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The Liberal International Economic Order on the Brink

KRISTEN HOPEWELL

The liberal international economic order was constructed during the era of American hegemony and heavily shaped by US power. From its dominant position in the post–World War II international system, the United States engaged in an unprecedented building of multilateral institutions and rules to govern an increasingly integrated global economy, based broadly on the principles of open markets and trade. This integrated system of global economic governance—centered on the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank—has been a historically distinct and defining feature of American hegemony. US power has been exercised in and through international rules and institutions. Yet while these institutions served as a channel for the projection of American power, their rules and norms also served, at least to some extent, to rein in the arbitrary and indiscriminate use of power by the hegemon.

The election of Donald Trump as president, propelled in part by a surge of sentiment that blames "unfair trade" for the current economic and social ills of the United States, has put the future of the US-led economic order in doubt. Trump has promised to arbitrarily restrict access to the US market and take unilateral retaliatory trade actions against other nations. In one of his first acts as president, Trump pulled the United States out of the Trans-Pacific Partnership after the trade pact with 11 other nations was painstakingly negotiated by his predecessor's administration. He has threatened to withdraw from the North American Free Trade Agreement (NAFTA) and the Korea-US Free Trade Agreement (KORUS), and to exit the WTO or simply ignore any of its rulings that do not go in Washington's favor. Under a president hostile to free trade and international cooperation, the United States appears to be abandoning its commitment to the liberal international economic order and abdicating its leadership role.

PRIVILEGES OF POWER

When asked what he thought of Western civilization, Mahatma Gandhi is reputed to have replied, "I think it would be a good idea." Precisely the same could be said of the liberal international economic order. In rightly seeking to criticize Trump's agenda and the danger it represents, there has been a tendency to fall back on a largely fictitious vision of the past—a romanticized image of the pre-Trump liberal order and America's role within it. But the reality is not so simple. Liberal ideas and institutions have provided a powerful source of ideological legitimacy and support to the world order constructed under American hegemony. However, the American commitment to liberal principles has always been partial, selective, and self-serving. US leadership has been experienced by many other countries as coercive rather than benevolent.

In the trading system, realism and liberalism coexist in tension. While it is formally based on the liberal principles of free trade and the sovereign equality of states, in practice power politics prevail. Power asymmetries deeply shape the content of trade agreements: the powerful are able to impose liberalization on the weak while maintaining scope for their own protectionist policies.

Although the United States has been the primary driver of liberalization in the global economy—

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pushing other countries to open their markets to its goods, services, and capital—its own policies have often deviated from the principles of free trade. Washington has pursued a two-pronged strategy: in areas of vulnerability, it has used trade protections to shield sensitive sectors from foreign competition, while in areas where American companies are, or have the potential to become, world leaders, it has actively used various forms of state support, combined with its influence in shaping international trade rules, to give its domestic industries a competitive edge and promote their global market dominance.

Trump's notion that America is disadvantaged by global trade agreements, or that it has been unfairly taken advantage of, is thus deeply perplexing to other countries. As the most powerful player in the international system, the United States wrote the rules of international trade. The multilateral trading system was designed by Washington to serve its own interests, frequently at the expense of other, weaker nations.

This was strikingly illustrated in the last successful round of multilateral trade negotiations, the Uruguay Round (1986–94). The Uruguay Round was part of a larger neoliberal turn in the global economic order driven by the United States. Grounded in a deep antipathy toward the state and a zeal for the "free market," neoliberalism gained ascendance in the United States in the 1980s and was spread globally by Washington through the multilateral economic institutions, pushing a policy program of fiscal austerity, privatization, deregulation, and trade and capital liberalization. Driven by more than mere ideology, the "Washington Consensus" was a strategy aimed at restoring and reasserting US power, after its relative decline in the 1970s, by opening foreign markets to its exports, investment, and multinationals. Washington aggressively pushed this agenda on other states through the structural adjustment programs of the IMF and the World Bank, as well as the Uruguay Round.

Facing changes in the nature of its competitive advantage and seeking to address its growing trade deficit, the United States used the Uruguay Round to drive a dramatic expansion of global trade rules into new areas of US competitiveness, including services, investment, and intellectual property. Washington extracted deep concessions from developing countries, while the gains they were promised in return failed to materialize. Ultimately, the Uruguay Round was pushed through by a raw use of power on the part of the United States (including threats of unilateral trade sanctions and withdrawing access to the world's largest market). Robert Wade of the London School of Economics has likened it to "a slow-motion Great Train Robbery" since the agreement produced a significant transfer of resources from poor to rich countries. It constrained the space for development policy, prohibiting many of the same industrial-policy tools, such as subsidies and controls on foreign investment, that advanced economies like the United States had themselves used to develop.

For many developing countries, their experience of the coercive power wielded by Washington in trade negotiations and through the international financial institutions left a deep legacy of distrust that still profoundly shapes how they view American hegemony—and their willingness to welcome the emergence of new challengers. For most developing countries, the prescriptions of the Washington Consensus resulted in one or two "lost decades" of economic stagnation. Meanwhile, the countries that achieved the greatest development success—such as China and other major emerging economies—departed widely from the neoliberal orthodoxy and instead pursued state-led development policies.

America's economic woes will not be solved through protectionism or attacks on its trading partners.

The failure of the Washington Consensus profoundly undermined the credibility of US leadership in the global order. This was only compounded by the global financial crisis of 2008. Inadequately regulated financial markets in the United States imperiled the entire global economy and led to sharp drops in output, trade, and employment, as well as an increase in poverty felt around the world.

We should thus be careful not to idealize the world economic order, or US leadership, before Trump. There has always been a gap between how the United States views its role in the world and how it is seen by others. While paying lip service to the principles of free trade, international law, and multilateralism, Washington routinely violated those same principles when it served its interests, blatantly abusing the privileges of its power and disregarding the rules of the system it created.

The hypocrisy of the US-led international economic order—Washington's failure to live up to its liberal principles—damaged its legitimacy and undercut support for US leadership.

TABLES TURNED

Even before Trump, the core pillar of the US-led economic order—the WTO—had already been deeply disrupted by contemporary power shifts. The rise of new powers such as China, India, and Brazil as major players in the global economy has proved profoundly destabilizing for the multilateral trading system. While the emerging powers are supporters of the system, they challenged the longstanding dominance of the United States and other advanced industrial nations, demanding a greater role in global trade governance. The resulting confrontation led to the collapse of the Doha Round of trade negotiations.

The Doha Round was a US project launched in 2001 over strong opposition from developing countries, which were corralled into participating through a combination of inducements and coercion. The rise of Brazil, India, and China, however, transformed the negotiations into a battle between the Global North and the Global South. In all eight previous trade rounds, the United States was the primary aggressor, pushing other countries to liberalize their markets. But in the Doha Round, for the first time, the emerging powers turned the tables and made the protectionist trade policies of the US and other advanced industrialized nations—particularly their massive agriculture subsidies, one of the most flagrant examples of hypocrisy in the trading system—a central target at the WTO. The rebalancing of power fundamentally shifted the terms of the prospective Doha agreement and the concessions among states that would be necessary to secure a deal.

In 2008, the WTO looked close to concluding the Doha Round. Most nations were broadly satisfied with the draft agreement on the table. In a marked change from the past, the prospective deal was seen as generally favorable for developing countries: they would benefit from liberalization by developed countries, while being granted "special and differential treatment," allowing them to undertake less liberalization and providing them with substantial flexibility. At that point, however, it was Washington that balked. Members of Congress and business and farm lobbying groups complained that the draft agreement did not require enough of the emerging powers. The United States aggressively worked to "rebalance" the deal by pressing the large emerging economies to make concessions on manufactured goods and agriculture beyond the terms that had already been negotiated.

From the perspective of the emerging powers, these demands were out of proportion to the reforms that the United States itself was willing to undertake. Washington was minimalist in making concessions but maximalist in making demands of others. It was trying to change the terms of the deal, and its new demands—which had escalated in response to the complaints of its domestic lobby groups—were unfair and unjustified. Brazil, India, and China now had sufficient power to stand up to America and refused to be pushed into what they perceived as an unbalanced agreement. With these two sides evenly matched, neither was able to impose its will on the other. The result has been a permanent impasse.

The collapse of the Doha Round represents the disruption of the US-led liberal international economic order. The WTO's existing rules remain in force and subject to its dispute settlement mechanism. However, amid a more equitable distribution of power among states, the core function of the WTO—the negotiation of successive multilateral trade agreements to drive forward the opening and liberalization of global markets—has broken down. The Doha Round impasse is an important signal of the weakening of Washington's ability to impose its will globally. The WTO has spun beyond the control of the United States—or any other single state or group of states. Even if America maintains a preponderance of power in the international system, its capacity to direct and steer global economic governance—until now a distinct and defining feature of its hegemony—has been severely diminished.

Confronted by a strong counterweight to its power at the WTO, the United States abandoned multilateralism in trade and abdicated its traditional leadership role within the institution, beginning under President George W. Bush and continuing under the Obama administration. Instead, Washington turned to creating new bilateral and regional free trade agreements (FTAs), in which it had greater leverage to extract concessions and secure more favorable deals. This was part of an intensified strategy of "competitive liberalization" that sought to reward cooperative countries and punish uncooperative ones. However, this strategy backfired as other nations, including China, turned to negotiating their own competing trade deals, leading to a proliferation of FTAs and further undermining the multilateral trading system.

The US abandonment of the Doha Round was seen as particularly egregious because Doha had been sold to the developing world as a "Development Round," with the promise that it would deliver real benefits to the Global South and redress the historical imbalances built into previous multilateral trade agreements. A key aspect of the Doha mandate was the principle that developing countries would not be required to engage in an equal exchange of concessions with the advanced industrialized nations, but rather that the final bargain would be struck on the basis of "less than full reciprocity," favoring developing countries. But Washington had shown once again that it would accept less than full reciprocity only in its own favor.

For American negotiators, the vague development promises attached to the Doha Round were primarily a political maneuver to ensure its launch. The United States had never intended to fulfill such promises if doing so would require a sacrifice of its own commercial interests. For developing countries, the realist logic of the trading system—its inability to serve the needs of weaker states—was laid bare. Washington was unwilling to live up to the development mandate of the Doha Round and refused to agree to a trade pact that would genuinely advance the interests of developing countries.

THE END OF HYPOCRISY

Trump's approach to international economic relations is typically treated as a radical break with previous US trade policy. But "America First" is nothing new. The United States has always put its own interests first and often used bullying to get its way. Trump's capricious behavior makes it impossible to predict with any certainty what he will do in the future. But so far, despite his bellicose rhetoric on trade, the actual tactics he is employing are not at all unfamiliar.

Trump's trade agenda increasingly seems to boil down to trying to renegotiate trade agreements by using "all possible sources of leverage" to extract greater concessions from trading partners (as his 2017 Trade Policy Agenda states), while simultaneously reducing their access to the US market. Trump may be taking this approach to an extreme, but Washington has always used its economic and political might to tilt the terms of trade agreements in its favor and leave room for its own protectionist policies.

The United States has frequently taken unilateral steps to restrict access to its market. Many of the specific protectionist measures that Trump is deploying—such as anti-dumping and countervailing duties, safeguards, and Section 301 investigations—are drawn from a preexisting toolkit that has long been used to restrict imports. In 2016, before Trump's election, the United States was the world's biggest user of anti-dumping actions (protectionist tariffs imposed on imports alleged to be priced below fair value) and other trade defense measures. The United States also accounts for half of all countervailing duty actions (tariffs imposed on imports to counter alleged subsidies) by G20 nations.

Rather than using the WTO's mechanism for resolving trade disputes, which is intended to ensure they are resolved in a fair and orderly manner, the Trump administration has launched an investigation of China's intellectual property practices under a contentious section of US trade law. Section 301 enables the government to unilaterally take retaliatory action against foreign countries that maintain any law or practice that it deems to "unjustifiably" or "unreasonably" restrict or burden US commerce. The sweeping nature of Section 301 makes it a blunt instrument with which the United States can leverage its economic might to force other countries to open their markets to its exports. While Section 301 has rarely been used in recent years, it has a long and bitter history. It was deployed over 100 times against US trading partners after it became law in the 1970s. Most strikingly, Washington used the threat of aggressive unilateral action under Section 301 to force countries to swallow their opposition and accept the Uruguay Round agreements in 1994.

While Trump's overt hostility toward the WTO is a marked departure from previous American leaders, the United States had already soured on the WTO before him. Ultimately, it was America that killed the Doha Round by walking away from the deal on the table. In doing so, it dealt a major blow to the multilateral trading system. When thwarted from securing its preferred outcomes in Doha, Washington turned away from the WTO, disengaging from the institution and focusing instead on bilateral and regional trade agreements.

Trump has now threatened to ignore WTO rulings he does not like, but that is not entirely new either. The United States has often intensely resisted changing its laws and policies to comply with WTO rulings (in disputes over aircraft, cotton subsidies, softwood lumber, country-of-origin labeling, and the calculation of anti-dumping duties, to name just a few), turning many of these cases into sagas that persist for years and even decades. Beyond his rhetoric, the substance of what Trump has done so far represents an intensification and deepening of existing patterns of US behavior in the trading system rather than a fundamental change.

If, as the political scientist Mlada Bukovansky has argued, hypocrisy put "a velvet glove on the iron fist" of US power, that glove has now come off. Under Trump, the US has dispensed with pretense, engaging in blatantly self-serving behavior and the raw use of power without the guise of liberalism. But that iron fist has also gotten weaker.

Trump's belligerence—his efforts to strong-arm trading partners and threats of aggressive unilateral trade actions—comes at a time when America's relative economic power is declining. It has less control over global economic governance than it used to, and less scope for unilateral action. While the United States remains the world's largest economy, its relative weight has diminished significantly, constituting just over 20 percent of the global economy today, compared with 40 percent in 1960. Its position at the epicenter of global capitalism has been eroded by growing multipolarity, and particularly by the rise of China, which is now the world's second-largest economy, its leading goods trader, the biggest market for many inputs and consumer goods, and a booming source of outward foreign investment.

The American commitment to liberal principles has always been partial, selective, and self-serving.

If Trump were to proceed with slapping huge tariffs on imports from China, Beijing would not just sit idly by. It would retaliate against US exports. Trump risks triggering a global trade war. Many American firms and industries rely on China as their largest export market. Reports indicate that US companies have been reluctant to participate in the Section 301 investigation against China for fear of reprisals that would damage their sales and ability to operate in the Chinese market.

And it is not just China that has greater capacity to resist US pressure. In its efforts to renegotiate the terms of KORUS, the Trump administration issued a list of unilateral concessions it wanted South Korea to make, including immediately eliminating tariffs on key US exports, while the United States would stall its own promised tariff reductions on Korean goods. This carried echoes of a past era when Washington forced "voluntary export restraints" on South Korea, Japan, and other competitors in the 1970s and 1980s. This time, however, Seoul has refused to capitulate to the American demands.

HEGEMONIC HUBRIS

Trump's plan to "Make America Great Again" will most likely do precisely the opposite by accelerating American decline. Trump has taken hegemonic hubris to unprecedented heights. He assumes that the United States can simply impose its will on other countries, but Washington has less weight to throw around than ever before and it is being met with stronger opposition and competition for global leadership.

The failure of the Doha Round at the WTO revealed the diminished ability of the United States to simply overpower other countries to get its way in trade negotiations. More recently, when it tried to pressure its allies to stay out of China's new Asian Infrastructure Investment Bank, it failed utterly; China's financial power simply exerted too strong a gravitational pull on other nations. Trump's worldview is out of step with the reality of the world today and in denial about the new balance of power.

Trump's trade proposals would only serve to further weaken US economic and political power. If he were to follow through with his most extreme threats, such as withdrawing from existing trade agreements, the consequences would be profoundly damaging to the United States itself. US withdrawal from the WTO would be economic suicide: it would profoundly disrupt global trade flows, ushering in unprecedented economic chaos. The United States would immediately face high tariffs and other trade barriers, causing its exports to plummet. If Trump followed through on his threat to withdraw from NAFTA, he would undermine the competitiveness of US manufacturing, which is heavily based on integrated North American supply chains, just when US firms and industries face increased competition from China. Going ahead with Trump's threat to terminate KORUS would harm Washington's relationship with its closest ally against North Korea.

It can only be hoped that Trump's toughest talk is merely that—empty threats intended to strong-arm US trading partners into making greater concessions—but given the rash and reckless nature of Trump's approach to policy making, that may be wishful thinking. And even if these threats ultimately prove empty, Trump's overt hostility toward major trading partners is doing irreparable damage to vital American alliances.

With his erratic and bullying behavior, Trump risks destroying the credibility, legitimacy, and authority the United States still has as a leader on the international stage—and driving its allies into the arms of China, its chief rival and challenger to its hegemony. China has made no secret of its global ambitions, aggressively courting the world with trade, investment, and aid. And many countries, especially in the developing world, already see Beijing as a more helpful and reliable partner than Washington. As America shows itself to be an increasingly volatile and unreliable trading partner, countries have enormous incentive to cement closer ties with China. It would be unwise to underestimate China's pull. Its remarkable economic growth and success in fostering development are an immense source of soft power to attract other nations. So is China's considerable financial power, including both its largesse in dispensing investment and aid, and its massive and still rapidly growing market.

DANGEROUS DISTRACTION

Trump's anti-trade campaign has been founded on the notion that the American economy is in decline. This is a fallacy. The United States is richer today than ever before. Contrary to Trump's claims that America has been unfairly disadvantaged by existing global trade arrangements, the reality is that it has benefited hugely from the liberal international order it constructed. Globalization has fueled a vast expansion of the American economy. Since 1980, real average per capita income has grown by 80 percent. But while trade has benefited the US economy overall, many workers—especially lower-skilled workers—have lost out. While this is partly due to trade, the far more significant factor has been technological change and automation, compounded by the internal movement of jobs within the United States to economic sectors and regions with weaker unionization.

There is now a massive disconnect between the aggregate wealth of the US economy and the profound sense of economic insecurity felt by much of its population, amid rising inequality, stagnant real wages, and the increasing precariousness of employment. But trade is not the problem. It is merely a scapegoat for a president who feeds on racism and xenophobia. Pitting American workers against their counterparts in China, Mexico, or other US trading partners only serves to misdirect attention from the true source of America's economic and social ills—a set of neoliberal economic policies that have benefited a small fraction of the population at the expense of the rest over the past thirty years. These policies have provided tax cuts for the wealthy, reduced the power of unions, decimated social safety nets, reduced investment in human and physical capital, and increased instability in financial markets.

America's economic woes will not be solved through protectionism or attacks on its trading partners. Not only is Trump's anti-trade rhetoric a distraction from the real and pressing problems facing the United States; his economic policies—tax cuts for the rich, reducing health-care coverage by repealing the Affordable Care Act, deregulating Wall Street—would severely exacerbate these problems. Under Trump, Washington is doubling down on a market-fundamentalist agenda that has been discredited and abandoned virtually everywhere else in the world.

At a time when US economic and political dominance is increasingly challenged, particularly in the face of a rising China, Trump's kamikaze approach to managing the economy and foreign relations appears bent on self-destruction. We can only hope that he does not destroy the liberal international economic order in the process. While the existing order has too often failed to live up to its liberal ideals, the fallout from its collapse—a descent into autarky, chaos, and conflict—would be disastrous.

For too long, the United States has taken support for its global leadership for granted and abused its power with little concern for the consequences. While it was able to get away with this in a unipolar world, that is no longer the case when real challengers to its hegemony are emerging. If Washington wants to maintain its hegemony, it should be recommitting to the liberal global order and working to strengthen that order by bringing it closer to realizing its liberal ideals of fairness, rule of law, and mutual benefit. By forsaking those principles altogether, Trump risks leaving the United States a pariah and weaker than ever before. ■