/01/statement-president-trump-paris-climate-accord.

While the president toned down that rhetoric following a testy phone call with Mexican president Enrique Pena Nieto in late January, he has been using executive powers to close the United States to more immigrants. His anti-Mexico rhetoric has resulted in a surge in anti-American sentiment in Mexico. According to Pew, two-thirds of Mexicans now have a negative view of the United States, double the level of just two years ago.[21]

After several setbacks in the courts, Trump succeeded in temporarily banning all travel to the United States from six majority Muslim countries and reduced refugee admissions to 50,000 annually from the 110,000 admitted in the last year of the Obama administration. His administration has rewritten Obama-era guidelines that protected many unauthorized immigrants from deportation, and he ended the special protections enacted by Obama for young people brought illegally by their parents, the so-called Deferred Action for Childhood Arrivals (DACA) program.

In addition, in his first speech to the United Nations in September, 2017, Trump praised the virtues of national sovereignty, saying that "as president of the United States, I will always put America first." While promising friendship to the world and its allies in particular, Trump said "we can no longer be taken advantage of, or enter into a one-sided deal where the United States gets nothing in return."

On each of these issues, Trump has faced some resistance from within his own administration and the Republican Party. The modern GOP has been the party of business, and the strongest businesses in the country, U.S. multinational corporations, are global in perspective and favor open trade, investment and immigration policies. Corporate America has been especially vocal in pushing for the administration and Congress to find a solution that permits young DACA recipients to remain in the United States, and in demanding that Trump renegotiate NAFTA rather than tearing it up. Those voices are certainly represented in the administration, particularly in the Treasury Department. And leading Republicans in Congress, including House Speaker Paul Ryan, Ways & Means chairman Kevin Brady, and Senate Finance Committee chairman Orrin Hatch, are committed free traders. There are also strong Republican voices for maintaining the traditional U.S. role as the leader of the Western alliance, though the true champions like Senators John McCain and Lindsey Gra-

[21] Margaret Vice and Hanyu Chwe, "Mexican Views of the U.S. Turn Sharply Negative," Pew Research Center, September 14, 2016, http://www.pewglobal.org/2017/09/14/mexican-views-of-the-u-s-turn-sharply-negative/.

ham seem more and more an aging minority in the GOP. Republican governors, many from states dependent on agricultural exports to Mexico and other countries, will oppose any move to tear up trade agreements. That opposition from within his own party could moderate Trump's impulses.

But nationalism now has a much firmer hold in the Republican Party than at any time since the 1920s. Within the administration, the key economic Cabinet positions other than Treasury are held by committed economic nationalists—including Commerce Secretary Wilbur Ross and U.S. Trade Representative Robert Lighthizer. In the White House, Trump's top domestic policy advisor, Stephen Miller, is a longtime staffer for Attorney General Jeff Sessions, and believes that both trade with developing countries and immigration of low-skilled workers constitute unfair competition for American workers, and bear a great share of the blame for anemic wage growth.[22]

Trump advisor Steve Bannon, the chairman of the hyper-nationalist website Breitbart, has articulated the most extreme position. Shortly after leaving the White House in August of 2017 (whether he jumped or was pushed remains unclear), Bannon gave a remarkable speech to investment fund managers in Hong Kong in which he said that at the heart of Trump's platform were three issues: stopping illegal immigration and reducing legal migration; bringing back manufacturing jobs through protectionist trade policies; and ending "pointless foreign wars." He argued for a "Hamiltonian" economic policy built around new protective tariffs for manufacturers, massive infrastructure spending, reduced regulations and new lending for small business. But Bannon acknowledged the ongoing battle between the nationalists and the "globalists" in the Trump administration remains unresolved. "The most acrimonious, vitriolic debates in the White House have been over trade," he said.[23]

In the Congress, economic nationalism has a growing constituency among Republicans. House Republicans have been pushing a series of enforcement-only measures on immigration, and there is even growing support for restricting legal immigration. The RAISE Act, introduced by Republican Senators Tom Cotton and David Perdue—and immediately endorsed by the president—would cut legal immigration to the United

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[22] See the White House, "Press Briefing by Press Secretary Sarah Sanders and Senior Policy Advisor Stephen Miller, 8/2/2017," https://www.whitehouse.gov/the-press-office/2017/08/02/press-briefing-press-secretary-sarah-sanders-and-senior-policy-advisor.

[23] From notes taken by the author.

States in half. And while the Republican Party still appears to favor open trade, there are more dissenters than at any time since the 1950s. Trump has carried many party voters with him, and Republicans worried about a primary challenge will be reluctant to stand up in favor of trade agreements. Pew Research Center has long conducted polls asking Americans whether they believe trade is helping or hurting the United States. At the end of the Obama administration, 56 percent of Republican voters thought trade was a good thing; after a steady diet of Trump's rhetoric, that support has fallen to just 36 percent.[24]

Democrats are also not as much of an obstacle to protectionism as Europe, Canada and others might wish. While the party is fighting Trump's restrictions on immigration, the influence of the labor unions means that Democratic members of Congress have long been skeptical on trade. Just 28 House Democrats, for example, were willing to support President Obama's 2015 request for Trade Promotion Authority to conclude the TPP. The Democrats have tried to out-Trump Trump on the trade issue, releasing their "better deal for American workers," which among other things would empower the president to block foreign investment in the United States if it would lead to job reductions. Leading congressional Democrats have been hammering the president for not moving more quickly to block imports of steel and aluminum, two sectors in which the president has threatened to impose new tariffs on national security grounds. And the Sanders wing of the party, which will likely play a strong role in the 2018 mid-term and 2020 presidential elections, is highly suspicious of trade agreements. The idea that the United States has been a loser from trade has found fertile ground in both of the leading parties.

Finally, and perhaps most importantly over the next few years at least, Trump's own convictions are clear, and they are strongly nationalist. Since he first flirted with the idea of running for president in the mid-1980s, Donald Trump has had two foundational beliefs about America's place in the world: first, that the United States was spending far too much on its alliance commitments, on its military guarantees to Europe, to Japan and to Korea; and second, that those same allies were exploiting the United States in trade and commercial relationships. In 1986, then still a real

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[24] Bradley Jones, "Support for free trade agreements rebounds modestly, but wide partisan differences remain," Pew Research Center, April 25, 2017, http://www.pewresearch.org/fact-tank/2017/04/25/support-for-free-trade-agreements-rebounds-modestly-but-wide-partisan-differences-remain/.

estate developer with an emerging interest in politics, Trump paid for full-page ads in the *New York Times*, *Washington Post* and *Boston Globe*, in which he blasted Japan over its growing trade surplus with the United States, complaining about defending that island nation while "they have built a strong and vibrant economy with unprecedented surpluses."[25]

Trump's first serious flirtation with running for president came in 2000 when he briefly sought the nomination under the banner of Ross Perot's Reform Party. Perot had run a serious third-party candidacy for the presidency in 1992 on a single issue—opposition to NAFTA—famously warning that the pact would result in a "giant sucking sound" of U.S. jobs moving south of the border. The 2000 nomination was captured by Patrick Buchanan, a former speechwriter for Richard Nixon, perhaps the country's most ardent economic nationalist before Trump made it fashionable. If anything, Trump's views on both trade and immigration seem to have hardened over time. In 2000, he pulled out of the Reform Party nomination battle after Buchanan entered the race and other extremists like former Klansman David Duke joined the party, saying this was "not company I wish to keep."

While on some issues—including health care and tax reform—the president's positions are of more recent vintage and seem mutable, his nationalist foreign policy views are far more entrenched. President Trump's vision is of a United States that does far more to look after its own narrow economic interests, and far less to take care of the rest of world.

How Will Other Nations Respond?

Political scientist Robert Keohane has argued that, in a globalized economy, one of the central struggles of international politics is over which countries will bear the heaviest adjustment costs. Economists have long understood that, while trade creates big mutual gains for the world as a whole, there will always be significant pockets of losers—companies or entire industries that find themselves unable to meet the new competition. And government policies—subsidies, export incentives, import restraints, regulatory restrictions that favor domestic suppliers—can all help to offload the adjustment costs on to other countries. Keohane argues that "The politics of foreign economic policy center around the question of

[25] Michael Kruse, "The True Story of Donald Trump's First Campaign Speech—in 1987," *Politico*, February 5, 2016.

which states will bear the major costs of adjustment to change.... Each state seeks to impose unwanted costs on others rather than inflicting them on its own citizens."[26]

Trump's approach to the world is to offload more of the adjustment costs on to other countries. Indeed, he appears to admire countries that have done so successfully, saying during his November visit to China that on trade "I don't blame China. Who can blame a country for being able to take advantage of another country for benefit if their citizens? I give China great credit." His focus on shrinking U.S. trade deficits, backpedaling on climate commitments, and demanding that allies spend more on their own defense are all means for trying to force other countries to bear more of the costs for maintaining a stable global order. U.S. Trade Representative Robert Lighthizer has been quite pointed in saying that the administration's goal in renegotiating trade agreements is to "rebalance" them in favor of the United States; in the NAFTA talks, he argues that Mexico and Canada must agree to relinquish their "unfair advantage."[27]

In more adept hands, the world might well applaud a certain degree of U.S. retrenchment. The growing challenges at home for the United States—including a large and persistent federal budget deficit, education and workforce challenges, crumbling infrastructure, and the costs of caring for an aging population—would logically have forced some moves in this direction whoever won the White House in 2016. Indeed, much of Barack Obama's foreign policy, including the withdrawal of U.S. troops from Iraq, the shrinking presence in Afghanistan and the refusal to intervene militarily in Syria, were similarly designed to reduce U.S. international commitments and free up resources for priorities at home. Nor was Obama averse to driving a harder bargain on trade deals. When he won the White House in 2008 as a critic of NAFTA, he immediately demanded changes to the three trade agreements negotiated but left unratified during the George W. Bush administration, with Korea, Panama and Colombia. There are many—including the author—who would agree with Trump that China and some other countries have taken advantage of U.S. economic openness to build economies that are far too dependent on exports,

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[26] Robert O. Keohane, "American Politics and the Trade-Growth Struggle," *International Security* 3, No. 2, Fall, 1978.

[27] Closing Statement of USTR Robert Lighthizer at the Fourth Round of NAFTA Renegotiations, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/october/closing-statement-ustr-robert.

too protected from imports, and regulated in ways that seriously distort competition.

A careful, nuanced policy of rebalancing by the United States might be able to draw, if not support, then at least grudging acceptance from other nations. Japan, for example, has suggested it may increase purchases of U.S. military equipment, which would serve both of the president's objectives of sharing the defense burden and reducing the U.S. trade deficit simultaneously. NATO allies in Europe and Canada have announced plans to increase defense spending in 2017 by close to 5 percent, the fastest in years; NATO Secretary General Jens Stoltenberg said explicitly that the aim is to show Washington that the United States has reliable allies.[28] Such rebalancing of defense commitments is long overdue and will be healthy for the Western alliance. Trump may have accelerated the timetable, but the direction is not a new one.

The unknown question is whether the Trump administration is headed towards a more precipitous withdrawal from leadership. In the economic sphere, there is worrying evidence that this is the case. In addition to walking away from the TPP, the administration has expressed its disdain for larger regional trade agreements; the Transatlantic Trade and Investment Partnership (TTIP) negotiations with the European Union are now on ice, with neither side showing any interest in reviving them. Trump has promised to replace TPP and other larger agreements with a series of bilateral trade agreements, for example, but has so far found no willing partners. Japan, Vietnam and others, who are closely watching the difficulties in the NAFTA and KORUS renegotiations, have little interest in finding themselves in the firing line. Even the UK, which was enthusiastic about a bilateral deal with the U.S. as a counterweight to Europe, appears in no hurry to start talks. At the WTO, the United States has been blocking the appointment of new judges to the Appellate Body—the final court in trade disputes—which could soon undermine the WTO's ability to resolve trade disputes. And the United States has stopped playing any leadership role in pushing for new multilateral commitments. "The new reality is that America is sitting this one out," Alan Wolff, the WTO deputy director-general, said in November. He added that 'nobody, nobody has clearly

[28] Robin Emmot, "Trump effect? Europe's defense spending to rise faster in 2017," *Reuters*, June 28, 2017, https://www.reuters.com/article/us-nato-defence/trump-effect-europes-defense-spending-to-rise-faster-in-2017-idUSKBN19J0ZW.

adjusted to the fact that the guarantor of the international system is no longer performing that role."[29]

The way in which other countries respond to this absence of U.S. leadership will be critical. Other actors—the European Union and China most importantly—must step up and play a stronger role. But there are huge obstacles to them doing so. The structural differences in the economies of the EU and China do not allow for the sort of obvious overlap of interests that has existed for many decades between the United States and Europe. And China in particular is accustomed to playing the system for its own advantage rather than seeing itself as a guardian of global trade rules. Instead of moving to fill the vacuum left by the United States, both China and the EU are so far trying to take advantage by concluding their own trade agreements—the EU in new deals with Japan and Latin America and China through its Regional Comprehensive Economic Partnership (RCEP).

Worse, growing anger against the Trump administration is already evident, and the politically popular response to U.S. trade provocations will be to hit back in kind. Canada, for example, has threatened to block purchases of Boeing aircraft in retaliation for Boeing's effort to slap tariffs on imports of Bombardier aircraft. Mexico has threatened to reduce imports of U.S. corn in response to the Trump administration's provocations, and the 2018 Mexican election is almost certain to produce a more vocally anti-American Mexican president. The United States and China are heading into confrontations over forced technology transfer and over the U.S. refusal to recognize China as a "market economy" in antidumping and countervailing duty investigations.

But there is a strong case both for international restraint in the face of Trump's provocations, and for stronger leadership from the other large players. USTR Lighthizer has said that, after some two decades of evidence, America's trade agreements have not provided the balanced market access that the United States had expected. "It is reasonable to ask after a period of time whether what we received and what we paid were roughly equivalent," he said in a September 2017 speech. While there can be legitimate debates over the various causes of America's large and persistent trade deficits, it is clear that United States has been the international market of final resort for too long. It is quite reasonable for other coun-

[29] Brett Fortnam, "Deputy director-general: WTO members must adjust to life without U.S. leadership," *Inside U.S. Trade*, November 8, 2017.

tries—particularly the large surplus countries like China, Japan, Germany and Korea—to be taking a careful look at measures that would help bring their international accounts into greater balance. More specifically, it is time to revive the efforts that were made at international economic coordination in the late 1970s and 1980s when, at U.S. insistence, the leading economic powers tried to coordinate their economic policies with an eye towards reducing international imbalances. A positive initiative from, say, China, Japan and the European Union to restart such efforts through the G-20 meetings would be extremely timely. That would provide both a serious, coordinated response to some of the U.S. demands, and also demonstrate that U.S. leadership is not the *sine qua non* for effective international cooperation.

In contrast, a tit-for-tat response to U.S. actions by its major trading partners would be particularly damaging. One of the convictions of Trump administration trade officials is that, because the United States remains the world's largest market, it would have the most power in a world unconstrained by formal procedures to resolve trade disputes. Scared of losing their access to the large U.S. market, other countries would be more likely to buckle to U.S. demands. Lighthizer, for example, was a senior trade official in the Reagan administration when such bullying was used to some positive effect in negotiations with Japan. But the United States—under Republican administrations it should be stressed—was willing to give away this unilateral leverage in exchange for binding trade dispute measures in the WTO, in NAFTA and in other trade agreements. While the United States had reasons to believe it would benefit from such procedures, and has indeed won many cases before the WTO, it was still an extraordinary gesture by the largest economic power in the world to voluntarily tie its hands.

As the Trump administration's trade policy moves forward, the strongest ground that U.S. trading partners have is to continue to hold the United States firmly to that commitment to play by agreed international rules and respect the dispute settlement process. That will require patience and restraint. If the United States imposes new trade barriers that seem to violate its WTO commitments, for example, the temptation for countries targeted will be to hit back in kind. But the right approach is to use the existing dispute settlement procedures—even with the wait of up to two years that is entailed—and for other countries to retaliate only if properly sanctioned by the WTO. This was the approach that the EU, Japan and others took in 2002, for example, when the Bush administration imposed steep "safeguard" tariffs on steel imports. Such restraint by America's trading partners will isolate the United States and make it harder for the Trump administration to act blatantly outside the rules, and as importantly will help preserve the rules-based trading order if and when the United States rethinks its current hostility to those institutions.

China's response to date has been encouraging in this regard. Chinese president Xi Xinping gave a strong speech in Davos is early 2017 calling for the world to "adapt and guide economic globalization, cushion its negative impact, and deliver its benefits to all countries." He promised that China would play a stronger leadership role in building and preserving global trade rules. And after the United States warned that it might act outside the WTO system to tackle China's very problematic policies that force foreign companies investing in China to share their proprietary technologies, China did not threaten retaliation, but said only that it would "take all appropriate measures to resolutely safeguard the legitimate rights and interests of the Chinese side."[30] Such restraint needs to be a model for all countries in dealing with the Trump challenge.

Conclusion

The next several years will provide a critical test for the stability of post-war economic institutions, built under the leadership of the United States and the European Union. Economic challenges in the United States have led to a larger political backlash against those institutions, and to demands from the Trump administration that could lead to their unraveling. The challenge for Europe and for America's other trading partners will be to find new forms of leadership that can acknowledge the legitimacy of some U.S. demands while preserving global economic rules that have brought benefits to most of the world's nations.

[30] Associated Press, "China says it will respond to Trump trade probe with 'all appropriate measures'," August 14, 2017, https://www.washingtontimes.com/news/2017/aug/14/china-respond-trump-trade-probe-all-appropriate-me/.