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Economic **Diplomacy**

US leadership in trade statecraft: diminishing returns and a diminished role

Original Paper

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Abstract

This article puts current developments in US trade policy in an historical context. It identifies three broad types of trade statecraft the US has pursued since 1945: alliance politics, promoting an international trade order that serves the national interest and unilateralism. It argues that US trade statecraft has exhibited all three types. What has changed has been the relative importance of each in any given period. The article illustrates this in three broad time periods: 1945 to the early 1970s, when US trade statecraft pursued 'alliance politics'; the early 1970s to the mid 2010s when US statecraft was shaped by two-level trade diplomacy aimed at promoting a trading order that served US interests; and finally, 2016 to the present day and the turn to unilateralism. Unilateralism, always latent in US decision making, has now come to the fore because key policy makers see diminishing political and commercial returns from promoting an international trade order. This trend is likely to result in a diminished US role in world trade.

Keywords

US trade statecraft • unilateralism • World Trade Organisation • decision making autonomy

1 Introduction

The transactional nature of US tariffs has been a feature of recent US diplomacy. It has been seen as the result of the decline of the US as an economic hegemon that now views the norms of the established international trading system as serving the interests of competing powers and in particular China.[1] Short term domestic economic and political interests have also shaped decisions with higher tariffs protecting industries in politically important constituencies. The world view of a small policy elite that has assumed greater decision-making autonomy have also been a key factor. What does this mean for US trade statecraft? This article puts current developments in an historical perspective. It identifies three broad types of trade statecraft the US has pursued since 1945: alliance politics, promoting an international trade order that serves the national interest and unilateralism.[2] It argues that US trade statecraft has exhibited all three types. What has changed has been the relative importance of each in any given period. The article illustrates this in three broad time periods: 1945 to the early 1970s, when US trade statecraft pursued 'alliance politics'; the early 1970s to the mid 2010s when US statecraft was shaped by two-level trade diplomacy aimed at promoting a trading order that served US interests; and finally, 2016 – present turn to unilateralism. Unilateralism, always latent in US decision making, has now come to the fore because key policy makers see diminishing political and commercial returns from promoting an international trade order. This trend is likely to result in a diminished US role in world trade.

2 Defining trade statecraft

The use of the term 'trade statecraft' needs some clarification. Trade should be defined broadly. It is not all about tariffs in goods trade as one might think from the framing of the debate at the beginning of the second Trump administration. Over time goods tariffs have become less and less important. Non-tariff measures such as subsidies and quantitative restrictions have become more important. Today regulatory measures play an increasingly important role. Trade is affected by divergence between regulatory approaches to the balancing of the economic gains from engagement in an open international trading system and

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defence of broad public policy objectives, such as environmental and consumer protection, data protection and security etc. Standards and regulation are elements of a predictable rules-based economic order and thus facilitate trade. But regulatory divergence between states adds to the costs of international trade and investment and can be abused as a means of closing markets. Trade remedies implemented by states and designed to ensure fair trade can also be used to protect.

Tariffs also play virtually no role in services -and digital services-trade, which is important and growing especially in the USA and other major developed economies.[3] Services trade policy is all about regulation and non-tariff questions.[4] With global supply chains liberalisation of investment and investor protection are also of central importance. Foreign investment and the flow of data across borders has, in turn, a bearing on the ability of states to tax economic activity conducted within their jurisdiction. So trade in goods cannot be seen in isolation. The current focus on tariffs on goods misses the most important questions that will shape the future world economy, such as how to balance the action on climate change and open markets and how deal with a progressive digitalisation of 'trade'.[5]

The term statecraft clearly implies the role of the state in shaping trade relations. Much (liberal) trade theory assumes international exchange is based on the decisions of private actors. The progressive liberalisation of trade after 1948, especially from the 1980s onwards, meant that this ideal came closer to realisation. In reality however states have always played a role in international trade. They have pursued infant industry policies and adopted defensive measures to countervail the effects of such 'unfair' trade practices by others. More generally states intervene to manage the adjustment of national economies to changes emanating from international economic exchange or technological development.

Trade statecraft implies state intervention in pursuit of more strategic objectives that overlay the more day to day intervention covered above. Historically the strategic use of trade in international relations has been equated with mercantilism, which in the classic sense means the pursuit of the linked goals of power and wealth. But for the purposes of analysing the US trade statecraft we need something more concrete. The following section proposes three types of US trade statecraft, which can, with some modification, be applied to other states.

3 Three types of trade statecraft[6]

Alliance-based trade statecraft is when the US - or another state - favours allies over adversaries or potential adversaries in trade policy. For major powers such as the United States alliance-based trade statecraft therefore serves the purpose of shaping geopolitics. [7] The instruments used to promote alliance-based trade statecraft vary. They may include trade concessions for allies, the conclusion of preferential trade agreements with allies, or economic or technological cooperation with like-minded states. In the case of the US this would also normally mean sharing US values such as a market-led capitalist model of development.[8] In alliance-based trade statecraft there is a willingness to accept economic costs or reduced gains if this helps allies and thus strengthens the alliance. In terms of domestic decision-making, it generally implies that foreign policy interests lead in shaping- policy.[9]

Promoting an international trading order that serves the national interest. This type of statecraft promotes or strengthens a trade and investment order that reflects the national interests. It can be seen as generally value-creating and therefore more based on an economic rationale such as wealth creation. This type of US trade statecraft was practiced when the US led in building a multilateral trading system. Alternatively, such a trade order could be promoted through preferential agreements or the use of soft law instruments to shape global norms and standards. In order to address the tension between domestic and international interests and policy aims, this form of trade statecraft often entails a laborious 'two-level' trade diplomacy to reconcile the two.

Unilateral trade statecraft is by definition not concerned with alliances or shaping the wider international trade order. It eschews cooperation with other economies as a means of achieving strategic interests. It is autonomous in the sense that it is based on national definitions of fairness in international trade and uses domestic legislation to defend national political and economic interests. Unilateral trade statecraft sees little benefit in international organisations when these do not serve the national interest. The implementation of trade policy is value-claiming rather than value-creating, seeking relative gains rather than shared gains. When it comes to the interplay between domestic and international interests, domestic economic and/or political interests prevail.

These are of course general types and are used here to illustrate how US policy has evolved over time. The following sections show that all three have been present in US trade statecraft in each of the periods considered but that their relative importance has changed. The analysis is based on indicative features of actual US trade policies adopted rather than declaratory statements of policy. A comprehensive treatment of policies over the extended periods covered is beyond the scope of this article, so the analysis is based on major events. Nor is there an attempt to illustrate the shift in US policy quantitatively. For each period there is also a brief assessment of the domestic economic and political factors at work.

Table 1. Summary of shifts in US trade statecraft over time

Time period	Alliance-based trade statecraft	Promotion of an international trading order that serves the national interest	Unilateralism
1945 to 1973	Predominant approach led by US global strategic interests in support European and Asian allies	US leads in promoting a western economic order that is compatible with alliance-based approach	Limited and episodic
1973 to 2008	Reduced importance due to détente and end of the Cold War	Active but more in coalition with likeminded-states. Shift from multilateral to preferential after about 1990	Latent and growing but managed as part of two-level trade diplomacy
2008 to 2016	Strategic intent to strengthen economic ties with allies but not fulfilled	Disenchantment with or neglect of multilateral approaches	Latent but worst pressures contained
2016 to present	No economic concessions for -and disruption of - established alliances	Disenchantment and rejection of international cooperative approaches	Dominant approach

Source: author

4 The evolution of US trade statecraft

An economic historian would start in the late 18th or early 19th centuries when US trade statecraft had the objective of developing US industry in order to compete with British manufacturing and thus build a strong independent national economy. Tariffs were used as an instrument of import substitution in line with what is generally understood as a form of classical mercantilism. [10]

4.1 From unilateralism to a US-led reciprocal trading system

In the 1920s and 30s US trade statecraft was hostage to domestic economic and political interests. In particular to the stalemate between protectionist interests in some sectors of manufacturing and the more internationalist sectors of the economy. The famous Smoot-Hawley tariffs of 1930 that raised US average tariffs to about 50%11 were the result of Congressional 'pork-barrel' politics in which the political supporters of different industries voted for each other's higher tariffs. In terms of geopolitics US foreign policy was one of disengagement following the 1914-18 war. Trade statecraft could be said to have been unilateralist. In the mid 1930s the executive branch of government, under the leadership of the liberal multilateralist Cordell Hull in the State Department, moved towards reciprocal tariff liberalisation. This was made possible by the 1934 Reciprocal Trade Agreements Act by which Congress granted more policy autonomy on tariffs to the executive branch.
US trade statecraft favoured non-discrimination and negotiated bilateral reciprocal tariff reductions accompanied by unconditional most favoured nation (MFN) clauses. This established the model for US trade policy post 1945 in the shape of 'multilateral' tariff liberalisation under the General Agreement on Tariffs and Trade (GATT). GATT tariff liberalisation was based on a broad, liberal definition of reciprocity according to which all Contracting Parties should benefit. For those who see current US policy as unprecedented in its rapidity of change, the second half of the 1930s is an example of a sharp change. On this occasion towards trade opening and away from unilateralism. It was facilitated by greater policy autonomy for an Executive branch lead by policymakers with a liberal world view. As will be discussed below, the recent policy of country-by-country, discriminatory reciprocity has also been made possible by the Executive branch led by policymakers with a mercantilist world view assuming policy autonomy.

4.2 Alliance-based trade statecraft shaping an international trade order.

After 1945 the United States used the hegemonic power it held by virtue of its 50% share of world output to shape the establishment of an open, (western) trading system. Market opening was in line with US economic interests because the dominant US manufacturing, agriculture and service sectors sought access to export markets. The multilateralism of Cordell Hull was attenuated by less liberal, and more America First interests represented in Congress. For example, Congress stood in the way of the inclusive and more truly multilateral International Trade Organisation (ITO). Congress was also wary of creating an international regime that could limit its authority in international commercial policy. The US therefore led in shaping the GATT as a contractual agreement based on the non-discrimination principles of MFN and national treatment, but in which tariff reductions were negotiated with 'principal suppliers' (countries) and then extended on an MFN basis to all Contracting Parties.

US policy exhibited significant elements of alliance-based trade statecraft. This can be traced to its origins in the Atlantic Charter of 1940, in which the US and Britain agreed to work together on the establishment of a liberal, multilateral order. Only 23 states negotiated the GATT in Geneva in 1947 and the most economically significant were likeminded US allies. The alliance-based nature of US trade statecraft was consolidated during the 1960s during the height of the Cold War. The US supported the establishment of the European Economic Community (EEC) and other aspects of European integration even though these created a European preference and discriminated against US exporters. In the Kennedy Round negotiations of the GATT (1963 – 67) the US made concessions to its European and Japanese allies for strategic reasons. These took the form of a tolerance of 'unfair' trade practices, such as industrial policies and agricultural protection. [12] The trading system of the GATT evolved as a plurilateral order under US leadership rather than a truly multilateral order, but functioned because the US, Europe and other OECD economies constituted a critical mass of world trade. Developing economies joined but had Special and Differential Treatment and consequently less influence in shaping the rules. The USSR and China were outside the system.[13]

Although alliance-base trade statecraft could be said to have predominated during the 1945 to 1973 period, there remained elements on latent unilateralism. For example, Congress insisted on the inclusion in US trade law of provision for safeguards and anti-dumping measures in the case of import surges or dumping that caused injury to US industry. The 1962 Trade Expansion Act introduced powers to impose tariffs on imports when these threatened US national Security (Section 232) and in cases of 'unfair' trade when trading partners imposed burdens or restricted US commerce (Section 301). These instruments were available to the US Executive branch and can be seen as a form of latent unilateralism but and were seldom used.

A concern that trade statecraft was favouring foreign policy aims over domestic sectoral interests, led Congress to move responsibility for trade from the Department of State to the US Trade Representative in the Executive Office in 1963. This adjusted the balance away from foreign policy/alliance-based statecraft towards an approach based more on concern for domestic economic interests. It established an institutional arrangement or regime that facilitated the more 'two-level' trade diplomacy of US of the following period. [14]

4.3 Promoting a liberal rules-based trading system that reflected US national interests 1973-2003

Policy evolves progressively so defining specific periods is always imprecise. However, 1973 saw the end of the formal Bretton Woods system and the first use of unilateral tariffs to coerce allies to change policies. In this instance the aim was a reduction in German and Japanese goods trade surpluses with US. 2003 saw the Cancún WTO Ministerial Meeting which confirmed that the approach of working with likeminded OECD economies to shape the international trading order in US interests was no longer working.

The end of the Bretton Woods in 1973 was followed by cooperation under the auspices of the G7 of leading industrialised countries. Import competition from Japan and a burgeoning competition in goods trade from the Newly Industrialising Countries (NICs) created significant protectionist pressures in the USA and Europe. Détente eased great power tensions and therefore the need for US trade statecraft to support allies at the expense of US commercial interests. But any advances in international trade rules required the support of allies or likeminded states. Such support enabled the conclusion of multilateral trade negotiations during the Tokyo Round 1973-79, which managed to contain the immediate protectionist pressures. More significantly the US worked with likeminded states - and in particular the European Union - to conclude the Uruguay Round, create the World Trade Organisation (WTO) and make a significant advance towards a comprehensive and inclusive rules-based trading system.

US trade statecraft during this period was hybrid in the sense that it embodied all the three types set out above. The period began with the unilateral imposition of an across the board, no-selective 10% tariff by the Nixon administration. Detenté meant there was less of a restraint on a tough bargaining approach in relations with allies. Unilateralism was also reflected in the 1974 Trade Act, which consolidated the instruments available under US law that could respond to unfair trade practices, for example, in the form of Sections 201 on safeguards and 301 on 'unfair trade'. Section 301 was later augmented to enable trade sanctions against countries that did not protect US intellectual property rights. The 1974 Act also introduced Fast Track, or Congressional authority for the Executive branch to negotiate international rules, in this case on non-tariffs barriers/measures. This was at the core of the decision-making regime governing USTR/Executive Branch – Congress relations that provided the basis for two-level trade diplomacy during this period.[15] There were also unilateralist trade measures, such as the negotiation of selective 'voluntary' export restraint agreements (VERs) in sectors such as cars, machinery and motorcycles outside international trade rules. This was under the threat of the use of US trade law on unfair trade actions, which could be seen as a 'legal coercion' in the sense that the GATT provided for the application such trade remedies.

In addition to the more obvious distortions to trade in the shape of subsidies or dumping there were also the regulatory differences between the US and other countries in such issues as consumer protection and industrial standards. Some European economies also retained important public sectors.[16] In the 1970s US trade statecraft was therefore geared towards establishing stronger multilateral discipline of such non-tariff measures. The forum chosen was with likeminded countries in the OECD, with a view to 'multilateralising' the codes agreed as part of the Tokyo Round. This was only partially successful.

Agreements were reached on subsidies and countervailing duties, technical barriers to trade and government procurement. But these could not be 'multilateralised' due to developing country opposition, so they took the form as qualified MFN codes.

A similar policy cycle occurred during the 1980s. Protectionist pressure grew in the US in manufacturing sectors such as textiles and clothing, steel, cars and then electronics that faced continued strong import competition from Japan and a growing number of NICs.[17] These pressures were channelled through Congress which responded by drafting bills that sought, among other things, a narrower definition of reciprocity. This came in the shape of the Gephardt Amendment with its narrow, country by country and thus discriminatory reciprocity.[18] The debate on the Gephardt Amendment illustrated the delicate balance in US domestic policy between shaping the international rules and unilateralism.[19] The USTR responded by conducting a two-level trade diplomacy. Domestically it sought to reassure defensive sectoral interests by a further strengthening of US trade law. It also framed the trade agenda to include services, science-based industries (protection of US intellectual property rights) and US based multinational companies (investment liberalisation and protection). These sectors had a comparative/competitive advantage and thus offensive interests in opening world markets that counterbalanced the protectionist or defensive lobbies. The US also pushed for agricultural liberalisation, which further strengthened the coalition of interests supporting a policy of strengthening and extending trade rules.

The 1980s saw more progress in multilateralisation thanks to the general shift towards a liberal paradigm as more and more countries saw it in their interests to engage in the globalising world economy. A strengthening of the rules in the Uruguay Round was possible thanks to the support of the EU, which moved towards a stronger rules-based approach in the Single European Market, and other developed OECD economies. Newly Industrialising Countries also supported more comprehensive and binding rules to help ensure market access to the US and other advanced industrialised countries. Developing economies agreed to a bargain that offered low or zero tariff access to the US and other markets for their labour-intensive exports in return for acceptance of rules on the protection of US intellectual property rights in the Trade Related Intellectual Property (TRIPs) agreement. The Uruguay Round also created the World Trade Organisation (WTO) with enhanced dispute settlement measures. The US saw this as a means of better enforcing the rules. Europe, Japan, Canada and other countries saw it as a means of bringing the latent US unilateralism under multilateral discipline.

The Dunkel Text of December 1991, the draft final agreement of the Uruguay Round, presented by the GATT Director General Arthur Dunkel, summed up the progress that had been made at that time. It took four more years to complete and ratify the agreement but already by 1991 it was clear that the outcome would fall short of the aspirations of US interests. The agreement on services (GATS) was at best a 'glass half full' because it codified existing liberalisation rather than opening-up new markets. The agreement on Trade Related Investment Measures (TRIMs) fell well short of a comprehensive agreement on liberalisation and protection of foreign investors. The TRIPs agreement was more in line with US interests but was open to interpretation and contested by developing countries and civil society in developed economies. The US Congress also had misgivings about the creation of the WTO as a stronger international institution with a quasi-judicial Dispute Settlement Understanding (DSU). This was like the ITO seen as a potential threat to its policy sovereignty and the ability of the US to use its latent unilateralist instruments to deal with 'unfair' trade.[20]

4.4 A shift towards preferential and bilateral approaches: 1991-2008

This period saw the end of the Cold War, the burgeoning of Chinese economic growth and the steady emergence of a multipolar trading system. Europe moved towards deeper integration and enlargement. It was also a time when globalisation of production and investment expanded so that markets were widely seen as determining international trade rather than states. But opposition to more globalisation also grew because it was seen to undermined national regulatory sovereignty. The period ends with a failure to conclude the Doha Development Round of the WTO, broadly recognised in 2008, and an acceptance among WTO Members that methods other than inclusive multilateral trade rounds would have to be tried.

The outcome of the Uruguay Round showed there were diminishing returns from promoting a multilateral trading system that suited US interests. Already by 1990, before the end of the Uruguay Round, thinking in Washington turned to the use of preferential agreements as a means of shaping international trade rules. This took the form of the Canada-US Free Trade Agreement negotiations (CUSFTA) (1986-88), followed by the negotiation of the North American Free Trade Agreement (NAFTA) ratified in 1993. Such preferential agreements were first seen as a means of setting precedents or 'establishing a gold standard' for wider multilateral rules and later as a more effective and faster means of determining outcomes.

In trade rules the US faced a competing liberal model in the shape of the European Single Market. During the 1990s and 2000s all countries were responding to the challenge of reconciling national regulatory policies with progressively global markets. Whilst both the US and EU approaches were liberal and rules-based important differences remained. The EU approach was both market and policy-led and resulted in an *acquis communautaire* between Member States on a common regulatory framework that facilitated open markets.[21] The US approach was less policy-led and more industry-led. Such differences were also a major reason why efforts to strengthen the trade dimension of the transatlantic relations had limited results. Repeated attempts at a formal agreement on transatlantic trade failed. In 1989/90 there was a proposal for a Transatlantic Free Trade Agreement. This was trade statecraft in the sense that it sought consolidate the Atlantic Alliance with the end of the Cold War when the glue of shared security interests was expected to be less effective. In 1995 this was followed by the New Transatlantic Agenda, which has produced little in the form of specific agreements. In 1998 there was the Transatlantic Economic Partnership and other subsequent initiatives aimed at promoting regulatory cooperation. More recently negotiations on a Transatlantic Trade and Investment Partnership (TTIP) started in 2013, but like previous attempts it came to nothing. With no formal agreements *ad hoc* cooperation and dialogue on specific topics have been attempted.

There have been various reasons for this lack of success in transatlantic deals. First, there are underlying differences between US and EU approaches to regulation. Second, the short political cycle on the US side has resulted in initiatives not being followed through. Negotiations on divergent regulatory policies are complex and time consuming. With limited time between the launch of an initiative by an incoming US administration and the next election when political capital is invested elsewhere, shorter term political concerns have tended to prevail over longer term alliance-based trade statecraft. On the EU side there was opposition to liberalisation that eroded the 'right to regulate' and the strategic decision favouring an agreement was frustrated by a lack of sufficient policy autonomy to push it through the Council of Ministers and European Parliament.

In the period between the establishment of the WTO in the mid 1990s and 2008, US trade policy could be said to have been multi-level or multi-fora in nature, but with a declining belief that multilateralism offered a means of reflecting US interests. US support for Chinese accession to the WTO in 2001 was for strategic reasons, based on a policy of encouraging China towards liberalism. [22] US firms engaged in globalisation also favoured engagement with China due to its importance in global supply chains. To compete with firms in lower wage economies, US companies moved labour intensive production off-shore while retaining higher value-added parts of the supply chain on-shore, such as design, marketing and other services. These internationally engaged US business favoured liberalisation of investment, trade facilitation - to reduce the costs of moving goods along the supply chain - and free flow of information or data to enable management of supply chains in real time. Firms less able to benefit from this form of comparative advantage, or that were dependent on the US national market such as steel and some other manufacturing, favoured defensive trade measures. At the first WTO Ministerial Conference in Singapore investment and trade facilitation were the key issues. [23] Reflecting US doubts about the utility of multilateralism the US preferred to negotiate on investment in the OECD with exclusively likeminded countries. This contrasted with the EU and many WTO members, which favoured a more inclusive multilateral approach in the WTO.[24]

Negotiations on a Multilateral Investment Agreement (MAI) began in the OECD in 1996 but soon faced opposition from civil society NGOs pushing for a right to regulate. With limited prospects of a satisfactory agreement governments backed away from the political costs of trying to push through a modest agreement in the face of domestic opposition.

In Seattle in 1999, where the millennium round of the WTO was to have been launched, similar opposition in the US weakened the Clinton Administration's desire or willingness to invest in active two-level trade diplomacy to resolve competing domestic and international interests. Internationally oriented economic interests in US saw preferential agreements as a quicker and more effective means of shaping trade rules and standards. At the 2001 Doha WTO Ministerial meeting agreement was reached on the launch of a new round and the accession of China. But this was more due to a desire to show that business as usual was still possible after the 9/11 terrorist attacks on the United States than agreement on the agenda. In negotiations prior to the Ministerial it was the EU rather than the US that took the lead in bringing developing countries on-board.[25] The limitations of the multilateral approach were soon illustrated by the failure of the Cancún ministerial in 2003. At this the US sought to lead by reverting to working with likeminded countries and tabled a joint position paper with the EU. But major emerging economies, led by Brazil but including China, India and other developing countries, were no longer ready to follow. The G20 group of countries on trade was born. This effectively marked the end of the ability of US-EU leadership (supported by other OECD economies) to shape the multilateral trading system.

Efforts to conclude the multilateral Doha Round of the WTO continued until 2008 when the US and other major parties concluded that alternative means of progressing the trade agenda had to be found. This was recognition that the concept of broad, inclusive multilateral trade rounds as a means of achieving broadly based reciprocal benefits for all parties were no longer working. The reasons for this are of course numerous. One fundamental difficulty was that of accommodating economies at different levels of development and different models of development. China was then and has since become an even greater challenge. In other words, the US was not ready to tolerate increased competition from countries, and especially China, that had models of development based on more state intervention. US economic power in international finance remained greater than in trade, but the international financial crisis that began in 2008 and was caused by an excessive reliance on market-led financial capitalism in the USA, represented a blow to US ideational leadership and the reliance on self-or industry – led regulation of the economy.

4.5 Hybrid trade statecraft but weakening of domestic support

The two Obama administrations (2008 to 2016) pursued a hybrid approach to trade statecraft in which all three types of trade statecraft were present. The US pursued preferential agreements including for example in the Transpacific Partnership (TPP) (first full round of including the US in 2010) and TTIP (2013) negotiations. This was explicitly 'economic statecraft' aimed at providing the commercial underpinning of the US tilt to Asia in response to China's growing influence in the Asia Pacific region and a strengthening the Transatlantic relationship.[26] The TPP and TTIP also offered a means of shaping the evolution of international trade rules in line with US interests. As discussed below, the first Trump Administration withdrew the US from TPP and the TTIP was to go the same way as previous efforts to negotiate formal transatlantic agreements.

From 2008 the multipolar nature of the system meant that the US's ability to shape multilateral outcomes was limited. Nor was there satisfaction with the way the established rules were being implemented. Following decisions of the WTO's Appellate Body that went against the US application of anti-dumping provisions the US blocked the appointment of members of the Appellate Body. This policy, began during the Obama Administration and continued under the first Trump and then the Biden Administrations, has resulted in the end of objective international dispute settlement in the WTO. It should be recalled that the establishment of the WTO was seen by other leading Members as a means of disciplining latent US unilateralism.

During this period (2008-2016) therefore US trade Statecraft pursued an alliance-based strategy, but the balance of domestic support was not favourable. Interests opposing US leadership in shaping the international order were greater than those supporting it. Nor was there any bipartisan support in Congress. This made an active two-level trade diplomacy difficult. But the Obama Administrations made progress in international economic cooperation in the UN climate change negotiations leading to the Paris Agreement in 2015 and engaged in the OECD-plus negotiations on a reform of international taxation arrangements in the shape of the Base Erosion and Profit Sharing (BEPS) agreement.

4.6 Towards unilateralism

The first Trump administration activated much of the latent unilateralism in the US. The Biden Administration from 2020 -2024 changed tack but did not revert to an active two-level trade diplomacy. The incoming second Trump Administration has subsequently doubled down on unilateralism and carried through with policies that were contained by the bureaucratic politics and other domestic checks and balances during the first Trump administration.

Between 2016-2020 there were no noticeable attempts to cooperate in shaping the future trading order. At a multilateral level the US continued to block new appointments to the Appellate Body and therefore bring about the slow death of the WTO as a dispute settlement body. Latent unilateralism came to the fore with tariffs on steel, cars and aluminium justified on the grounds of national security under Section 232 of US trade law. GATT article XXI includes a general national security exception, but WTO Members have consciously avoided using it because it's use represents a lose-lose scenario for the rules-based trading system. If used and approved by the WTO a general national security exception drives a coach and horses through trade disciplines. If banned national governments will not comply because none are ready to accept multilateral constraints on their ability to defend national security.

In the first Trump administration the President had wished to withdraw from NAFTA and KORUS (The Korea – US FTA),[27] but in the end renegotiated both, not as a means of promoting shared gains but to make unilateral, value-claiming adjustments. The US did join the plurilateral Joint Studies Initiatives (JSIs) launched at the WTO ministerial in 2017, but certainly did not lead. The first Trump Administration announced its intention to withdraw from the TPP negotiations. But concerns over security and foreign policy still provided some checks on US trade statecraft, for example, the Executive Order on withdrawal from trade commitments were reported to have been taken off the president's desk to prevent them being signed.

Between 2020 and 2024 the Biden Administration pursued a trade policy based on US workers and friend-shoring. There was a return to multilateralism in terms of climate change and engagement in the BEPS discussions, but there was little change in trade policy. Protection introduced during the first Trump administration was retained although eased by replacing tariffs with tariff rate quotas. The US did not engage in negotiations on WTO reform promoted by the EU and other 'likeminded' states. Late in the Biden Administration the US withdrew its position paper from the important e-commerce JSI negotiations on the grounds of national security. There were further efforts at cooperation with allies such as through the EU-US Trade and Technology Council (TTC) and other forms of 'hybrid' trade agreements such as the Indo-Pacific Economic Framework for Prosperity (IPEF).[28] These were based on Executive Orders because of a partisan Congress and an apparent lack of desire or ability to pursue two-level trade diplomacy. More generally there was a consolidation of the view that China represents a strategic challenge to the US and not just a commercial competitor. An important Biden Administration response to this was to use industrial policy to support strategic sectors such as integrated circuits and alternative energy industries. This was a significant event given the US industry-led approach.

The second Trump Administration has doubled down on unilateralism and sought to carry through many of the policies that were frustrated during the first. This was made possible by a presidential claim of full policy autonomy on trade. From day one Executive Orders implemented measures that were contrary to international trade rules and norms, previously negotiated agreements based on - broadly defined - reciprocity, and possibly contrary to US law.[29] The 'reciprocal tariffs' announced in January and adopted in April 2025 were in fact discriminatory, unilateral tariffs incompatible with the core principle of MFN on which the trading order has been built for nearly 80 years. In the OECD the Trump Administration immediately left the BEPS negotiations on the grounds that it would adversely affect US multinationals and in particularly those engaged in digital services trade. It then threatened to retaliate against investment from countries that maintained a digital services tax. Such a policy is at odds with national treatment, the other basic principle of the existing rules-based order.[30]

In short there is in the current period no US trade statecraft directed at shaping international rules that reflect its national interests. Unilateral action predominates and seeks to coerce trading partners into making concessions. Nor does US trade statecraft appear to be influenced by alliance-based politics. External threats such as from Russia or challenges have not led to alliance-based trade statecraft. Established allies or likeminded partners have been the subject of unilateral coercion as much as competing powers. With control of both the Senate and the House of Representatives, no opposition from within the Republican party and acquiescence on the part of much of the private sector President Trump is exploiting to the maximum degree his policy making autonomy to pursue unilateralism.

5 Conclusions

US policy has always contained elements of all three types of trade statecraft. In the first of the time periods analysed alliance-based politics assumed a central role. This was facilitated by a high degree of policy autonomy for the State Department, which was both interested in foreign policy objectives and ideationally inclined to promote a US-led liberal order. Domestic support for this approach was assured by the desire of US manufacturing to have access to foreign markets.

During the second period considered the USTR, with less policy autonomy, conducted two-level trade diplomacy. On the domestic level it worked to strengthen support for open trade by placing issues on the international agenda that favoured US comparative advantage and thus sectors interested in international markets. In international negotiations the US worked with likeminded states to shape trade and investment rules. Initially it was possible to multilateralise these rules in the GATT and WTO. But the emergence of a multi-polar trading system and the large number of WTO members with veto power made multilateral progress progressively harder. During the 1990s US trade statecraft therefore shifted to preferential negotiations as an instrument in shaping the trading order. First as models for wider agreements, but then as a substitute for more inclusive agreements. Alliance politics was still a factor but less important. Unilateralist instruments available under US trade law remained only latent and were used in compliance with at least the spirit of GATT and WTO disciplines.

From the late 1990s and throughout the 2000s domestic factors made two-level trade diplomacy more and more laborious. More interests were engaged in lobbying making the domestic level equally difficult. The bipartisan support for the US playing a leading role in promoting an open rules-based order declined. Trade diplomacy became too slow for the short US political cycle. At the same time pressure from domestic interests restricted US policy makers' autonomy. The desire and ability to conduct two-level trade diplomacy declined and domestic political utility and/or a desire to get something done came to dominate decision-making. In terms of commercial interests internationally established US companies were able to pursue their global strategies and create global value chains thanks to broadly liberal trends in other countries.

The third period covered from 2016 to the present shows a clear shift away from cooperation with likeminded states. It confirms the view that the US no longer sees its interests served by a rules-based international order. Unilateralism is predominant. This has its origin in systemic factors such as the rise of China and other emerging markets, but also in domestic factors. The executive office, or rather the President's office, has been able to assume policy-making autonomy. Unlike in 1934 however, the world view of the leading policy elite is mercantilist rather than liberal.

But there must remain a question as to whether this exercise in unilateralism is really in the long term interests of the United States of America. As the US is not engaging in efforts to shape the international trading system. Other powers will fill this vacuum. These may be done by likeminded countries the US has worked with in the past, that now turn to cooperate with other trading partners. The US ability to shape the international trading system and US influence seems likely to decline further. US unilateralism will reduce the US's interdependence, but there are US interests that still depend on international markets. Without and active trade statecraft it is not clear how US policy will represent and defend these interests internationally.

References

[1] Posnam ‘The New Economic Geography: who profits in a post-American world?’ *Foreign Affairs* Sept/Oct 2025

[2] Chivvis. S and Kapstein Ethan B. 2022 *US Strategy and Economic Statecraft: Understanding the Trade-offs*. Carnegie Endowment for International Peace. https://carnegieendowment.org/research/2022/04/us-strategy-and-economic-statecraft-understanding-the-tradeoffs?lang=en

[3] There has been a moratorium on duties on cross border provision of services since the conclusion of the General Agreement on Trade in Services. The question of making this a permanent ban is still debated. Developing economies are concerned that the digitalisation of the economy will result in a reduction in potential tariff revenue.

[4] The US trade deficit is considerably smaller if trade in services in included.

[5] It is worth noting that even after the recent unilateral tariffs, around 70% of world trade in goods is still on the basis of MFN tariffs.

[6] This section draws on Chivvis and Kapstein (2022) but uses terminology more in line with trade policy. For example, Chivvis and Kapstein use the terms ‘America First’ rather than unilateralism and ‘globalisation 2.0,’ rather than promoting a trading system that suits US interests.

[7] For smaller economies alliance-based trade statecraft could well be the choice between which major pole to tie up to in a multipolar economic order.

[8] See for example, Gowa J 1994 Allies, *Adversaries and International Trade;* Princeton University Press. VanGrasstek C. ‘Trading with Allies’. In: *Trade and American Leadership: The Paradoxes of Power and Wealth from Alexander Hamilton to Donald Trump*. Cambridge University Press; 2019:167-250.

[9] In the United States this would mean for example the State Department would lead in shaping trade statecraft as it did during the period from 1934 until the 1962 Trade Act.

[10] In a narrow sense there are of course similarities with current US tariffs on goods trade, which are also based on another classical mercantilist idea of avoiding trade deficits. See Executive Order 14257 of April 2, 2025 ‘Regulating Imports With a Reciprocal Tariff To Rectify Trade Practices That Contribute to Large and Persistent Annual United States Goods Trade Deficits.’ The comparison is only of limited value. In the 19th century goods trade was far more important for the US economy than it is today given the role of services and services-based trade.

[11] The current average tariff on goods after the imposition of “reciprocal” tariffs in April 2025 is about 17% although this will vary with changes and exemptions See *The Historic Significance of Trump tariff actions*. Peterson Institute for International Economics 2025 https://www.piie.com/blogs/realtime-economics/2025/historic-significance-trumps-tariff-actions

[12] Preeg. E 1970 *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations Under the General Agreement on Tariffs and Trade*, Brooking Institution, Washington https://doi.org/10.1177/000271627139300176

[13] Nationalist China initially participated but not the PRC.

[14] See Putnam, R.D 1988 ‘Diplomacy and the Logic of Two-Level Games.’ *International Organisation* Vol 42 No 3 (Summer 1988) pp 427-460.

[15] See Bobroske. A. 2025 ‘US economic diplomacy’ in Woolcock. S. (ed) *The New Economic Diplomacy: decision-making and negotiation in international economic relations*, 5th edition, Routledge.

[16] See Woolcock. S and Wallace. H 1995 ‘European Regulation and National Enterprise’ in Hayward. J *Industrial Enterprise and European Integration*. Oxford University Press. https://www.routledge.com/The-New-Economic-Diplomacy-Decision-Making-and-Negotiation-in-International-Economic-Relations/Woolcock/p/book/9781032457925

[17] These protectionist pressures were due to macroeconomic factors as well as more longer-term structural increases in import competition.

[18] Destler. M 1991 ‘US Trade Policy-making in the Eighties in Politics and Economics in the Eighties’, pp 251-284 *Politics and Economics in the Eighties,* University of Chicago Press. www.nber.org/books/alse91-1

[19] The wording proposed for the so-called Gephardt amendment was for tariffs on countries that “...maintained both a large bilateral trade surplus with the United States and unfair barriers to imports.” Quoted in Hughes. K .2003 *American Trade Politics from the Omnibus Act of 1988 to the Trade Act of 2002* https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://www.wilsoncenter.org/sites/default/files/media/documents/event/tradehughes.pdf&ved=2ahUKEwiBlNqd7OKPAxXRNPsDHWu6MrMQFnoECDQQAQ&usg=AOvVaw33VfyrJBCtzve20ccul4KO

[20] See Hoekmans B, Wauters J ‘US Compliance with WTO Rulings on Zeroing in Anti-Dumping’. *World Trade Review*. 2011;10(1):5-43. doi:10.1017/S1474745610000467

[21] There was concern expressed in the US that the Single Market represented a fortress Europe. Others argued that the agreed rules constituted a general liberalisation. See Bangermann. M (1989) ‘Fortress Europe: The Myth’ *North West Journal of International Law and Business*, Vol 9, Issue 3.

[22] Chinese accession to the WTO entailed negotiations with the major existing WTO members. The rules of the WTO include provisions on transparency that would identify potential ‘unfair’ trade practices.

[23] The European Union also sought to include competition policy on the grounds that as markets were global but competition/anti-trust policies national, but this was opposed by the US. See Woolcock. S 2003 The Singapore Issues in Cancún: a failed negotiating ploy or a litmus test for global governance, *Intereconomics*, Heidelberg, Vol 38. Issue 5 pp 249-255.

[24] US – EU differences over international rules or investment were also one of the major difficulties in the TTIP negotiations. The US negotiators wanted the classical dispute settlement mechanism used in the existing bilateral investment treaties, while the EU favoured more qualified protection and a clearer right to reg-

ulate. See Koeth. W 2016 *Can the Investment Court System (ICS) save TTIP and CETA* European Institute of Public Administration Working Paper 2016/W/01

[25] This was for example the case with the Doha Declaration on the application of the TRIPs agreement on the protection of intellectual property rights.

[26] See speech by Secretary of State Hillary Clinton, *Delivering on the Promise of Economic Statecraft*, 17 November 2012. https://2009-2017.state.gov/secretary/20092013clinton/rm/2012/11/200664.htm The fact that Hillary Clinton subsequently ceased to support for TPP for largely electoral considerations reflects how domestic political utility came to shaped US trade statecraft.

[27] Woodward. B 2018 *Fear: Trump in the White House,* Chapter 21.

[28] Bobroske. A 2025 "US Economic Diplomacy' in Woolcock. S. (ed) *The New Economic Diplomacy: decision making and negotiation in international economic relations,* 5th edition.

[29] See case before the US Supreme Court in Trump v VOS Selections ect. on whether the Trump administration has the power to impose discriminatory tariffs inter alia. under the International Emergency Economic Powers Act. https://www.lawfaremedia.org/article/oral-argument-summary--learning-resources--inc.-v.-trump-(tariffs). The general expectation is that if it loses this case the Administration will use another instrument.

[30] European and other governments conditioned withdrawal of digital services tax on the conclusion of an effective international agreement such as the BEPS agreement. Without either they face a progressive erosion of their tax base and thus their ability to invest in public services.