With Donald Trump now installed in the White House, the speculation about what he might do as president can give way to assessment of his actual policies and performance. Trade and other international economic issues have featured prominently in President Trump’s words and actions since Inauguration Day. The early signs are troubling: the new president has set out on a unilateralist, protectionist path, while creating a trade policy apparatus that seems destined for dysfunction.

President Trump’s inaugural speech made clear that he has little time for the existing liberal international order of free trade, multilateral institutions, and enforceable rules. Building, expanding, and defending this order has been the central focus of U.S. economic statecraft since World War II. But the new president apparently thinks the current system is harmful to America’s economic health. He summed up both his diagnosis and prescription when he said in his speech, “We must protect our borders from the ravages of other countries making our products, stealing our companies and destroying our jobs.” He promised that from now on, “it’s going to be only America first.”

On his first day in office, the new president signed an executive order withdrawing the United States from the Trans-Pacific Partnership (TPP), the 12-country trade agreement that the Obama administration had spent over five years negotiating. The following day, he notified Canada and Mexico of his intention to renegotiate the North American Free Trade Agreement (NAFTA). Both moves sent a clear signal that the new president was serious about following through on his tough campaign rhetoric on trade.

President Trump also quickly rolled out his trade policy team, adding three new twists to the traditional organization chart: first, he established a new body in the White House, the National Trade Council (NTC), to “advise the President on innovative strategies in trade negotiations” and support U.S. manufacturing; second, he designated his commerce secretary to take the lead in “setting many of our trade priorities”; and third, he appointed a “special negotiator” housed in the White House to oversee international negotiations on an array of topics including trade.

The division of labor among these various actors—and most importantly, between them and the statutory lead agency on trade, the Office of the U.S. Trade Representative (USTR)—is unclear. Congress is likely to have strong views on the issue, given its prerogative for regulating commerce under Article 1 of the Constitution. Congress established USTR in the Executive Office of the President in 1962 and has repeatedly reiterated the agency’s lead role in trade policy. All of this seems set up for confusion, turf battles, and execution errors. Given his statutory mandate and experience as a senior Reagan administration trade official, USTR-designate Robert Lighthizer seems most likely to emerge the winner in this contest, but a lot of blood could be spilled along the way.

President Trump’s early words and actions raise a number of more substantive concerns. First is his dismissiveness of an international economic order that has brought huge benefits to the United States for over 70 years. Helping rebuild war-torn allies, promoting development around the world, opening markets, and championing a set of predictable rules for international trade have contributed enormously to U.S. prosperity (and security). It is no accident that the per capita income of Americans, measured in current dollars, grew from under $15,000 to over $50,000 between 1950 and 2015.

To be sure, the global economic order is showing its age after seven decades. It has three main flaws: first, it is no longer delivering as broad and robust benefits as it did in previous decades; second, global governance does not reflect today’s balance of economic power; and third, the rules underpinning the order are outdated in light of current global trade and investment patterns. President Trump is partly right about the first of these problems but...
offers solutions that would only make things worse; on the others, both his diagnosis and proposed remedies are wrong.

Yes, globalization has contributed to dislocation for significant parts of the U.S. economy and groups of American workers, and Washington has not done enough to address these transitional costs. But other disruptive forces have also been at play, notably technological change. If there are no truck drivers in America 20 years from now, this will have little to do with globalization but will mainly result from advances in driverless technology.

Moreover, when something brings broad benefits to society, as well as specific costs, the right solution is not to deny the benefits in order to avoid the costs. We don’t ban cars because they cause traffic accidents and pollution; we work to improve road safety and emissions standards. Similarly, it doesn’t make sense to throw the baby out with the bathwater by responding to the downsides of globalization with protectionism. This will raise costs for American consumers and likely deny U.S. exporters opportunities as other countries retaliate. Instead we should address the downsides directly through more investment in adjustment assistance and skills training.

President Trump is also off the mark on the two other flaws in the global economic order. Global governance today does not reflect the shifting distribution of economic power. Large emerging economies like China and India are underrepresented in institutions such as the World Bank and International Monetary Fund. Correcting this imbalance is not only a matter of equity; it is also essential to creating incentives for the new powers to cooperate in addressing transnational problems, from weak global growth to climate change.

The Obama administration had started to address this problem by making global economic governance more inclusive. It embraced the Group of 20 (G20) as “the premier forum for our international economic cooperation,” supplanting the G7 in that role, and worked to shift more “shares and chairs” in the Bretton Woods institutions to emerging countries.

President Trump’s “America first” approach suggests that he would walk away from all this. He is likely to be skeptical of multilateral arrangements like the G20, not because they have become less effective (which is true), but simply because the United States has to concede to working with other countries.

Meanwhile, if President Trump follows through on his threats to impose unilateral tariffs against trading partners like China and Mexico, this is likely not only to prompt them to retaliate, but also to make these countries less willing to cooperate and more inclined to set up alternative institutions—as China did in establishing the Asian Infrastructure Investment Bank (AIIB) in 2015.

The new president’s approach would do nothing to address—and could exacerbate—the third weakness of the global economic order: its outdated rules. For the most part these rules were established when goods were made in one country, put on a truck or ship, and sold in another country. The main impediments to trade were therefore border measures such as tariffs and customs procedures. In today’s globalized economy, where production value is added along supply chains, it is behind-the-border measures such as nontransparent regulation, intellectual property theft, and unfair competition that create most of the friction in the trading system.

Again, the Obama administration had been working to update the rules to deal with this new reality. This is what TPP was all about. The agreement established an array of new, high-standard disciplines in areas critical to U.S. competitiveness, such as data flows, services, and state-owned enterprises. It also cut 18,000 tariffs on U.S. exports to TPP partner countries.

President Trump’s action to withdraw from TPP throws all this progress away. This will not only hurt the U.S. economy (ask Illinois farmers how they feel about losing the new market opportunities in Asia that TPP would have provided), but also undermine our strategic position in Asia. Walking away from an initiative that Washington had invested so much political capital in is a huge blow to U.S. credibility not just in the Asia-Pacific region but around the world.

Apparently the president thinks TPP would give China a leg up on the United States. The opposite is true. TPP was designed to incentivize China to follow our preferred rules. Abandoning TPP will likely give momentum to other initiatives advanced by China that do not include the United States, such as the Regional Comprehensive Economic Partnership (RCEP). These arrangements are likely to create rules and norms less favorable to U.S. interests.

Strengthening the global order is hard work. As in the past, it requires the United States to keep its markets open and to be strategic in its economic statecraft, using a combination of carrots and sticks to uphold and update the rules. The good news is that there is a deal to be had with countries like China and India: we’ll give you a bigger seat at the table if you support a rules-based order. Maybe this is the kind of proposition the new president can get excited about.

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