Three Early Predictions about Economic Statecraft in the Age of Trump

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Donald Trump campaigned on the premise that, as a businessman, he's in a position to make the best deals for the United States. He argued that, through common sense business practices, he could secure concessions from foreign partners that have been unattainable for the politicians and diplomats tasked with such responsibilities. And, he suggested that, by being tough and exerting the national power of the United States, particularly with respect to providing or denying access to the U.S. economy, he will restore the United States to what he believes is its rightful place.

But, what exactly will he do once in office to achieve his agenda and to restore America to his vision of greatness? Furthermore, what role will economic statecraft play in his vision?

Trump won the presidency despite a glaring lack of details on his specific policy intentions, leaving enough flexibility in his statements that – with few exceptions, such as "the wall" – he could almost fit any policy decision inside of his rubric. However, taken in combination with the actual capabilities of the United States and the driving views of the still dominant political establishment in Washington (especially in Congress), we can form a few basic thoughts about what he might do and the logical results.

My three predictions for the next four years under Donald Trump are:

1. First, Trump will upset thirty years of U.S. foreign economic policy and flip the script for how states perceive U.S. policy decisions.
2. Second, though sanctions hawks may be excited now, Trump will approach economic sanctions far differently than his immediate predecessors.
3. Last, though he will throw U.S. economic weight around, his policies ultimately will contribute to the diminishment of U.S. economic power.

Flipping the script

Since the end of the Cold War, the prevailing U.S. concern has been about how to inspire and grow a liberal democratic order across the world. To this end, the foreign economic policy consensus that emerged in Washington centered on expanding free trade and creating a global business environment conducive to economic openness around the world, which policy makers believed would have positive implications for the U.S. domestic economy, help to stabilize global politics, and improve the lives of millions living in poverty.[1]

While Presidents George H. W. Bush and Bill Clinton worked toward these goals to expand the reach of free trade (starting with the North American Free Trade Agreement, NAFTA) and to use international institutions to deepen trade and business connections of countries around the world, the Presidential campaigns of 2016 demonstrated the degree to which this logic has fallen out of favor in the United States.

Today, trade is not seen as the tide that lifts all ships, but rather as a bow wave that leaves too many Americans merely treading water. While both Trump and Clinton promised to seek trade arrangements that would be fairer to the average U.S. worker, as did other candidates during the primary season (most notably, Senator Bernie Sanders), it is Donald Trump whose specific policy positions signal an extreme shift for how trade deals will be achieved. Specifically, he has announced that he intends to use of tariffs and tax policy aggressively, all aimed at coercing companies to shift manufacturing and industrial jobs back to the United States (even in sectors where the economics would not support such investment, such as the coal industry). Other presidents, including those dedicated to free trade in general, have used tariffs and taxation to change decision-making for companies and banks; Trump's plan would seemingly constitute an escalation of the use of such tools.

Whether his policies work or not is important, but less relevant to this particular analysis. What is important for our purposes is the perception of this policy shift on the part of foreign governments. Prior to Trump's election, countries around the world had an expectation that, though the President of the United States would fight on behalf of U.S. workers and the U.S. economy, the President would also – as a rule – promote and provide for the global commons of international trade, finance, and economic openness. Under Trump, this can no longer be expected.

Trump's supporters would doubtless be enthusiastic for this new paradigm; they view the current model as unfair and supporting only the interests of global firms and the wealthy. To be sure, the benefits of international trade and investment have not been equally distributed throughout the U.S. economy to all businesses and individuals, but what Trump is missing is that the defense of the global economic commons has had a direct, net positive effect on the U.S. economy. Trade has lowered the price of goods for all Americans.[2] International finance has permitted growth in emerging markets which has improved the U.S. bottom-line.[3] Additionally, defense of those global commons has given the United

[1] https://www.brookings.edu/research/trade-policy-in-the-1990s/
[2] http://www.jec.senate.gov/public/_cache/files/952113f2-9deb-4642-914c-e291d55f0d1b/may-14-2015-republican-staff-analysis-consumer-trade-benefits.pdf
[3] http://www.federalreserve.gov/pubs/ifdp/2012/1057/ifdp1057.pdf

States a powerful tool to pressure other countries to drop protectionist measures that unfairly undermine U.S. economic interests.[4]

By changing the U.S. approach and becoming essentially 'just another country' in the global economic scrum, the United States will devalue its own historic defense of these global commons and incentivize similar behavior from other states. States around the world will look askance when the United States imposes tariffs, convinced that the issue is not a response to unfair trading practices from others, but rather pure, unadulterated U.S. protectionism. To be fair, this may have been a default assumption prior to Trump. But, now, there is little argument to be made against such a contention; other countries will match our stance. After all, if the world's largest economy has lost its confidence in its ability to compete, what choice would any other country have when faced with the same pressures? Ultimately, the potential result of this paradigm shift in Washington will be a trend back to the protectionist system that existed before the Second World War, with all of the risks and dangers that came along with just such a system.

Whither sanctions?

This is particularly unfortunate because the United States has been leveraging its place in the global economy and for not only global economic good, but also to address and influence the bad behavior of states, entities and individuals through sanctions. U.S. sanctions policy is essentially predicated on two notions: first, the United States can hold at risk much of the world's desired economic activity by threatening a cut-off from U.S. markets or the freezing of assets inside the United States.; and, second, that when faced with that threat, most rational actors will back down.

It was this theory that was used to great (and perhaps decisive) effect with respect to Iran's nuclear program from 2006-2013. A similar theory is presently in use for countries as diverse as Russia and North Korea, for entities as varied as terrorist groups, criminal organizations, and drug kingpins, and for individuals like currency counterfeiters and human rights violators. The United States has coerced banks into dropping clients in response to the threat of being denied the ability to maintain correspondent banking accounts with U.S. financial institutions, and has even compelled oil companies to refuse Iranian cargoes when oil hovered above $100 per barrel. The power of the U.S. economy was and is simply that profound.

With Trump, we do not know how he intends to use this unrivaled economic power. He may see the advantage in a robust sanctions strategy, akin to what President Obama has done. However, there is a real possibility that Trump will abandon this tool or reduce its use out of concern that denying access to U.S. markets will ultimately hurt U.S. companies and industries.

[4] https://www.brookings.edu/research/trade-policy-in-the-1990s/

If he seeks to use sanctions robustly, then he will be tapping into the same reservoir of international goodwill and patience that he intends to use to deliver better trade deals for the American worker. His effectiveness will be diminished in both as a result. The reason is simple: a state that faces just one core demand and trade-off from the United States will more likely make the right decision and do as the U.S. government may ask; however, when faced with multiple, overlapping demands, businesses may decide that it is easier to either not bother with the United States altogether or to develop de-risking approaches in order to insulate themselves from the potential negative consequences of rebuffing U.S. demands.

Since I first wrote about this risk last May[5], Obama Administration officials have expressed similar concerns, usually with respect to sanctions over-reach.[6] It is worth noting that even though the United States may see a distinction between economic sanctions for foreign policy purposes and trade rules, international companies and banks may only see hindrance and experience frustration, thus giving them reason to react accordingly by reducing their U.S. exposure. Ironically, this is an argument Trump himself should understand, as he has complained vociferously that over-regulation is what is choking the U.S. economy.[7]

On the other hand, if Trump minimizes the use of U.S. sanctions, he may avoid this trap, but he will also then find himself looking for new sources of U.S. leverage for use in foreign policy disputes. Hard-nosed diplomacy can only go so far and in time, he may find himself increasingly reaching for military solutions, with potentially disastrous results, or withdrawing from the field altogether.

American Atrophy

Taking aside its dark history, Trump's America First slogan is also incomplete; his real mindset appears to be "America Only." Trump's entire foreign policy platform has been based upon the concept that the United States ought to withdraw from the role it has played since the end of the Second World War as guarantor of international peace and security, particularly for U.S. allies. Trump's suggestions that NATO and other U.S. allies need to pay more to receive the benefits of U.S. protection speak to the very real need for some allies to step up their commitments to ensuring the common defense (particularly those in Europe), but his rhetoric suggests taking this concept to the extreme. Such an extreme could risk the long-term health of these vital, but vulnerable, strategic relationships to provide the United States with security as well as international support on other topics (such as counter-terrorism, nonproliferation, and countering organized crime).

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5 https://gallery.mailchimp.com/20fec43d5e4f6bc717201530a/files/Issue_Brief_The_Future_of_Economic_Sanctions_in_a_Global_Economy_May_2015.pdf

6 https://www.treasury.gov/press-center/press-releases/Pages/jl0398.aspx

7 http://www.cnn.com/2016/11/22/politics/trump-first-100-days-plan/index.html

In the end, Trump's economic policies may contribute to the realization of his imagined sense of American weakness and isolation. By leveraging access to the U.S. economy to the degree that he has suggested, we stand to lose this very power in the future. This is because alternative economic power centers, which are already being developed, may be nurtured by Trump's approach. For example, China stands to gain significantly as the United States steps back from the Trans-Pacific Partnership (TPP) and remains outside of devices such as the Asian Infrastructure Investment Bank (AIIB).[8] Other countries and organizations, such as the European Union, may find similar opportunities if the United States recedes from its former role.

In the end, the United States may find that, after a Trump Administration, its ability to regain its global leadership role, particularly in economic terms, is limited by the development of new rules and organizational practices. Again, as I wrote in May 2015, the result will be damage to the U.S. economy in general but also to U.S. economic power abroad.[9] We may even find that our own banks and industries could fall prey to economic threats by foreign governments and that, lacking a compelling position to push back against such coercion, our firms acquiesce to these challenges. The fallout may not result in an end to our ability to defend our interests in international trade organizations, but this assumes such organizations still exist or count the United States as a member; Trump has said that he's prepared to withdraw the United States from those organizations if they interfere with his plans.[10] It is not clear that he could make good on such a threat (at least as a formal matter), but just the threat itself can damage these institutions. In the end, the President retains a considerable amount of flexibility and discretion in the exercise of U.S. trade policy.[11]

Conclusion

It would be absurdly incongruous if the businessman some Americans voted to place in the White House presides over the decline of America's place at the forefront of global business. Unfortunately, the profound threats that such a shift may present to our foreign and domestic economic positions is a joke that would offer little humor in the years ahead.

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[8] http://www.wsj.com/articles/china-positioned-to-gain-global-sway-after-trump-win-1478862043

[9] https://gallery.mailchimp.com/20fec43d5e4f6bc717201530a/files/Issue_Brief_The_Future_of_Economic_Sanctions_in_a_Global_Economy_May_2015.pdf

[10] http://blogs.wsj.com/washwire/2016/07/24/trump-threatens-to-pull-u-s-out-of-world-trade-organization/

[11] https://piie.com/system/files/documents/piieb16-6.pdf