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Abstract

Donald Trump's international economic policies aim to preserve America's primacy in the face of China's surging economic development. Trump's policies are based on a zero-sum vision in which China's economic gains are America's losses. The resulting U.S. policies—in the areas of international trade, corporate taxation, technology competition, sanctions, and energy supplies—threaten to undermine the global economy with no realistic prospect of preserving America's economic and technological dominance.

This paper[1] concerns the Trump administration's international economic policies more generally than just its trade policies, because I think that these international policies, viewed as a package, are part of a general Trump administration approach to U.S. foreign policy.

The general approach of the Trump administration's goal of *U.S. unilateralis*m is based on *U.S. primacy* in global power. Primacy, in this context, is the doctrine that the U.S. can defeat any foe in any part of the world through the exercise of its military, financial, or economic power. In a recent book[2] I have called this viewpoint *U.S. exceptionalism*, meaning a long-standing ideology in U.S. society that the U.S. is an exceptional nation that is not and should not be bound by global rules.

This is the real meaning of "America First" and its fundamental point of departure. Rules should not bind the U.S. and, if the U.S. is to negotiate with other countries, it should negotiate bilaterally rather than multilaterally, in a "divide and conquer" strategy. Global negotiations are seen as a trap, with too many unfriendly nations, whilst bilateral negotiations pit U.S. power against weaker counterparts. Trump's vision, and that of the people that he has assembled around him (until they are summarily fired), is a transactional approach rather than a rule-based approach. We are witnessing Trump's "art of the deal" applied to international statecraft rather than to New York City shady real estate transactions.

The deep driver of Trump's approach is not U.S. strength but rather a foreboding sense of weakness, of a drastic decline of U.S. relative power. Trump's view is based on the idea that the U.S. can and *should be* able to *prevail* in all global affairs, economic and military, but instead is *failing to prevail* because it voluntarily cedes its power through multilateral agreements (especially UN agreements!) that sap the strength, vigor, and freedom of U.S. to maneuver. The Trump approach therefore one of disdain, even hatred, for global institutions including the United Nations, the World Trade Organization, and arms control treaties. These do nothing more, according to Trump, than give away American power to lesser nations, ones that do not deserve U.S. deference and that in any event threaten American values and way of life.

The main antagonist in this struggle, according to Trump, is China, with Russia perhaps not far behind. Trump's view of China shows unremitting hostility. His view of Russia vacillates between hostility and a kind of fawning over Vladimir Putin. There is reasonable cause to believe that Trump's view of Russia is shaped by his personal business dealings and perhaps by being personally compromised vis-à-vis Russia in some way. The ongoing Mueller investigation may shed light on this.

Trump's National Security Strategy (December 2017)[3] puts matters this way:

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[1] This paper is based upon a talk that was given at the 16th Annual Conference, Center on Capitalism and Society, Columbia University, September 17, 2018.

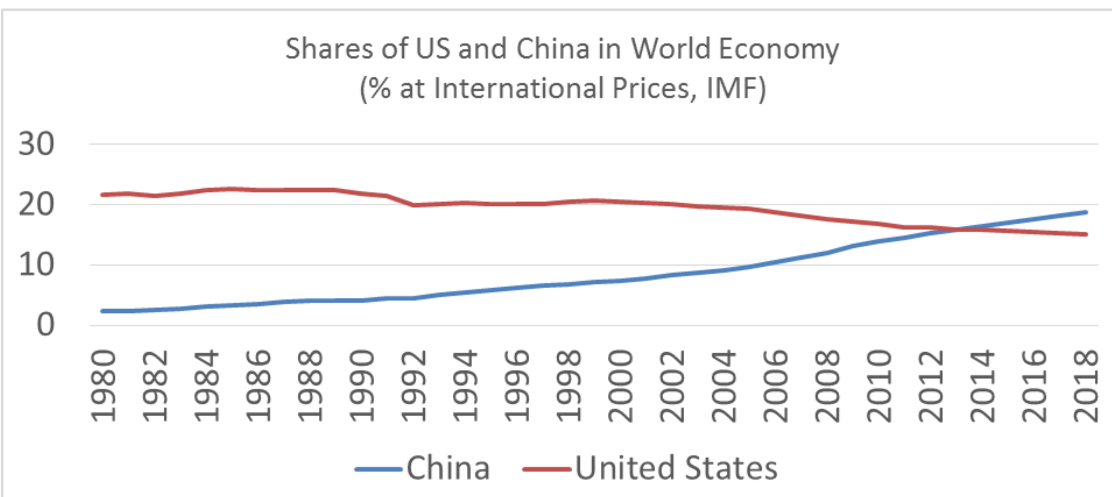
[2] Jeffrey Sachs, *A New Foreign Policy: Beyond American Exceptionalism* (New York: Columbia University Press, 2018).

[3] The strategy can be found here: https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf. Available December 21, 2018.

> The United States will respond to the growing political, economic, and military competition we face around the world.
>
> China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence.

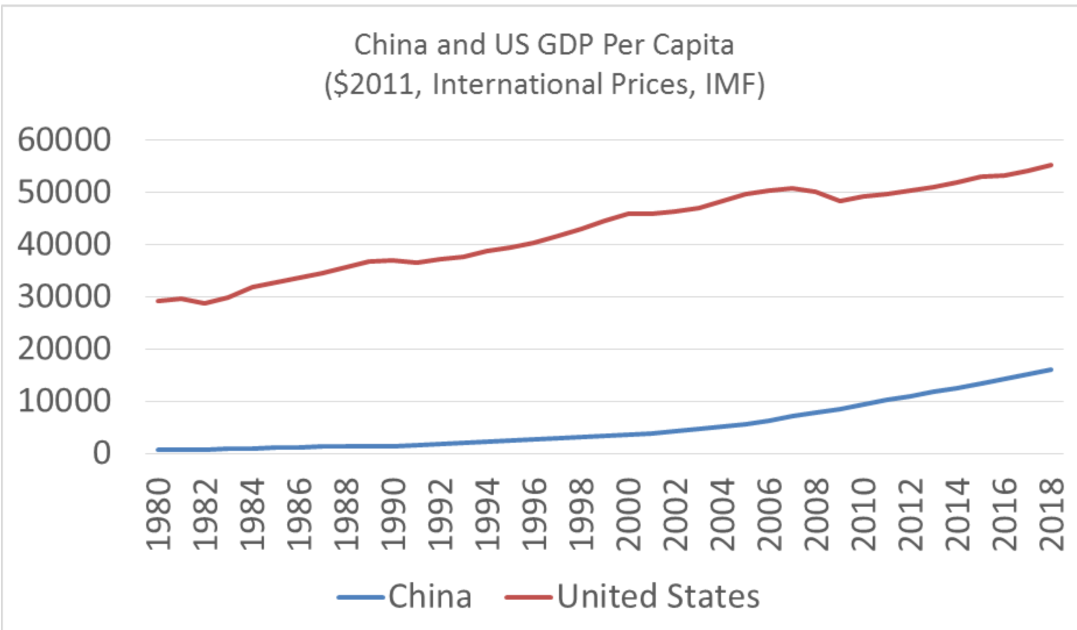
The motivating ideology is a *zero-sum* view of global society and the world economy. Gains by countries such as China and Russia are losses to the U.S., because what is at stake is relative power, not absolute standards of living. Indeed, even if trade with China enriches both countries, Trump views it as dangerous and an affront, to the extent that it facilitates China's "catching up" with the U.S. and other high-income countries.

The palpable fear that animates Trump is captured in the figure below, which shows the IMF's calculation of the proportion of world output accounted for by the U.S. and China during the period from 1980 to 2018. According to the IMF measures, calculated with international (purchasing power parity) prices for the GDP of all countries, the U.S. share of world output declined from 21.7 percent in 1980 to 15.1 percent in 2018. China's share, by contrast, rose from 2.3 percent in 1980 to 18.7 percent in 2018. Most importantly, of course, China overtook the U.S. economy by this measure in the year 2014, and as of 2018 is 24 percent larger than the U.S.



Source: IMF, World Economic Outlook Data, July 2018

These measures of total output obscure, however, an overriding fact that accounts for the trends in the figure. As shown in the next figure, China's GDP per capita remains a small fraction of America's GDP per capita. China remains, in short, much poorer than the U.S., roughly 30 percent of U.S. GDP per capita at international prices, albeit with a rapidly declining proportionate gap between the two countries. In the jargon of development economics, China is "catching up," or "converging" with the U.S.



Source: IMF, World Economic Outlook Data, July 2018

There is nothing nefarious about this tendency towards convergence; we should expect convergence to occur with two interconnected economies that operate according to fairly standard market principles. Instead of viewing China's rise as either a miracle of economic levitation (which would be true if China had in fact propelled its living standards above those of the U.S. and other countries) or as a mark of perfidy, China has been gradually recovering its relative economic position since 1978, following roughly 140 years of precipitous decline (which I am dating, in this instance, to the onset of the Opium Wars in 1839).

It is the U.S. relative decline, not a U.S. absolute decline, that drives Trump's war on international trading rules and his extreme animus towards China. China's rise is an affront to the United States. How dare the Chinese economy become larger than the U.S. economy? How dare China grow in diplomatic power? Rather than viewing China's rise as the arithmetic result of gradual convergence, it is viewed instead as a direct, deliberate, and provocative threat to the U.S. As noted above, China is not merely developing economically, according to Trump's national security strategy; rather, it is "attempting to erode American security and prosperity."

There are two more Trumpian fallacies to mention before looking more deeply at the instruments of Trump's international statecraft. The first is the idea that China's rise has directly reduced American living standards—that trade itself is broadly a zero-sum struggle for living standards. This is the argument that Trump used successfully to garner votes in the U.S. Midwest, which certainly bore some of the brunt of China's rising manufacturing exports to the U.S. Yet trade theory teaches us an important lesson. U.S. trade with China almost surely raised GDPs in both countries, while also shifting the income distribution as well. In the U.S., the opening and expansion of trade with China may well have cost manufacturing workers both jobs and wages, but it also contributed to a boom in real incomes for other segments of the U.S. economy, such as highly skilled, service-sector workers and the owners of business capital. Trade theory teaches that the winners from trade can compensate the losers, with both coming out ahead. Alas, the U.S. political economy shuns this kind of compensatory redistribution (e.g. through taxes and transfers) and so it could well be true that certain parts of the American labor force (e.g. high-school educated men working in manufacturing) bore the brunt of trade expansion with China.

The second Trumpian fallacy is to view the U.S. bilateral trade deficit with China (or other countries) as a sign of perfidy on the part of China. Trump speaks about bilateral trade deficits as proof of America giving away its wealth to the surplus nation, or more accurately, as proof that the counterpart nation is unfairly stealing U.S. wealth. Of course, one of the most basic ideas of international finance is that trade deficits and surpluses are not measures of trade fairness but of imbalances of saving and investment. America runs trade deficits with China and with dozens of other countries mainly because America saves little and therefore borrows from abroad to finance its expenditures on consumption and investment. The overall current account deficit, after all, is simply a measure of total spending (consumption plus investment) in excess of national income, or comparably, of the excess of domestic investment over national saving.

I would say that there are at least six specific objectives of the "America First" foreign economic agenda, and six main policy instruments, trade policy being one of them. The Table below shows the objectives in the first column, the policy instrument in the second column, the direct effect of the policy in the third column, and the most likely indirect effects in the fourth column.

"America First" Foreign Economic Policies

Objective	Policy	Direct impact of policies	Likely indirect effects
Increased Business Investment	Corporate Tax Cut	Capital Inflows	Matching tax cuts, race to the bottom, increased trade deficit
Repatriation of industrial jobs	Tariffs, rules of origin	Small boost of output in autos, steel	Net negative job effects, taking into account GE effects
Technological and Military Preeminence	Restrictions on Chinese FDI and M&A	Slowdown of Chinese acquisition of semiconductor	Increased tech and arms race
Reduce Trade Deficit	Tariffs and quotas	Strong dollar, reduced trade	Near-zero net impact on trade deficit
Isolation of rival countries (Iran, DPRK, etc.)	Rejection of UN treaties, extra-territorial sanctions	Reduction of trade with sanctioned regimes	Diminished role of dollar, alternatives to dollar payments systems
Enhance US energy independence and role	Rejection of Paris Climate Agreement	Small boost of output in US fossil fuel industries	Reduced global coherence of climate policy

The first objective, shown in the first row of table, is to increase business investment in the U.S. The main instrument is the corporate tax cut. The goal is to promote the net-of-tax returns of U.S. based investments. The likely effect, however, is simply to spur a global race to the bottom in corporate taxation. In that scenario, all countries end up slashing corporate taxes, making budget deficits worse and tax systems less progressive. All countries lose. This is essentially what happened after the U.S. corporate tax cuts of the mid-1980s, when America's tax cuts were matched, and then exceeded, by tax cuts in other countries.

The second objective is to "return jobs" to the U.S. that have been "offshored" to China, Mexico, and other lower-wage countries. The main policy instrument is tariff policy to protect American industries, and renegotiation or abrogation of trade agreements to stem further offshoring of jobs. This is the ostensible motivation of the renegotiation of NAFTA, though most experts believe that the consequences of the renegotiation will be very small for U.S. jobs. While there might be small, temporary boosts of employment in automobile or steel production, the long-term costs of higher tariffs on jobs and efficiency are likely to be significant. Tariffs on steel, for example, obviously claim jobs in downstream steel-using industries even if they protect a few jobs in steel production. Retaliatory tariffs abroad also directly claim U.S. jobs. The greater fallacy here is Trump's steadfast belief that the decline in manufacturing jobs in the past generation is mainly the result of trade and offshoring rather than automation in manufacturing. U.S. manufacturing output has remained high and growing; it is jobs that have been lost to robots and automated production systems.

The third objective, no doubt the most important from the Trumpian point of view, is the use of international economic statecraft to maintain U.S. technological and military preeminence. This, after all, is the fundamental goal of "America First," not living standards, not jobs, but power, with military power first and foremost. The main instrument is a war on China's technology. Trump is ratcheting up the use of CFIUS (the Committee on Foreign Investment in the U.S.) to block Chinese acquisition of U.S. high technology through foreign investments in U.S. companies. The U.S. is instructing its allies (e.g. U.K., Canada, Australia, New Zealand, and others) to do the same. The U.S. is trying to block China's high-tech companies such as Huawei from gaining a foothold in the U.S., Europe, and Oceania. The U.S. is also using the threat of extra-territorial sanctions to try to prevent Chinese companies from entering various markets (e.g. Iran, Syria, Russia, and others).

These policies may slow China's technological ascent, but will not stop it. And the costs will be high. American policies threaten to shrink the global markets for R&D, block the two-way flows of useful technologies that could raise living standards globally, and lead to retaliation by China. Given China's large and rapidly growing investments in R&D, and the competitiveness of high-tech Chinese companies such as Huawei (e.g. in 5G technologies) in third-country markets, China's technological advances are likely to continue apace. Indeed, I believe that China, Japan, and Korea are likely to become increasingly integrated as neighboring technological superpowers, putting Northeast Asia's technological advances into even faster gear.

The fourth objective, I noted earlier, is to try to reduce the U.S. budget deficit. Yet rather than focus on macroeconomic saving-investment imbalances, Trump is trying to "remedy" the trade deficit by raising tariffs. This is truly a fool's errand. The result will not be a reduction of the trade deficit. In fact, with soaring U.S. budget deficits, resulting from the corporate tax cut, the most likely outcome will be larger, not smaller, trade deficits. As interest rates rise in the U.S., the U.S. dollar will tend to appreciate in real terms, as will the U.S. trade deficit, until the U.S. economy falls back into recession.

The fifth objective of U.S. foreign economic statecraft is to isolate countries such as Iran and North Korea that are deemed 'hostile' to U.S. interests. Here, the U.S. is relying mainly on sanctions policies. Yet the U.S. reliance on sanctions to crush adversaries is unlikely to stick. Other countries that do not subscribe to U.S. foreign policy goals—and that is most countries, in fact—will find ways around the sanctions. Indeed, the sanctions policies will increasingly threaten the key currency role of the U.S. dollar, as Europe, China, India, Russia and others turn to non-dollar currencies to complete transactions with Iran, North Korea, and other countries under U.S. sanctions. Indeed, the U.S. is badly isolating itself diplomatically by reneging on global agreements such as the JCPOA (*Joint Comprehensive Plan of Action)*, vis-a-vis Iran, despite its endorsement by the UN Security Council in Resolution 2231.

The sixth objective is energy independence, pursued by increasing production and sales of U.S. fossil fuels. Trump is trying to revive a nearly bankrupt coal industry; promoting oil and gas production through fracking, offshore exploration, eliminating climate-control policies, and opening of federal lands and offshore areas to new exploration and development of hydrocarbons. To facilitate all of this, Trump has announced the withdrawal of the U.S. from the Paris Climate Agreement as of 2020 (the earliest permissible date under the treaty).

Here too the results are likely to be small, short-lived, and ultimately highly detrimental to U.S. interests. Fossil fuel companies (coal, oil, and gas) can generally see the writing on the wall. We are moving to a post-fossil-fuel world economy. Investments today in new fossil fuels are likely to be "stranded" in future years. Banks and money managers are increasingly reluctant to finance fossil-fuel expansion though, of course, some continues. By undermining global efforts to control climate change, the U.S. opens itself and the world to horrendous climate shocks and dangers in the future. The irony of all of this is that the U.S. is richly endowed with renewable energy resources, such as solar and wind power, and could thereby achieve energy security and climate safety together by ramping up the deployment of zero-carbon energy sources.

All told, the "America First" agenda is incoherent from top to bottom and is likely to crash for this reason. As I have noted, tax cuts will spur big budget deficits and tax cuts abroad - a global lose-lose situation. Tariff wars will cost jobs and divert attention from the deeper driver of job loss, automation. Instead of stopping trade or automation, the U.S. ought to be taxing "winners" to compensate "losers" from these effects. America's technology war with China risks serious retaliation, even a costly and dangerous "high-tech arms race," and is unlikely to stop a technologically dynamic China from continued "catch-up" growth. America's tariff increases will not cut the trade deficit, while the tax cuts will increase the trade deficit. The attempt to isolate countries such as Iran and North Korea with U.S. extra-territorial sanctions opposed by other countries will prove ineffective, and will instead weaken U.S. diplomatic leadership and gradually undermine the international role of the U.S. dollar as key currency. And Trump's push to keep the fossil-fuel industry alive in the era of climate change is also likely to prove evanescent, albeit very unsettling for global climate policy. Investments today in new U.S. fossil fuels are likely to be stranded in future years, leading to investment losses for those who follow Trump's lead.

Three implicit assumptions behind these deeply flawed policies are that: (1) the U.S. has the power to achieve favorable outcomes through aggressive bilateral negotiations; (2) there are large gains to unilateralism and few, if any, benefits of global rules; and (3) the U.S. will maintain a coalition of European, Middle Eastern and Asian countries against China and other U.S. targets.

I believe all of these assumptions are wrong. On the first point, I don't think that the U.S. has the relative might achieve its objectives through aggressive bilateral negotiations. America is not as scary in negotiations as Trump believes it to be. Other countries will resist being put into bilateral negotiations in any event, and will look for cover in multilateralism.

Second, I believe that a rule-based global regime remains the focal point for global diplomacy. I do not believe that Trump's transactional approach of banishing the rules and brandishing raw power can become a global norm. Admittedly, global rules can break down (at great global peril to all, including the U.S.). This happened in 1914 and again in 1929. It could happen again. Yet I do not think that Trump will prove steadfast or powerful enough to pull down the global system. (This is notably truer after the Democratic victory in November in regaining the majority in the House of Representatives).

Finally, along the same lines, I doubt that the U.S. will succeed in leading and maintaining a large and relatively stable coalition against China, Iran, DPRK, Syria, and so on. This is really the essence of a large part of the issue here. The U.S. believes that it will maintain U.S. leadership. Yet instead, on many fronts, the U.S. is finding itself as one country against the other 192. This is true about its withdrawal from the Paris Climate Agreement and from the JCPOA. The U.S. is isolated in other areas as well. This is not to say that the U.S. will lack allies on some fronts. It is to say that the U.S. will not be in a position to build a stable coalition against China as the U.S. once led a coalition against the Soviet Union.

Perhaps the most interesting question is posed by northeast Asia. I believe that the U.S. approach of pitting Japan and Korea against China is reaching a limit. The relationship among the three northeast Asian economic giants is increasingly one of cooperation and economic interdependence. We are probably seeing the gradual transformation of northeast Asia into an informal, or perhaps even formal, economic community, rather than a pro-U.S. alliance siding against China. That would certainly constitute a fundamental geopolitical change because China, Japan and Korea together would constitute the largest integrated economic region, and the largest high-tech region of the world.

It may well be my wishful thinking, yet I believe that, despite the currently prevailing nationalism and the structural uncertainties and damage from it, we are evolving towards a kind of "global regionalism," in which the EU will remain intact, the African Union will strengthen, northeast Asia will coalesce, even southern Asia will advance with India finding common ground with the Pakistan and Bangladesh, Latin American countries will cooperate, and North America will constitute a highly integrated economic area. We will then have a truly multi-polar regionalism, one that could be undergirded by a continued globalism of core UN rules. Such a world will be multi-currency. It will not have any one hegemon, neither China nor the U.S. If we are lucky, we will not blow ourselves up in the process.

My final point is that a global regionalism within a UN order is my normative vision and hope, as well as my cautious and provisional forecast. I think it's the way the world *ought* to go, rather than the dangerous unilateralist direction that Trump is trying to taking us.