# Trump's "America First" policies and the global eruption of economic nationalism

**By Nick Beams**
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While the battle in Washington between the intelligence agencies, the media and the Trump administration over the question of Russia and Trump's supposed ties to Putin is attracting most of the headlines, a conflict on the economic front is of no less significance.

Earlier this month, in response to Trump's "America First" agenda and what it called his "divisive delusions on trade," the *Financial Times*, the voice of British and to some extent European finance capital, warned that if the Trump administration continued on its present course, it would represent a "clear and present danger to the global trading and monetary system."

The immediate cause of this unusually strong language was the claim by the Trump administration that the euro was significantly undervalued, operating to the benefit of Germany, which enjoys a trade surplus with the US.

The editorial called for other countries to "stand ready to resist bullying and not to let the US drive wedges between them."

The *Financial Times* did not go any further, but the logic of this position is clear. If countries are to stand together to combat what are seen as American attacks, then the next step is the development of trade and economic agreements directed against the US—in short, a major step down the road to the kind of economic and currency blocs that exacerbated the 1930s Depression and played a major role in the drive to a second world war in the space of two decades.

No one has yet put forward the formation of such alliances, but the issue is assuming a larger presence in public pronouncements and no doubt in discussions behind closed doors.

Last month, speaking to the *New York Times* on the sidelines of the Davos summit of the World Economic Forum, Jeroen Dijsselbloem, the president of the euro group of finance ministers, pointed to possible major shifts in orientation. "We've always said that America is our best friend," he said. "If that's no longer the case, if that's what we need to understand from Donald Trump, then, of course, Europe will be looking for new friends.

"China is a very strong candidate for that. The Chinese involvement in Europe in terms of investment is already very high and expanding. If you push away your friends, you mustn't be surprised if the friends start looking for new friends."

So far as the Trump administration is concerned, China, and to some extent Germany, is the main economic opponent and threat to the economic pre-eminence of the United States. This orientation is one of the reasons for its conflict with the sections of the military and intelligence establishment that are pressing for a more open confrontation with Russia.

Trump has variously threatened to brand China a currency manipulator and impose tariffs as high as 45 percent on its exports to the US. While he has yet to announce any concrete policies and his positions so far have been set out only in tweets and similar remarks, the underlying position of the administration and the economic processes that are driving it were set out last September in a paper on the Trump economic plan authored by the then-business professor at the University of California-Irvine, Peter Navarro, and equity investor Wilbur Ross.

Since the election Navarro has become the head of Trump's National Trade Council and Wilbur Ross has become commerce secretary.

The paper began by noting that in the period from 1947 to 2001, US gross domestic product grew at an annual rate of 3.5 percent a year, but from 2002, that average had fallen to 1.9 percent, representing a 45 percent reduction in the US growth rate from its historical pre-2002 norm.

The authors dismissed the claims of the Obama administration that lower growth was a "new normal," labelling that position "defeatist" and claiming that low growth was the result of higher taxes, increased regulation and the "self-inflicted negative impacts from poorly negotiated trade deals," including NAFTA and China's entry into the World Trade Organisation (WTO).

The latter, they wrote, negotiated under Bill Clinton, "opened America's markets to a flood of illegally subsidized Chinese imports, thereby creating massive and chronic trade deficits."

China's accession to the WTO, they argued, "also rapidly accelerated the offshoring of America's factories and a concomitant decline in US domestic business investment as a percentage of our economy." They noted that from 1999 to 2003, US investment flows to China were stable at around $1.6 billion per year, but jumped in the period 2004–2008 to an annual average of $6.4 billion a year.

In other words, according to their argument, the flow of investment funds to China, made possible by its accession to the WTO, is one of the chief causes of the long-term slowdown in US economic growth.

The authors also hit out at WTO rules, saying that the exemption of exports to the US from value added taxes (VAT) imposed by European governments and the fact that US exports to Europe are subject to these taxes was a form of discrimination against US

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firms. These conclusions form the basis for the discussion within the Trump administration on the possible imposition of taxes on imports.

They wrote that unequal treatment of US exports was an example of "VAT gaming," and that the US should have demanded equal tax treatment for US exports.

"Since the WTO would be meaningless without the presence of the world's largest importer and third largest exporter, we had the leverage then—and we have the leverage now—to fix this anomaly and loophole," they asserted, adding the implied threat that "without the US as a member, there would not be much purpose to the WTO."

The Trump administration's denunciations of China as a currency manipulator have attracted most of the media attention. But Navarro and Ross were no less strident when it came to the European Monetary Union.

"While the euro freely floats in international currency markets, this system deflates the German currency from where it would be if the German Deutschmark were still in existence," they wrote. This was the reason, they claimed, that the US had a large trade in goods deficit with Germany, some $75 billion in 2015, even though German wages were relatively high.

The paper gave a clear summing up of where the Trump administration sees the position of the US in regard to the struggle for global markets. Answering critics of the "America First" agenda, they wrote: "Those who suggest that Trump trade policies will ignite a trade war ignore the fact that we are *already* engaged in a trade war. It is a war in which the American government has surrendered before engaging."

They held out the prospect that in pursuing a policy of what they termed "more balanced trade," the US would be able to secure cooperation because US trade partners were more dependent on American markets than America is on their markets.

As with so many of Trump's policies, the trade war agenda outlined by Navarro and Ross represents not so much a break from the policies of the Obama administration as a continuation of their basic thrust and, at the same time, a qualitative escalation.

The underlying strategy of the Trans-Pacific Partnership and its counterpart for Europe, the Transatlantic Trade and Investment Partnership, promoted by the Obama administration, was that privileged access to the vast American market for those countries that signed up would enable the US to force concessions upon them.

Both proposed trade investment deals specifically scrapped the system that had governed trade relations since World War II under the General Agreement on Tariffs and Trade (GATT) and then the WTO, which maintained that concessions offered to one country should be offered to all. This policy was in recognition of the damage done to the world economy and trade system through the formation of exclusivist blocs in the period of the 1930s.

Outlining the rationale for the proposed agreements in 2014, Obama's trade representative Michael Froman wrote in a major *Foreign Affairs* article that "trade policy is national security policy," and that the aim of the agreements was to "place the US at the center of agreements that will provide unfettered access to two-thirds of the global economy."

He went on to explain that the post-war system was no longer adequate and that the US no longer held "as dominant a position as it did at the end of World War II" and had to build new "trade coalitions working toward consensus positions." In other words, the development of new mechanisms whereby the US could counter its economic decline vis-à-vis its rivals.

The Trump policy is being driven by this same agenda, albeit in a different form. The underlying driving forces can be clearly seen.

First, there is the contraction in economic growth not only in the US but internationally. It has been estimated that the economic slowdown since the financial crisis of 2008 means that developed economies are one sixth smaller than they would have been had pre-crisis growth trends been maintained.

The contraction is even more pronounced in world trade. Since 2012, world trade has advanced by little more than 3 percent per year, less than half the average expansion of the preceding decades. As the International Monetary Fund has noted, between 1985 and 2007 real world trade grew on average twice as fast as global gross domestic product (GDP), whereas over the past four years it has barely kept pace. "Such prolonged sluggish growth in trade volumes," it concluded, "relative to economic activity has few precedents during the past five decades."

Even before the accession of Trump, the WTO noted the rise of protectionist measures. It pointed out that members of the G20 group—all of which pledged to eschew 1930s style measures—had, in the five months leading up to last October, been implementing an average of 17 trade constraints a month, a situation it described as a "real and persistent concern."

In other words, the accession of Trump and his "America First" agenda of economic nationalism and a war of each against all is not some aberration, but the qualitative development of a trend that has been building up within the world capitalist economy over the past decade, but which is now coming to the surface with explosive force.

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