Trump and Trade: The End of Multilateral Trade Governance?

https://www.e-ir.info/2018/07/26/trump-and-trade-the-end-of-multilateral-trade-governance/

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President Donald Trump has bucked a number of political and policy norms, particularly on trade policy. Trump's withdrawal from the Trans-Pacific Partnership, his 'renegotiation' of NAFTA, and now his tariffs against China and others all depart significantly from the Post-War bipartisan consensus in the United States on supporting free trade. The tariffs targeting China have been the most scandalous. As China retaliates, the risk of an all-out trade war between the two rivals emerges. Such an event would surely drag both economies into an economic recession, along with the global economy.

United States Interests and International Trade Governance

Does this illustrate that the United States is abandoning the rule-based international liberal order? Well, no – largely because no such order actually exists at all. We might like to think of the global economy as being governed by neutral rules, under the benevolent leadership of the United States. However, the international economy and the rules and organisations which govern it serve the interests of powerful states – especially the United States.

The United States has maintained open markets in the Post-War era to serve its political, diplomatic and security interests. During the Cold War, the United States' open trade policy isolated and contained the Soviet Union by revitalising the war-ravaged economies of its allies in Europe and Asia whilst solidifying the alliances through economic interdependence (Gilpin 1987). Even in the 1970s, when the competitiveness of the United States economy waned as the Japan and German economies recovered, the United States maintained its free trade policy in order to serve its geopolitical interests. This is despite the fact that the market access the United States offered to its allies was rarely reciprocated in-kind.

The result was a growing United States trade deficit. By the 1980s, the United States acknowledged that repairing its terms of trade was not feasible, at least not without sacrificing other foreign policy priorities. The United States instead used the deficit to its advantage. The growing trade deficit increased the outward flow of dollars to be reinvested through American financial institutions, or held as reserve currencies by foreign central banks (Varoufakis 2011). The trade deficit has thus underwritten United States international economic power.

Intellectual property, along with finance, is the other pillar on which the United States' international economic power rests. By owning intellectual property, United States-based firms have continued to take the lion's share of international profits, despite production itself moving abroad. The rules of international trade, through the World Trade Organisation, reflect the United States interests on investment protections, intellectual property rights and trade in services more broadly.

Challenges to the United States

However, two challenges to the interests of the United States are emerging due the governance of international trade. First, rival economies, namely China, have been able to leverage access to the United States consumer market to facilitate their rapid industrialisation. As the Chinese economy has grown, so too has its capacity to challenge United

States dominance.

Robert Gilpin (1987) argues that this is a problem affecting all international economic orders. The concentration of high-technology industries in the United States and other developed economies creates the foundations for future challenges to the system because investment will often flow to low-cost periphery nations, resulting in booming growth.

Second, it is true that United States consultants, bankers, engineers, and others have benefitted from current international trade governance. However, whilst these workers focused in the metropolitan hubs along the United States' coasts have fared well, workers in former manufacturing hubs such as Michigan, Pennsylvania, Ohio, and Wisconsin have not. These four states account for 20.1 per cent of the 4.985 million manufacturing jobs lost between 1997 and 2017. Michigan and Ohio have been particularly hard hit, with each having fewer total private sector non-farm jobs in 2017 than they had 1997 (Bureau of Labor Statistics 2018)

Despite this, the twin pillars of United States economic power themselves do not appear to be significantly eroding. By the end of 2017 the United States dollar accounted for 63 per cent of international foreign currency reserves. The Chinese renminbi meanwhile accounted for just 1.2 per cent, less than the British pound and the Australian dollar (IMF 2018). Meanwhile, in 2016 the United States accounted for one third of the world's intellectual property exports (calculated from Bureau of Economic Analysis 2018 and, World Bank 2018).

Prospects for International Trade Governance

President Trump, for all his faults, has identified (or at least is able to politically exploit) the challenges contemporary international trade governance poses to the Unites States: the rise of rival economies and the unequal distribution of the gains within the United States. However, the order still serves other United State priorities, as well as the interests of key political actors in corporate America.

Can the United States preserve the power and benefits that contemporary international trade governance grants it, while addressing the above challenges? The rules and organisations which govern international trade, enthusiastically built and maintained by the United States over the past three-plus decades, do not appear fit for this purpose.

In the response, the United States is acting unilaterally. It is directly targeting its main rival China on a variety of manufactured goods. This is, it claims, a retaliation to China's attack on one of the two pillars of United States economic power *via* the 'theft' of United States-owned intellectual property. This is not historically unprecedented. In the early 1980s, the United States increased unilateral action against its trading partners, just as it began creating new international trade governance arrangements.

China for its part is playing by the rules, initiating a challenge in the World Trade Organisation against the tariffs and reaffirming its commitment to multilateralism. The governance of international trade has been very beneficial to China, after all.

What the United States' unilateralism shows is that the political interest that underpins international trade governance is shifting. The United States is being forced to more sharply prioritise between its foreign policy objectives, its economic dominance over key industries, the interest of corporate actors, and material conditions of all of its citizens.

This was on full display in Trump's decision to withdraw from the Trans-Pacific Partnership. The unpopularity of the agreement among key voters made the withdrawal central to Trump's platform as a candidate. However, the agreement itself advanced United States' interests in the Asia Pacific and its international agenda on intellectual property, digital commerce, and investment protections.

This dilemma did not begin with Trump and will not disappear when he is gone. Maintaining current international trade governance arrangements is increasingly incongruent with certain United States interests and is losing political consensus domestically.

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