

Study The Past, If You Would Divine The Future: Explaining America's Attacks on the WTO in the Context of China's Rise

Abstract: A hegemon can destroy its international regimes, but what happens when it does not possess the capacity to reconstitute a regime to its liking? Drawing on structural power theory, our paper examines President Nixon's historic attacks on the Bretton Woods international monetary regime to help illuminate President Trump's attacks on the World Trade Organisation. In both cases regime destruction was driven to a large extent by a desire to contain rivals: Europe for Nixon, China for Trump. Drawing on original archival material, our case study analysis shows that whilst the US possessed sufficient negative structural power to derail Bretton Woods, it lacked sufficient positive structural power to create the new monetary structure Nixon wanted. Trump faces a similar dilemma: he can block the WTO regime, but cannot necessarily replace it with one to the US's liking. China is too powerful and possesses too much structural power of its own to give up its WTO privileges without a fight. After the Coronavirus pandemic, it is unlikely that China can prevent the US from wrecking the WTO trade regime, but very likely it can block US attempts to create a successor regime tailored exclusively to US requirements.

The post-war liberal international order (LIO) has largely been a US creation. Despite tactical differences between global political elites, a post-war US commitment to maintain the LIO, even in the context of deep structural shifts in international relations, has remained resolute. Until today. President Trump has actively encouraged the breakup of the European Union, questioned enduring US global security alliances such as NATO and given notice that the US will withdraw from the Paris Accord on climate change. However, his hostility to the LIO and his advocacy of an economic nationalism arguably represents a profound discontinuity in US foreign policy. His abrogation of US led regimes such as the North American Free Trade Agreement (NAFTA) and withdrawal from the Trans Pacific Partnership as well as his undermining the World Trade Organization (WTO) has challenged the post-war LIO American foreign policy elites have long championed. The fallout from the 2020 global coronavirus pandemic will exacerbate even further shifts in international relations. International relations theory struggles to explain these changes in US objectives. Whilst a broad array of theorists have argued that newly emergent hegemon cement their status by creating regimes, they also tend to agree a hegemon-led destruction of a mature, functional regime is unlikely because regime destruction denies the hegemon the inherent advantages and privileges it gave itself when first creating the regime.¹ It would be counter-intuitive for a hegemon to write off its investment in a regime (thus foregoing the on-going stream of benefits it received) unless either it was certain it could replace the regime with something better or the decision was taken out of the hegemon's hands. The latter possibility explains why scholars often approach the topic of regime destruction through the (disputed) prism of Hegemonic Stability theory (HST), where a de-concentration of the hegemon's power is said to leave it unable to prevent the degradation and even collapse of its regimes and the

¹ This point is emphasised in the neoliberal approach to institution theory, see Robert Axelrod and Robert O. Keohane, "Achieving Co-operation Under Anarchy: Strategies and Institutions" in David A. Baldwin (ed.) *Neorealism and Neoliberalism: the contemporary debate*, (New York: Columbia University Press, 1993), 85-115; also chapter 3 of G. John Ikenberry, *After Victory: Institutions, Strategic Restraint and the Rebuilding of Order After Major Wars* (Princeton, Princeton University Press, 2001), and his *Liberal Leviathan: the Origins, Crisis and Transformation of the American World Order* (Princeton, Princeton University Press, 2011). The argument is also recognised by Realists such as Robert Gilpin, *War and Change in World Politics*, (Cambridge, Cambridge University Press, 1983), and by Marxists, including Immanuel Wallerstein, *World-Systems Analysis: An Introduction* (Durham, Duke University Press, 2014), and Giovanni Arrighi, 1994, *The Long Twentieth Century: Money Power and the Origins of our Times* (London, Verso, 1994).

international order it created when its relative power was at its zenith.² Other Realist and critical scholars, most notably focusing on international political economy, have argued hegemons can use regimes to mask their power and, notwithstanding the effort the US has put into creating and sustaining regimes since 1945, will have few qualms about destroying and replacing an inconvenient regime that has become either ineffective as a means of maintaining order or a net drain on the hegemon's resources.³

We argue this essentially cost/benefit argument fails to take into account the implications of shifts in the international distribution of power after the hegemon created the now-inconvenient regime. Theorists who argue a hegemon will dispose of an inconvenient regime generally assume the hegemon will also wield sufficient power to replace it with another regime the hegemon prefers.⁴ But what happens when this is not the case and the hegemon does not possess the capacity to reconstitute a regime to its liking? There remains a gap in the theory on this point.

We draw on theories of structural power which, we argue, allows us to examine the ways in which powerful states can utilize positional advantages within regimes to shape the structural contexts of other states' international preferences.⁵ To structural power theory, we add both "negative" and "positive" elements. Negative structural power refers to a state's capacity to influence others' behaviours by blocking the operation of existing international structures and institutions, and/or any attempts by other states to change current structures. Positive structural

² Robert O. Keohane, *After Hegemony: Co-operation and discord in the World Political Economy* (Princeton, Princeton University Press, 1984) provides an early snapshot of the sprawling controversy over Hegemonic Stability theory.

³ See, for example, Susan Strange, "CAVE! Hic Dragones: a critique of regime analysis", in Stephen D. Krasner (ed.), *International Regimes*, (London: Cornell University Press, 1983), 337-54.

⁴ Susan Strange, *Casino Capitalism*, (Oxford, Basil Blackwell, 1986), argued the US chose to destroy the fixed exchange rate-based Bretton Woods international monetary regime during 1971-73 in pursuit of a new monetary order based on floating exchange rates and free capital mobility. Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (London, Verso, 1999), concurred.

⁵ Jeffrey C. Isaac, 'Beyond the Three Faces of Power: A Realist Critique,' *Polity*, 20 (1), (1987), p. 4-31; see also Simon Bromley, *American Power and the Prospects for International Order* (London: Polity Press, 2008); Jonathan Joseph, "Is Waltz a Realist?", *International Relations*, (2010) 24 (4), 478-93; and Stefano Guzzini, "Structural Power: The Limits of Neorealist Power Analysis", *International Organization* (1993) 47 (3), 443-78.

power occurs when a state (or states) attempt to amend existing structures and institutions or create new ones. Using this theory, our paper seeks to explain the US's attacks on its own economic regimes using two case studies: Nixon's attack on Bretton Woods and more contemporaneously, Trump's current attacks on the WTO. In both cases, US attacks on its own regimes were driven by increased international rivalry, with the US attempting to reconstitute a new regime that restored the balance of power in the US's favour. We argue that the 2020 global coronavirus pandemic will only add to US attempts to reconstitute new forms of US-centric global regimes, that will have profound implications for the world economic order and US allies in Europe and East Asia.

We begin by examining theories on why a hegemon might destroy one of its regimes and develop our concepts of positive and negative structural power. Second, drawing on new and original archival material, we use the case study of President Nixon's dissatisfaction with the Bretton Woods international monetary regime to explore key lessons learnt from that episode and an assessment of how they might play into the US' attack on the WTO trade regime. Third, we examine President Trump's attack on the WTO regime before, fourth, comparing our case studies. We argue that Trump is in a very similar position to Nixon. His US possesses sufficient negative structural power to wreck the WTO trade regime that has facilitated China's rise as an economic power. However, whilst the US lacks the positive structural power it would need to install unilaterally (or with the help of its main security allies) a new trade regime better-suited to US interests, the global pandemic of 2020 presents a unique opportunity to restructure international relationships as states around the world question their heavy reliance on China's manufacturing of key goods. China's economic successes have placed formidable negative structural power at Beijing's disposal, but it needs to increase its normative 'soft power' within world politics, as legitimacy is a crucial element of leadership..

Theorising regime destruction

International relations scholars largely agree a hegemon needs to both establish and maintain international order. Scholars, especially liberal institutionalists, have argued a hegemon will create regimes to buttress its international order and reduce its hegemonic order-maintenance

costs by sharing them with other states.⁶ Creating a privileged position for itself in its regime will help the hegemon both sustain and maintain its leading status within the regime, even as its relative power diminishes over time. Institutionalists liken hegemonic regime-creation to an investment project: the hegemon invests in a new regime by bearing many of the regime's upfront design and start-up costs; it does so because it expects the regime to operate in its interests and deliver a stream of "dividends" over the long-run. This helps explain why the US devoted so much effort to creating and resourcing the international monetary and trade regimes that underpinned the post-1945 LIO.⁷

The resource implications of this hegemonic role have been hotly debated. Providing leadership is costly; although the costs and prices are often opaque, leadership costs must be funded. Kindleberger suggested a hegemon would be "benevolent", sacrificing its own material interests to sustain its international order and tolerating "free riders" where necessary.⁸ Gilpin argued a hegemon would aim to recover its costs and take a firm line with potential free riders: if hegemony were to become a sustained drain on a state's material resources, its relative economic and military power would gradually ebb, eventually straining the credibility of its long-term hegemonic credentials and its ability to muster support for its regimes and alliances.⁹ Norrloff took a different and more convincing tack.¹⁰ She argued a hegemon would do more than recover its costs, it would seek to operate hegemony as a profit centre by creating for itself lucrative, long-term "structural advantages" in its regimes. She outlined how the US had designed into its post-1945 regimes a number of effective, mutually-supporting, enduring diplomatic, economic and military advantages for itself. If, however, US regimes fell short of Washington's expectations, then her argument implied whole-hearted US support for the regimes would be no more than conditional, irrespective of whether problems were caused by

⁶ Ikenberry, *After Victory*, 5-79

⁷ For background see Jonathan Kirshner, *American Power after the Financial Crisis* (New York: Cornell University Press, 2014). Also Ikenberry, op cit.

⁸ Charles P. Kindleberger, *The World in Depression, 1929-1939*, (London, Allen Lane, 1973); also "Dominance and Leadership in the International Economy: Exploitation, Public Goods and Free Riders", *International Studies Quarterly*, 25 (2): 242-54

⁹ Gilpin, *War and change*, 169

¹⁰ Carla Norrloff, *America's Global Advantage: US Hegemony and International Co-operation* (Cambridge: Cambridge University Press, 2010)

weaknesses in regime design, or by changes in US preferences motivated by, say, shifts in ideology, national politics or the international distribution of power. The US could attack a regime that, from Washington's perspective, was failing to pull its weight on the US' behalf.

Norrlof's approach built on Mearsheimer's criticism of liberal institutionalists for their failure to address the issue of "betrayal", which might include the "swift, decisive defection" of a hegemon from a regime it had created.¹¹ In any event, "betrayal" was irrelevant to Hegemonic Stability or structural realist-based explanations of the end of regimes. Hegemonic Stability theory assumed a hegemon would regard its regimes as essential to maintaining international order and would sacrifice its material interests to sustain them – and thus its international order - until its waning power made this impossible. Structural realism saw regimes as simply "paper tigers", acting as masks for a hegemon's power so as to make that power (and the international order the hegemon favoured) palatable to other states; such regimes might be designed to recover the hegemon's costs, but could not be designed to empower or unduly profit the hegemon systematically and explicitly without risking other states objecting to them, thereby undermining their central purpose of masking the hegemon's power.

Our approach, like Norrlof's, sees a hegemon using its regimes to boost its hegemony both by sustaining a style of international order that best suits the hegemon's national requirements (liberal and market-oriented in the US case) whilst spreading some or all order-maintenance costs to other states. We also expect the hegemon to wield structural power as defined by Strange: "the power to shape and determine the structures of the global political economy within which other states... have to operate".¹² Strange regarded structural power as a single concept, but we argue it is more fruitful to disaggregate it into two components: positive and negative structural power. Negative structural power refers to actions taken by one state to block other states' proposed changes to international structures and institutions and/or the operations of those structures or institutions. Positive structural power refers to a state's use of power in an attempt

¹¹ John J. Mearsheimer, "The False Promise of International Institutions", *International Security*, 19 (3), 1994-95, 19

¹² Susan Strange, *States and Markets* (London: Pinter Publishers, 1988), 24-25

to create new or reform existing international structures and institutions. One would expect a hegemon that dominates the international community to possess negative and positive structural power in near equal measure, as the US had in 1945 when it could destroy and create international structures more or less at will and used its positive structural power to lay the foundations of the post-war LIO. As a hegemon's dominance recedes through a deconcentration of its power over time, however, it is likely to find its positive structural power wanes as other states increase their economic and military power relative to the hegemon, enabling them to obstruct any attempt by the hegemon to impose its preferences on them.¹³ The hegemon's negative structural power will remain more-or-less intact, however, in part because its overall power is still great relative to any other state, and in part because the hegemon built specific advantages for itself into the regimes it created, such as giving itself veto powers over rule changes. Thus a long-established hegemon will find blocking changes to international structures or the operation of international institutions easier than creating new structures and institutions. We begin by applying our concepts to analysing Nixon's attack on the Bretton Woods regime before comparing this to President Trump's attack on the WTO.

It is worth noting at the outset that scholars have never reached a settled consensus on the causes of Bretton Woods' demise. There are two competing lines of argument in the literature. Many liberal scholars support the view that Bretton Woods was able to survive its design flaws as long as the US hegemon possessed the power and economic wherewithal to overcome them, but the deconcentration of US power during 1945-70 left the US unable to sustain its regime at an acceptable cost and Bretton Woods collapsed when the US could no longer support it. Conversely, many realist and Marxist scholars argue the US retained a sufficient concentration of power to enable it to dispensed with a regime it no longer wanted in order to install a new regime based on floating exchange rates and free capital mobility that better served US interests than Bretton Woods' fixed exchange rates and capital controls.

¹³ Note Germany's and Japan's phoenix-like recovery of their economic powers after 1945 and the rapid growth of China's economic and military power after 1975.

Drawing on US and British archives, we reach an entirely different conclusion below: the US's *foreign economic policy* objective was to reform the Bretton Woods regime to retain fixed exchange rates, but make them a little more flexible, and to enable states to retain capital controls; but this objective was overridden accidentally by the US' *foreign policy* objective of achieving US security and economic gains at Europe and Japan's expense in the 1973 "Year of Europe" negotiations. Nixon believed the best route to success in the Year of Europe negotiation was to undermine an obdurate EEC by wrecking the EEC's first attempt at monetary union to damage European integration, thus enabling the US' positive structural power to prevail against a divided Europe unable to mobilise effectively its growing negative structural power. The resulting damage to the international monetary regime was intended by Washington to be temporary and be healed by the US' proposed international monetary reforms, but Nixon's damage became permanent when OPEC seized control of the world's oil market, creating new requirements for uninterrupted international capital flows (to recycle oil exporters' surpluses to oil importing states) and making it impossible to fix the value of currencies. Our analysis below shows that the move to an international monetary order based on floating exchange rates and free capital mobility in 1976 was an *accident and not a US objective under Nixon or his successor, President Ford*.

Destruction of the international monetary regime, 1971-73

The US created the Bretton Woods international monetary regime in 1944; President Nixon destroyed it in 1971-73. The regime had been designed primarily by the US and appeared to operate successfully in the 1960s, but this masked its fundamental flaws. The regime hinged on states having confidence the US would convert their central banks' dollars to gold on demand. But states could only obtain dollars if the US ran deficits and accumulated liabilities to other states. By the time Nixon came to power, the US' external obligations were almost four times the size of its gold reserves; confidence in convertibility was wearing thin. A second problem was that, because all other states' currencies were fixed against the US dollar, while the dollar's value was fixed against gold, the US could not depreciate its currency against other currencies to

improve its competitiveness, whereas other states could (and did) depreciate their currencies against the dollar to improve their competitiveness, thereby exacerbating US external deficits. Nixon suspended gold convertibility in 1971 to prevent his presidential re-election campaign being disrupted either by a run on the dollar or rising unemployment. For foreign policy reasons, he went on to lure Europe (and coerce Japan) into floating their currencies against the dollar in 1973. This marked a turning point in the US' approach to regimes, demonstrating Washington was prepared to destroy as well as create global economic regimes.

Washington intended convertibility suspension and floating exchange rates, both departures from Bretton Woods' rules, to be temporary. The US sought international endorsement in the Committee of Twenty (C20) during 1972-74 for Washington's plans for a reformed international monetary regime that would once again be based on fixed exchange rates and capital controls but which, unlike Bretton Woods, would replace the dollar with the SDR as the regime's numeraire and main reserve currency. The supposedly temporary floating exchange rates accidentally became permanent because OPEC disrupted US monetary reform plans, It seized control of world oil markets in 1973 and hiked oil prices, making it impossible to return to a monetary regime based on fixed exchange rates and rigid controls on capital flows. The world economy's health now depended on recycling oil exporters' surpluses to oil importers through greatly increased international capital flows; moreover, the value of an oil importer's currency now depended to a large extent on the (highly variable) amount of recycled capital the oil importer could access: fixed exchange rates were no longer viable when rates depended on a creditor's whim. The US and its allies were obliged to scrap their competing elaborate plans to replace Bretton Woods with a new fixed exchange rate system buttressed by formidable capital controls. OPEC's actions, not the US, constrained and shaped Bretton Woods' successor regime, ensuring it would be based on floating exchange rates and free capital mobility.¹⁴ This outcome, accepted by all IMF member states in 1976, highlighted the inadequacy of US positive structural

¹⁴ Many developing countries continued to fix the external value of their currencies to those of industrial countries, mainly the US dollar, British pound or French franc. However, industrial countries' currencies were floating, so supposedly fixed rate developing country currencies were in fact floating by proxy.

power. The US lacked the positive structural power it needed to fulfil a hegemon's key role, that of creating and maintaining international order.

On his election in 1968 Nixon was obsessed with sustaining US primacy. He feared the US had frittered away many of its post-war advantages, but believed there was still time for remedial action. Nixon sought to shore up US security by balancing against the USSR, befriending China and keeping Europe and Japan close to the US on security issues. At the same time he treated his Western allies as rivals for economic power. He attributed Europe's and Japan's post-war economic recoveries in part to their "unfair" manipulation of exchange rates made possible by the Bretton Woods international monetary regime, and by their protectionist trade practices. He was convinced Europe and Japan evaded their security obligations, leaving the US to pick up most of the bill for the West's defence. Nixon's concerns were echoed in Congress, which featured an increasing number of protectionist trade bills and efforts to cut US forces in Europe (or shift to Europe the burden of financing US forces), reflecting domestic political alarm at the deterioration in the US balance of payments and the growth of unemployment attributable to rising imports, especially from Japan.¹⁵

Nixon believed the US was failing to capitalise on its international monetary and trade regimes, and inadequately leveraging its dominant military position within the Western alliance to achieve economic benefits for the US. He wanted to correct this by creating a new international forum in which Europe, Japan and the US could jointly discuss trade policy, exchange rate and defence burden-sharing issues instead of addressing these issues separately in three distinct regimes (GATT, IMF and NATO). He hoped this would enable the US to better leverage its military preponderance into international trade and monetary relations. US Treasury Deputy Secretary for Monetary Affairs, Paul Volcker, spoke at the American Bankers Association's annual International Monetary Conference in Montreal on 12 May 1972, calling explicitly for a new

¹⁵ Peter Peterson, chairman of Nixon's Council on International Economic Policy, produced a report, *The United States in a Changing World Economy*, in which he estimated Europeans were paying only \$800m of the \$1.7 billion annual costs of stationing US troops in Europe; Peterson also calculated each \$1 billion deterioration in the US balance of trade cost the US 60-80,000 jobs. See Bruce Duncombe (ed.), *Foreign Relations of the United States, 1969-76: Foreign Economic Policy, 1969-72*, Vol. III, (Washington D.C., United States Government Printing Office, 2001), 161.

institution in which Western allies could discuss trade, monetary and defence-related issues, and added, “The real challenge for the US economic leadership is this: we need to make our case clearly and forcibly for new policies that will adequately reflect the balance of power.”¹⁶ Nixon received no European co-operation on this then or later, and little in the monetary sphere, where Europeans feared Nixon’s proposed exchange rate reforms would undermine their competitiveness.¹⁷ For example, British Prime Minister Heath’s briefing for his meeting with President Nixon on 1-2 February 1973 contained a warning against accepting US proposals to link these issues, advising him to avoid “globalisation of international negotiations on trade, money and defence” and to seek instead to separate the three issues in US-EEC negotiations.¹⁸ Japan was happy to hide behind Europe on these issues. The failure to achieve his objectives through co-operation with Europe and Japan was an early warning to Nixon of the extent of the decline in US positive structural power since the immediate post-war period.

Europe’s rejection of the new forum and exchange rate reforms coincided with a US recession, rising unemployment and inflation - the US’ first experience of “stagflation” - and Nixon’s consequent failure to achieve the Republican Party gains he targeted in the 1970 Congressional elections. Nixon was determined to neutralise the economy as an issue in the 1972 presidential elections and took a similar tack to that adopted later by Trump, blaming unfair foreign competition for US unemployment. Like Trump, Nixon also adopted an expansionary macroeconomic policy, badgering his new Federal Reserve chairman, Arthur Burns, into relaxing monetary policy to create an economic boom in 1972.

Having seen the limits to international monetary co-operation in 1969-70, Nixon opted for a strategy of hegemony through domination in 1971. John Connally, Nixon’s Treasury Secretary, gave shocked allies a foretaste of what was to come at a conference in Munich in May 1971: “No longer can considerations of friendship, or need, or capacity justifying the United States carrying so heavy a share of the common burdens... no longer will the American people permit their

¹⁶ Volcker’s text is included in Bank of England archive file OV/53/42.

¹⁷ The US held secret bilateral discussions on possible exchange rate reforms with eight European states during March-June 1969, receiving no support; see Duncombe, *Foreign economic policy*, 333-34.

¹⁸ See Luke A. Nichter, *Richard Nixon and Europe*, (Cambridge: Cambridge University Press, 2015), 110.

government to engage in international actions in which the true long-run interests of the US are not just as clearly recognised as those of the nations with which we deal... ”¹⁹ The absence of exchange rate co-operation (on US terms) and foreign exchange market crises, albeit prompted by Burns’ monetary largesse, created the pretext for US action against its Western allies. Nixon was determined to restore the US’ structural advantages in the Bretton Woods regime irrespective of the economic cost to his allies. But would the application of US positive structural power through domination succeed where its application through attempted co-operation had failed?

Just as Trump would later damage allies’ and rivals’ interests alike by unilaterally raising tariffs on steel and aluminium imports to signal his dissatisfaction with the WTO trade regime, Nixon authorised a direct attack on allies and rivals’ interests by adopting a “New Economic Policy” at a secret weekend meeting with his economic advisers at Camp David on 13-15 August 1971. This included, inter alia, suspending other states’ central banks’ right to convert their dollars to US gold (in contravention of the Bretton Woods regime’s rules), imposition of a temporary 10% surcharge on all imports (a GATT-compliant tariff only if used as an emergency measure), and new measures restricting certain tax breaks to purchases of US-made goods. Connally outlined the package to the US’s outraged Western partners in a G10 meeting in September 1971, demanding they offer trade, exchange rate and defence-burden concession sufficient to achieve a \$13 billion improvement in the US’ current account. Defending US national interests against Europe and Japan played well with the US public. Connally’s \$13 billion target implied the US could expect employment gains of up to one million jobs at a time unemployment had risen to 6%.²⁰

Connally was confident US positive structural power could, given time, lever the necessary concessions out of US allies (just as Trump later signalled his willingness to play a waiting game at the WTO by progressively strangling its dispute settlement system through denying it new judicial appointments). Nixon’s August economic package not only destroyed the Bretton Woods

¹⁹ Duncombe, *Foreign economic policy*, 433

²⁰ Based on Petereson’s ready-reckoner of job losses from imports.

regime's central discipline on the US - gold convertibility - it also effectively caused other currencies to float against the dollar. Connally was sure US positive structural power would work in tandem with foreign exchange market pressures, resulting in other currencies appreciating against the dollar, boosting US competitiveness, exports and jobs, while curbing US imports. Market pressures worked as Connally had intended, but not as quickly as he had hoped because France, with its strong capital controls, resisted staunchly. Paris mobilised European (and Japanese) opposition to Connally's efforts, slowing US competitiveness gains in 1971. At France's behest, European states threatened the US with retaliatory trade measures, a block on US multinationals' ability to remit their profits to the US, intensified currency and capital controls and formation of a new European currency bloc to rival the dollar.

Connally did not fear retaliation; he wanted the dispute to continue until the US achieved its economic objectives. (President Trump later showed a Connally-like confidence when he pronounced "trade wars are good and easy to win.") When Nixon's economic team discussed the proposed closure of the gold window at Camp David on 13 August 1971, Burns argued strongly against doing so. He feared the measure would provoke retaliation. Connally disagreed, commenting "Let 'em. What can they do?"²¹ Nixon's initial support for Connally's stance gradually evaporated as Burns and Henry Kissinger, Nixon's National Security Advisor, urged him to prioritise foreign and security policy over foreign economic policy. Connally later told his British counterpart he had wanted the dispute to last at least six months.²² Nixon did not. By November he agreed with Kissinger the Western alliance should not be allowed to tear itself apart over economic issues: the 1972 summits in Beijing and Moscow were drawing near and Nixon needed to demonstrate he led a united Western alliance. With Connally having achieved only half of the US' targeted current account gains, Nixon called off his attempt at hegemony through domination, devalued the dollar, realigned (and re-fixed) other G10 states' exchange rates through the Smithsonian Agreement in December 1971, dropped most of his defence

²¹ Quoted in William Safire, *Before the Fall*, (Garden City, NY: Doubleday, 1975), 514.

²² See the British record of the US-UK bilateral summit held in Bermuda on 20 December 1971 (Bank of England archive file OV53/42)

burden-sharing demands and ended the 10% import surcharge in return for allies promising to open talks on trade liberalisation and international monetary reform.

When Nixon took the decision to close the gold window in August 1971 he and his Camp David colleagues had given little thought to the consequences for the Bretton Woods regime or what might follow it. All involved at Camp David assumed the US would be able to change the unacceptable behaviours of other states within the context of an unchanged, or largely unchanged Bretton Woods regime. By December that year, the Nixon administration had realised changing other states' behaviours alone would be insufficient; reforming the Bretton Woods regime was necessary to create a new structure that would rebuild and underpin US monetary privileges. The US therefore insisted G10 allies accept a commitment to international monetary reform as part of the Smithsonian Agreement. The US pursued its reform objectives vigorously in the Committee of Twenty (C20) established to redesign the international monetary order.

The C20 negotiations lasted from September 1972 to June 1974. The US delegates were determined the outcome would address Washington's two main monetary grievances: Europe's and Japan's ability within the Bretton Woods rules to run, without appreciating their currencies, large and persistent current account surpluses that cost the US jobs and gold; and the US' inability to depreciate the dollar unilaterally to restore US competitiveness against Japan and Europe. These design flaws, dating back to 1944, were undermining the US' privileges in the Bretton Woods regime. Despite Europe and Japan trying to preserve as much as they could of the Bretton Woods regime norms, principles and rules that had allowed these states to behave as they did, Treasury Secretary Shultz and his deputy, Volcker, succeeded in the C20 negotiations in persuading other states to accept most of the reforms the US wanted: restoration of a fixed exchange rate system, modified to require states to adjust their exchange rates in response to large movements in their official reserves; and a new freedom for the US to appreciate or depreciate the dollar by making the SDR the international monetary order's numéraire (and main reserve currency), enabling the US to peg the value of the dollar to the SDR as other currencies had previously pegged to the dollar. To please Europe, which had tabled alternative proposals

for a new fixed exchange rate-based regime, states would be permitted to impose capital controls and the US would restore gold convertibility. Success was close when Kissinger, irritated by his lack of progress in the Year of Europe negotiation (discussed below), intervened in August 1973 to snatch defeat from the jaws of victory. Kissinger insisted Shultz must delay C20 agreement on international monetary reform until EEC states had offered concessions to the US in the “Year of Europe” negotiation. The attempt to leverage some of Shultz’s C20 negotiating successes into the “Year of Europe” back-fired: the resulting delay proved fatal to Shultz’s reform efforts in the C20.

Kissinger, Shultz and Volcker did not expect the C20 delay to be more than temporary, although many scholars claim it was at this point the US revealed its true preference for international monetary reforms that would usher in generalised floating exchange rates and free capital mobility and the permanent abolition of the US’ gold convertibility obligation.²³ These claims became “received wisdom” on this topic among many realist and Marxist scholars. Archived materials demonstrate, however, US negotiators pursued the agreement on the US plan up to and beyond August 1973. British archives contain a Bank of England note summarising the state of play in the C20 negotiations in June 1973. It showed the US remained fully committed to the reform plan Volcker had first proposed to the C20 in November 1972.²⁴ A subsequent Bank of England note on international monetary reform observed the US had restated its commitment to obtaining C20 agreement to the US reform plan, describing the US position as “hardening”.²⁵ The British embassy in Washington reported a conversation with Volcker in November 1973 in which he proposed to table a modified version of the US reform plan to a C20 Technical Group meeting in December 1973; at the time of the conversation he was in the process of revising the US plan to take account of OPEC raising oil prices sharply, necessitating large capital flows from

²³ See, for example, Strange, *Casino Capitalism*, and Gowan, *Global Gamble*.

²⁴ John A. Kirbyshire, Advisor to the Governors and a regular participant in C20 meetings, prepared the note and attached it to a letter sent by the Bank’s lead official on the C20, Kit McMahon, to his HM Treasury counterpart, Derek Mitchell, on 14 June 1973 (UK National Archives file T354/285).

²⁵ In the wake of the IMF Annual Meeting in Nairobi, the Meeting which many had expected would adopt the US monetary reform plan, Kirbyshire prepared an “Internal Note of the State of Play on International Monetary Reform” on 5 October 1973 (Bank of England file OV53/73).

oil exporting to oil importing countries.²⁶ Volcker presented his revised plan at the C20 Technical Group on Adjustment on 5 December, stressing “the US had gone to considerable trouble to meet objections to (our) scheme”.²⁷ Despite his conciliatory stance, it was clear OPEC’s impact on world oil, currency and capital markets had made it impossible to plan for a new fixed exchange rate system; the British embassy reported the C20’s discussion of Volcker’s proposal was “rambling and inconclusive.”²⁸ On 12 December Volcker visited London for a bilateral meeting with the Chancellor and officials at which he urged the UK to support the US’ revised reform plan. He also pleaded publicly for the C20 to achieve at least some progress on reform “to offset a dangerous political drift away from co-operation”.²⁹ A Bank of England official subsequently described the lanky Volcker’s performance in the C20 as that of a “lame giraffe”.³⁰ A British delegation from the Confederation of British Industry visited the US Treasury in February 1974 and found Jack Hennessy, Assistant Secretary for International Affairs, claiming all was for the best: US policy had not changed, the world had and US policy, having dropped the attempt to secure comprehensive monetary reform, was now “more realistic”.³¹

The C20 fizzled out in June 1974 with minimal reforms agreed: Volcker described it as “a thin conclusion”. The Nixon Administration was obliged to face the fact that it lacked the positive structural power it needed to introduce the new international monetary regime based on fixed but adjustable exchange rates and capital controls it had envisaged as Bretton Woods’ successor. In Hennessy’s view the difference between fixed but adjustable exchange rates and “managed floating” was a mere matter of semantics, not substantive. The world economy needed floating exchange rates and free capital mobility to cope with OPEC, a fact gradually accepted by Western

²⁶ Letter from British embassy, Washington, official A. K. Rawlinson to Derek Mitchell, HM Treasury, 7 November 1973 (Bank of England archive file OV53/74).

²⁷ British embassy Washington telegram 349 to London of 7 December 1973, reporting the meeting of the C20 Technical Working Group on Adjustment, 4-6 December 1973 (Bank of England archive file OV53/75)

²⁸ Ibid.

²⁹ J. A. Kirbyshire’s review of Volcker’s speech to the Royal Institute for International Affairs at Chatham House, 12 December 1973 (Bank of England archive file OV53/75)

³⁰ J. A. Kirbyshire attributed the description to members of the US delegation at a C20 Deputies meeting in Paris on 7-9 May 1974 (Bank of England archive file OV53/78).

³¹ British embassy, Washington, report of the CBI visit of Sir Michael Clapham and Campbell Adamson: call of Jack Hennessy, US Treasury, 12 February 1974 (UK National Archive file T354/385)

policy makers and written into the IMF's "constitution", its *Articles of Agreement*, at a conference held in Jamaica in January 1976. Some scholars criticised this agreement, legitimising floating exchange rates and free capital mobility, for producing a "non-system".³² More surprisingly, many scholars subsequently argued the US had obtained what it wanted from reform, notwithstanding our evidence to the contrary.³³

While Schultz had been pursuing consensual international monetary reform in the C20, Nixon and Kissinger had been engaged in a parallel, but far less consensual, "Year of Europe" negotiation. This was essentially a re-run of the earlier US attempt to create a single forum in which to discuss international monetary, trade and alliance security issues, a proposal Europeans had rejected before Nixon closed the gold window. Nixon and Kissinger, however, were not deterred by their initial failure and it is instructive to recall how far they were prepared to go in damaging US allies in order to get what they wanted for the US. They believed, with good reason, there was a need to update the Atlantic Charter, which had set out the principles by which the US, UK and later all Western Europe would conduct transatlantic relations. Creating a new body in which to discuss the monetary, trade, burden-sharing and other defence disputes that had strained the Western alliance in 1971 would, in the US' view, refresh the alliance. After devoting 1972 to developing relations with the Communist world, Nixon and Kissinger wanted to use 1973 to spruce up US relations with Europe and Japan in the inappropriately named "Year of Europe"

³² See, for example, Tom de Vries "Jamaica. Or the non-reform of the international monetary system", *Foreign Affairs*, 54(3), 1976, 577-605; Robert Solomon, *The International Monetary System, 1945-76: an insider's view*, (New York, Harper & Row, 1977); and John Williamson, *The failure of world monetary reform, 1971-74*, (Sunbury on Thames, Nelson, 1977). Alternative (and less pessimistic) accounts of the US' performance are provided by, for example, Joanne Gowa, *Closing the Gold Window: domestic politics and the end of Bretton Woods*, (Ithaca, Cornell University Press, 1983), John S. Odell, "The US and the Emergence of Flexible Exchange Rates: an analysis of foreign policy change", *International Organization*, 33(1), 1979, 57-81.

³³ These scholars included Gowan and Strange, *op cit*. Other scholars rating the C20 negotiation outcome as a US success include: Andrew Walter, *World power and world money: the role of hegemony and international monetary order*, (New York: Harvester Wheatsheaf, 1993), Diane B. Kunz, *Butter and guns: America's Cold War economic diplomacy*, (New York: Free Press, 1997); William P. Bundy, *A Tangled Web: the making of foreign policy in the Nixon Presidency*, (New York: Hill & Wang, 1998); Leonard Seabrooke, *US power in international finance: the victory of dividends*, (Houndsmill: Palgrave, 2001); Jennifer A. Sterling-Folker, *Theories of International Co-operation and the Primacy of Anarchy: explaining US international policy-making after Bretton Woods*, (Albany N.Y.: State University of New York Press, 2002); and Barry J. Eichengreen, *Exorbitant privilege: the rise and fall of the dollar and the future of the international monetary system*, (Oxford: Oxford University Press, 2012).

negotiation. Nixon put Kissinger in charge of the negotiation for the US. Exercising hegemony through co-operation with allies was back in fashion in Washington in January 1973.

The negotiation went badly. EEC states responded to Kissinger's all too transparent attempts to divide and rule by introducing new, tighter and more unified negotiating procedures. Kissinger was unable to divide the EEC, let alone rule it, to his obvious frustration.³⁴ Obtaining co-operation and consent from the EEC and Japan proved more difficult than he and Nixon had expected. Their urge to make progress through domination soon resurfaced as Kissinger found the Europeans' treatment of him "bestly". Their lack of progress in the face of a unified EEC negotiating bloc led them to attempt to disrupt European solidarity twice, first in March 1973 when they hoped to sow discord in Europe by tempting the Europeans to jointly float the currencies in their new monetary union against the dollar, and second in August 1973, when they hoped that withholding US agreement to international monetary reform in the C20 would create divisions within the EEC and strengthen the US' negotiating hand. But the main effect of these policies was to damage the Bretton Woods regime and its fixed exchange rate system irreparably and terminally, an outcome unintended by Washington.

Nixon's March 1973 attack on his European allies followed a major (and protracted) foreign exchange market crisis that broke in January 1973. This prompted Nixon's second dollar devaluation. Foreign exchange markets rejected the devaluation as inadequate and dumped dollars on a massive scale, forcing European states and Japan to close their foreign exchange markets. FRG Chancellor Brandt wrote an intemperate letter to Nixon on 2 March, complaining of the damage the dollar was causing the EEC's recently-activated monetary union.³⁵ This enraged Nixon. He met Kissinger and Treasury Secretary Shultz on 3 March to reassess the US' traditional policy of supporting European integration.³⁶ They decided the policy was wrong: the recently-enlarged EEC was getting too big for its boots, was exploiting the US economically through its trade and exchange rate policies and was failing to pay for its defence. They assessed

³⁴ See Henry Kissinger, *Years of Upheaval*, (London: Weidenfeld and Nicolson, 1982), chapters 5 and 16.

³⁵ Kathleen Rasmussen (ed.), *Foreign Relations of the United States 1969-76: Foreign Economic Policy 1973-76, Vol. XXXI* (Washington D.C., United States Government Printing Office, 2009), 49-50

³⁶ *Ibid.*, 72-91

previous US administrations had made a strategic mistake. It was time to put America first. Kissinger set out the argument:

“We have... this is nobody’s fault here, but we’ve worked ourselves for twenty years into the position where we have fostered European integration in the (economic) areas where it’s against our interests and have discouraged it in the area, mainly defence, where it is in our interests... so we have made the Europeans depend on us in defence, which works against our economic interests, and given them a free hand in the economic field, where it’s against – so the priorities have been completely wrong.”³⁷ Nixon concurred, remarking “You got it on the head there. I agree with that.”³⁸

Nixon had little regard for the EEC, believing the tensions between member states would make it difficult to hold the EEC together. And he had no qualms about dividing the Europeans. Discussing his New Economic Policy with Burns and Connally on 11 September 1971, he had told them “... we’re looking after Uncle Sam. We’ve got to do that. And if it raises a little hell in the international monetary fund markets, so be it... Now, in order to play that game, we can perhaps... split (EEC states) up, don’t let them get together. Don’t let them get together... We have to play a very hard game.”³⁹ Nixon carried this idea forward into his discussion with Kissinger and Shultz on 3 March 1973, telling them “What I am thinking about is the use of a more positive leadership role through possible (foreign exchange market) intervention in order to serve our interests in keeping the Europeans apart, keeping them from developing a united policy against us.”⁴⁰

Nixon and Kissinger concluded their 3 March discussion by agreeing US interests would be best served by destroying European economic integration, thus weakening European states’ ability to resist US security and economic demands. Playing divide and rule in Europe and dealing with members of a fragmented EEC on a bilateral basis would enhance US prospects in the “Year of

³⁷ Ibid., 90-91

³⁸ Ibid., 91

³⁹ Quoted in Nichter, *Richard Nixon and Europe*, 74

⁴⁰ Rasmussen, *Foreign Economic Policy*, 83

Europe” negotiations. They agreed the best way to disrupt European integration would be to wreck the EEC’s first attempt at monetary union.

Nixon and Kissinger had chosen well: European monetary integration was vulnerable. EEC states had agreed in 1972 to implement the Werner Plan, a three stage approach to building European monetary union. Its first step was to fix member states’ exchange rates closely against each other for two years, limiting their currency fluctuations within a narrow band either side of their Smithsonian Agreement central parity exchange rate. This would restrict European currencies to move within a “tunnel” 4½% wide. Currency movements between linked currencies within this tunnel would resemble a wriggling snake, hence the Werner system’s name: the “snake in the tunnel”. Successful operation of this system was to be followed by a progressive tightening of monetary policies and institutional procedures, leading eventually to full monetary union. Seen from Washington, the Snake was an embryonic currency bloc that might one day rival and undermine the dollar’s privileges. But the US Treasury believed the Snake would be difficult to manage technically; institutional and monetary policy differences within the EEC would cause it further problems. They assessed the Snake’s survival prospects as less than 50%.

Nixon’s and Kissinger’s point of attack on European integration was well chosen, but they dithered over how best to deploy US negative structural power to prevent the EEC creating a new currency bloc structure. Should they blast the Snake currencies out of the tunnel by intervening heavily and selectively in foreign exchange markets, buying one Snake currency aggressively while selling another until they smashed currencies out of the Snake’s tunnel? Or should they lure the EEC into attempting an unsustainable joint float of Snake currencies against the dollar, ostensibly as a solution to the foreign exchange market crisis that had by then continued for three months? They soon decided against foreign exchange market intervention because it would be impossible to disguise the US’ devastating role.⁴¹ Better to have the Europeans attempt a joint float against the dollar, even if this did represent another nail in the Bretton Woods fixed exchange rate regime’s coffin.

⁴¹ Rasmussen, *Foreign economic policy*, 125

US Treasury experts assured Nixon, Kissinger and Shultz there were too many moving parts and policy differences for European central banks to manage successfully both the Snake and its joint float. They assessed the attempt would fail, wrecking monetary union and precipitating rancorous and divisive arguments within the EEC about who was at fault. Encouraged, Kissinger spoke privately to FRG Finance Minister Helmut Schmidt through one of his “back channel” arrangements and lured Schmidt into attempting to overturn the EEC’s recent rejection of a proposed joint float.⁴² Schmidt fell into Kissinger’s trap and, with Chancellor Brandt’s assistance, overcame French resistance to the proposal in the EEC. The joint float was formally announced at a G10 meeting in Paris on 16 March.⁴³ This meeting effectively marked the introduction of generalised floating exchange rates for all industrialised countries and thus the end of the fixed exchange rate Bretton Woods regime, although there was a widespread belief at the time that floating would be simply a temporary expedient and last only until the C20 had completed its work on international monetary reform.

US negative structural power appeared to be in fine order. Kissinger was jubilant, telling Deputy Treasury Secretary William Simon “... we’ve put ourselves in a good strategic position. We couldn’t bust the Common float (through foreign exchange market intervention) without getting into a hell of a political fight... But we should create conditions in which the Common float is as hard to work as possible.” Simon assured him a policy of US non-intervention should suffice, although it might be necessary to intervene on occasion “to help some people but not others.”⁴⁴

The Snake currencies’ joint float lasted only nine months until France withdrew its franc in January 1974. Kissinger celebrated US negative structural power’s successful deployment, telling Nixon “We have broken the Community, just as I always thought we wanted to.” Nixon agreed

⁴² See Rasmussen, *Foreign economic policy*, 113-15 for the transcript of the Kissinger-Schmidt conversation of 7 March 1973.

⁴³ Canada, Britain, Italy, Japan and Switzerland were already floating their currencies.

⁴⁴ Kissinger’s and Simon’s remarks are quoted from the same telephone conversation transcript; see Rasmussen, *Foreign economic policy*, 125-26

“The point is, the European Community instead of having this silly unanimity rule, learned they can’t gang up against us... people will see it later, Henry. By God it was a hell of a thing!”⁴⁵

Despite successfully destroying Europe’s first attempt at monetary union, this episode revealed a fundamental problem for the US: it had been unable in 1971-74 to play a hegemon’s central role of creating and maintaining international order, in this case in the monetary sphere. The US possessed “structural power”, both negative and positive. It had ample negative structural power, as demonstrated by Nixon’s ability to destroy first the Bretton Woods regime and the EEC’s first attempt at monetary union, thus preventing a new currency bloc structure being created that might one day rival the dollar. But the US lacked the positive structural power Nixon needed to persuade or to oblige Europe and Japan to accept US plans for new structures covering monetary, trade and defence issues. The C20 negotiation produced little result; the Year of Europe fared no better. Nixon found blocking international structures much easier than creating them. When the new international monetary order based on floating exchange rates and free capital mobility emerged under President Ford, it did so not so much by design but by accident: try as they might – and try they did - Europe, Japan and the US could find no better solution for dealing with the international economic problems created by OPEC seizing control of the world’s oil markets in 1973. The emerging monetary regime was forced on the US and its allies by circumstances; it was not made in the USA.

America First Again: Trump’s attacks on the WTO regime

The US’ relationship with its international trade order has been uneasy since 1945. The initial attempt to create an International Trade Organisation (ITO) alongside the IMF and World Bank foundered when Congress rejected the idea. This left the liberal international trade order buttressed by the General Agreement on Tariffs and Trade (GATT), a somewhat nebulous creation that focused on tariff reductions and omitted many of the key issues the US wished to include in its international trade order. Despite the GATT’s success as a vehicle for promoting tariff reductions multilaterally, its limitations and deficiencies (from a US perspective) became

⁴⁵ Quoted by Nichter, *Richard Nixon and Europe*, 149

increasingly clear over time. Victory in the Cold War boosted the US' positive structural power as its USSR rival disintegrated. This created an opportunity for the US to address trade regime weaknesses by building on the GATT to create a new, broader regime possessing greatly enhanced dispute resolution powers and anchoring this new regime in the World Trade Organisation (WTO) in 1995.

In line with Norrlof's argument, the newly unipolar US leveraged its "buying power" into "bargaining power" and embedded numerous structural advantages for itself in the WTO trade regime, many of which carried forward from the GATT. What were they? First, other states' access to the US market was conditional on them liberalising their trade (i.e. opening their markets to US exporters) and adopting trade practices and behaviours acceptable to the US. The US was very enthusiastic about other states liberalising their trade policies and opening their domestic markets to US exporters. But domestic political pressures constrained Washington's enthusiasm for liberalising US trade policies. Thus, the US ensured the WTO's new rules allowed Washington the right to give special protection to sectors it considered politically sensitive, including agriculture, steel, clothing and footwear. And the US insisted on "national security interests" being permitted to override WTO-enforceable limits on tariffs. Second, in line with US preferences, WTO competences were broader than the GATT's, in particular as regards coverage of non-tariff barriers to trade and trade-related intellectual property rights.⁴⁶ These additional competences enabled the WTO to help liberalise trade in goods and services in which the US economy held a comparative advantage. Third, the US insisted WTO rules would permit Washington to use its traditional bilateral trade weapons (anti-dumping and countervailing duties) when it felt the need to discipline other states whose trade practices threatened US interests. Fourth, the WTO included new, supposedly rapid, trade dispute resolution procedures the US wished to use to discipline other states' trade practices. WTO dispute procedures were designed to reach a decision normally within three to six months, ensuring trade disputes would not be long drawn out affairs during which a complainant might continue to suffer material damage. The US did not get everything it wanted in this area, but it got a lot more than the GATT

⁴⁶ The GATT had begun to address some of these issues in its final trade liberalisation effort, the Uruguay Round.

provided.⁴⁷ Lastly, the US gave itself (and every other state) a veto over changing the WTO's rules by insisting changes required unanimous approval. This helped perpetuate the US' negative structural power by protecting the US from other states imposing unwelcome rule changes upon it, apparently entrenching the US' structural advantages over time as institution theorists would expect.

Despite successfully reshaping the GATT international trade regime into a regime centred on the WTO, and despite ensuring the WTO incorporated many design features privileging the US, Washington's dissatisfaction with its new international trade regime soon surfaced. This was rooted in two developments: weaknesses in the trade dispute resolution mechanism and China's accession to the WTO in 2001. The disputes resolution procedures caused problems for the US in part because the WTO often failed to reach decisions as rapidly as had been expected, and because the appellate body's rulings went against US interests more frequently than the US found acceptable. Moreover, having made the WTO rules very difficult to change, the US found the WTO appellate body's judges, without seeking member states' political agreement, were effectively changing the WTO's rules through their interpretations of them. US negative structural power over the WTO was not as firmly rooted as Washington had believed in 1995.

China's accession in 2001 caused the US greater problems. Accession required China to reduce its tariffs (typically) to no more than 10%, well below the average applied by developing countries. But China joined the WTO from a centrally planned economy tradition. Beijing had long-prioritised direct state intervention in resource allocation decisions over indirect intervention through market-determined policy instruments (such as market-determined prices, interest rates and freely floating exchange rates). China's main post-1945 trade barriers had always been non-tariff because prices played a secondary role in a planned economy. Rather than change its behaviours radically, Beijing found ways to accommodate its state interventionist traditions by gaming the WTO's rules.⁴⁸

⁴⁷ Norrlof, *America's global advantage*, 90-114

⁴⁸ Beijing's ambitions to achieve Chinese world leadership in key high-technology sectors – as set out in President Xi Jinping's "Made in China 2025" industrial strategy – echoed China's centrally-planned recent past. Furthermore, when China believed it could satisfy President Trump by reducing China's bilateral trade surplus with the US, it

China's non-tariff barriers include trade-distorting subsidies to state-owned exporting enterprises, most obviously in the politically sensitive steel sector. China's ability to escape WTO restrictions on subsidising state-owned industries was enhanced by a WTO appellate body decision the US (and other states) found highly questionable: WTO judges ruled that enterprises owned mainly by the state did not count as the type of "public body" to which WTO restrictions on state subsidies should apply. This and other gaps in the WTO anti-subsidy regulations helped China achieve a globally significant surge in its manufactured exports, squeezing manufacturing across the OECD area. Chinese manufactures grew from 2% of the world total in 1991 to 20% in 2013; the US lost 6 million manufacturing jobs during 2009-11, an estimated one fifth of these to Chinese competition.⁴⁹ China's acquisition of US intellectual property - by fair means and foul - and the Chinese government's supposed currency manipulation aimed at defending Chinese producers' competitiveness in export markets added fuel to the fire in Sino-US trade arguments. These criticisms of China's adopting a super-competitive exchange rate to disadvantage US producers echoed those the Nixon administration had earlier directed at EEC states and Japan. The upshot was that China's economy grew strongly after WTO accession, redistributing economic (and to a lesser extent military) power away from the US towards Beijing. The international trade regime was not delivering the structural advantages the US thought it had embedded in the WTO.

Donald Trump's presidential election strategy conflated globalisation's pressures on US jobs and living standards with the pressures from Chinese competition. As Nixon had, Trump built his vote in part by promising to put America First and deal with other states' "unfair" trade competition. He challenged the merits of globalisation and, in particular, Chinese competition. He regarded boosting investment in the US, including by repatriating US overseas direct investments, as the key to boosting US jobs and living standards and rebuilding US relative power. In office, he criticised the Federal Reserve for tightening monetary policy when it raised interest rates (discouraging investment) and strengthened the dollar (making US exports less competitive

proposed using a central-planner's traditional approach: the state offered to buy additional quantities of US agricultural commodities and energy.

⁴⁹ *The Economist*, 29 September 2016

abroad). He also loosened fiscal policy by boosting defence spending massively and persuading Congress to enact huge tax cuts intended, inter alia, to boost investment and attract back to the US financial capital US multinational companies had earned abroad but held offshore to shelter it from high US taxes. Trump's *increase* in defence spending approximately matched Russia's total annual defence budget.

Internationally, President Trump decided his best negotiating strategy was to deal with other states bilaterally (where the US's relative power advantage is greatest), rather than on the basis of international rules (which tend to mute US power). He publicly criticised international institutions and their rules, and disparaged multilateral trade and security agreements, including the WTO, NAFTA and NATO; he pulled the US out of the Trans Pacific Partnership and the Paris Agreement on climate change. He criticised the EU, downgraded its diplomatic status in Washington, applauded the UK for seeking Brexit, and warned NATO members they needed to make greater efforts to supply and pay for their own defence; he warned them not to expect US security subsidies to continue.

President Trump's attack on the WTO regime took two forms. First, he refused to approve nominations of judges for its trade disputes resolutions procedures. Like the 10% import surcharge Nixon imposed in 1971, this move was intended to force other states to address US concerns. The WTO needs a panel of seven judges, from which three are drawn to adjudicate trade disputes. Nominations for new appointments must be agreed unanimously by the WTO membership. Retirements and the US embargo on new appointments have now pushed the number of available judges below the required minimum. The WTO's judicial function is no longer operable and will remain inoperable until the US' demands for reforms are met. Second, President Trump wrecked WTO tariff and Most Favoured Nation disciplines. He used the "national security" legal loophole to justify his imposition of arbitrary tariffs on US steel and aluminium imports. When other states retaliated with new tariffs, he rapidly and selectively escalated the tariff war, focussing on China because of its role in intellectual property theft and its financial support for state-owned enterprise exporters. After announcing the EU was the US' biggest trade "foe", President Trump agreed to de-escalate the tariff war with the EU when the

EC Commission agreed to support US efforts to reform the WTO and work with the US on lowering tariffs on most EU-US trade in manufactures. Trump also threatened to add a 5% tariff on imports from Mexico and increase this incrementally by 5 percentage points a month up to a ceiling of 25% unless Mexico does more to prevent the flow of Latin and Central American migrants through its territory to the US, which prompted Mexico to tighten its migration controls.

The Trump administration's trade initiatives reveal their international economic policy's two main objectives, one domestic political, the other geopolitical. The domestic political objective is to defend and promote the interests of voters whose economic prospects have been damaged by globalisation. These voters want Trump to help create US jobs and raise living standards, especially where globalisation's pressures have created unemployment and held down wages. Success would give voters reasons to be grateful to a Republican president in future elections, neutralising the economy as an electoral issue for Democrats. Candidate Trump was willing to capitalise on this issue in 2016, exploiting the underlying domestic political discontent with the WTO regime's impacts as voters sensed the US had lost to China the structural advantages the Clinton administration believed it had written into the WTO regime's constitution.

Geopolitically, the Trump administration might regard the EU as the US's main trade "foe", but sees China, with its rapid, export-driven economic growth, as the main threat to US primacy. Trump is devoted to US primacy: his election motto was "America First". First is, of course, a relative concept. To Liberal theorists' dismay, President Trump has downplayed their preferred pursuit of absolute gains in US foreign economic policy and instead pursued relative gains. To that end, he is shifting the US' hegemonic strategy away from the consensus-based approach President Obama favoured (which was generally aimed at achieving absolute gains for the US through international co-operation) to one based on US domination and exercising power bilaterally.

A US foreign policy that emphasises bilateralism creates vulnerabilities for international regimes and international co-operation more generally. It implies the Trump administration could regard any regime failing to promote US primacy as a potential impediment. The international monetary regime is broadly safe from Trump administration attacks because of the dollar's primacy and its

global role in enabling the US to impose not only its own financial and trade sanctions on other states, but also have them in effect replicated by states reliant on US capital markets or whose enterprises routinely conduct their international transactions using dollars. Thus the dollar's role in the international monetary regime yields a considerable privilege to Washington because it magnifies the impact and effectiveness of US sanctions at no additional cost to the US.⁵⁰ The WTO trade regime, however, became a prime target once the US had failed to maintain its initial structural advantages and China enhanced its geopolitical status by exploiting the trade regime's opportunities. The WTO trade regime, as the US intended in the mid-1990s, will generate a flow of benefits to the US. But the "dividends" the US reaps on its "investment" in establishing the regime will be less than Washington might at one time have expected. Consequently, and notwithstanding the US' role in founding the WTO trade regime, the Trump administration may regard destroying the WTO regime in its current form as low-cost collateral damage in the pursuit of America First. And if WTO trade regime destruction or its fundamental reform were to throw sand in the works of China's export machine while creating unemployment in China that would discomfort Beijing, so much the better, from President Trump's geopolitical perspective, for his efforts to put America First.

(Not very) different approaches to rebuilding US privileges

It is not difficult to find parallels, but also some divergences between Nixon and Trump's approach to international regimes. Presidents Nixon and Trump have attacked regimes not with the intention of eradicating them, but with a view to introducing reforms intended to rebuild US privileges. Both presidents mounted their attacks because they believed a regime no longer privileged the US, instead imposing unacceptable costs that might weaken or undermine US primacy. Both were convinced their attacks would produce reformed regimes. But both presided over a US that, while it possessed ample negative structural power, was deficient in positive structural power and unable to impose its preferred structural reforms.

⁵⁰ See Juan C. Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare* (New York: Public Affairs, 2013)

US attacks on its regimes can be explained largely by its loss of the privileges it had designed into the regimes. The US' main privileges under the Bretton Woods regime derived from the dollar's role. The US had been able to ignore the balance of payments constraints affecting other states because it monopolised production of the international monetary order's main reserve asset: the dollar. If the US needed more reserves, it could simply print them; other states had to earn their reserves by running balance of payments surpluses. A growing post-war world economy's need for liquidity meant the US could run balance of payments deficits "without pain" because other states needed to increase their reserves as their trade grew, and, with gold production limited, the dollar was the only reserve asset available. But the supply of dollars outstripped the US economy's growth and foreign confidence in the US' ability to honour its pledge to convert dollars to gold on demand waned. President Johnson was forced to respond to allies' concerns about the way the US was funding the Vietnam War by imposing controls on US capital outflows at the start of 1968.

The secular growth of US dollar liabilities held by foreign governments and central banks also created unease in Washington that the balance of payments might become a constraint through a run on US gold reserves.⁵¹ It was clear to all US international monetary leadership was resting on increasingly precarious foundations when Nixon took office because US external official liabilities approached four times the value of US gold reserves. Treasury Secretary Connally frightened Nixon when he told him the US might face a run on gold before or during the 1972 presidential election. And Connally admitted at the secret Camp David meeting on 13-15 August 1971, "Anyone can topple us, any time they want."⁵² Japan's and the FRG's strong post-war economic recoveries and allies' under-payment for US-supplied security added to Nixon's fear the US' relative economic power was draining away uncontrollably. Hefelt he had to act boldly to protect his re-election aspirations, shore up the US' international leadership position and regain US privileges in the international monetary regime.

⁵¹ As early as 1960 President Eisenhower worried US military and economic commitments were incompatible with a stable dollar and gold convertibility as the US became a net debtor to foreign official creditors. See Francis J. Gavin, *Gold, Dollars and Power: the politics of international monetary relations, 1958-71*, (Chapel Hill: University of North Carolina Press, 2004), 34

⁵² Quoted in Safire, *Before the fall*, 514

President Trump is similarly placed with respect to the WTO trade regime. A combination of the WTO's interpretations of regime rules and China's accession have eroded US trade privileges. Beijing's massive state-backed export drive has exploited and evaded the free market disciplines the US built into the WTO regime. This is redistributing relative economic power in China's favour at the US' expense. China's economic growth is also starting to redistribute relative military power as Beijing converts some of China's additional income into additional military expenditures: its defence budget is now the second largest in the world, behind only the US' and is treble Russia's. Moreover, China's economic power is impacting on the US' ability to play the offshore balancing role it has sustained in Asia since 1945. China's neighbours told Kissinger they are hoping Washington will never oblige them to choose between sustaining their economic relations with China and their security relations with the US.⁵³ The world remains unipolar for the moment and President Trump aims to prevent it sliding towards bipolarity through his America First policy of strengthening US economic and military power, as Nixon in his time acted against the US' main economic competitors and rivals, driven by his fear the world was sliding from bipolarity into the complexities of multipolarity.

In any event, this is where the Nixon/Trump parallels begin to break down, largely because the Trump administration's ideas on regime reform do not appear to be as developed as were the Nixon administration's. There are three main divergences: the degree of international support for US reform efforts; the US' ability to articulate its reform vision; and, agreement on the forum to be used for the reform negotiations.

The Trump administration is better placed than was Nixon's to secure an international consensus on regime change. It is clear the Trump administration wants the WTO trade regime to be reformed, not abolished, just as the Nixon administration wanted a reformed Bretton Woods regime. Robert Lighthizer, the experienced trade lawyer co-ordinating President Trump's trade policy, said in December 2017 the WTO "does an enormous amount of good".⁵⁴ He obviously wants a WTO trade regime, but not the current one. Importantly, whereas the Nixon

⁵³ Kissinger, Henry A., "The Future of US-China Relations: Conflict is a Choice, Not a Necessity", *Foreign Affairs*, 91 (2) 2012, 51

⁵⁴ *The Economist*, 21 July 2018

administration pursued international monetary reform in the face of opposition from the EEC and Japan, President Trump does not face this difficulty. Europe and Japan, like the US, have been alarmed by China's ability to exploit the WTO trade regime. They too wish to see the regime reformed in ways that constrain China's behaviours and prevent its state from distorting their markets and will support the US on reforms targeting Chinese behaviours. It was noteworthy, for example, that the US/EEC Commission 25 July 2018 agreement to negotiate lower transatlantic tariffs also included an EEC Commission commitment to support US efforts to reform the WTO trade regime. Japan is reported to be similarly minded. Nixon never received that kind of international support for Bretton Woods reforms.

As for the second divergence between the Trump and Nixon presidencies - the transparency of the US' reform plans - the Nixon administration produced its Bretton Woods reform plans and shared them with IMF member states nine months after the Smithsonian Agreement called for reform. The Trump administration's plans remain opaque well into the third year of his presidency. There are temporary tactical advantages for the US in limiting its public statements to criticisms of the WTO regime and China's exploitation of it: US criticisms are shared by Europe, Japan and others and will maximise support for the US position. It is sensible for Washington to keep under wraps for now any proposals intended to re-privilege the US in a reformed trade regime because these measures will be divisive. The Trump administration is probably correct to avoid imitating the Nixon administration's reform transparency for the moment, although it will not be able to hide its hand forever.

It is less obvious, however, why the Trump administration has failed to seek agreement on the forum in which reform will be negotiated and on the selection of participating states. This is the third main area of divergence between the Nixon and Trump efforts to reform regimes. Nixon settled on his preferred forum – the C20 – within nine months. The Trump administration has been slower off the mark and needs to take a leaf out of Nixon's book. While the WTO is apparently the obvious choice of forum for a trade discussion, it is an unsuitable venue because its unanimity rule would guarantee no progress was made - Chinese turkeys are unlikely to vote for Christmas – and involving all 164 WTO member states in the reform negotiation would render

the process impossibly slow. A simple *tour de table* would take days; national monologues would crowd out fruitful dialogue and constructive negotiation. Trump needs to settle the selection of both the appropriate forum and the limited number of states that will participate actively in the reform discussions, and clear these issues from the table. Once the opportunity for negotiating international trade regime reform presents itself, he cannot risk losing momentum by becoming bogged down in procedural issues arising from the selection of the appropriate negotiating forum and the choice of participating states.

Conclusion

The WTO trade regime has evolved in ways that have damaged the privileges the US built into the regime for itself. The current US attacks on the regime are therefore best thought of as a hegemon's efforts to restore its privileges in the US' national interests and sustain its primacy rather than an attack intended mainly to appease an important element of President Trump's political base, although the attacks have that effect too. The timing of the US attack is probably explained by the rapidity with which China has exploited its opportunities in the WTO, not President Trump's election. The style of the attack is, however, probably down to the President's nature.

President Nixon's attack on the international monetary regime in the early 1970s is an important precedent. It showed, contrary to the thrust of Institution Theory, a hegemon will attack a regime it has created once its privileges in the regime have diminished. But his experience validated another prediction of Institution Theory: regimes are sustained by the demand for them as well as the hegemon's capacity to supply. This helps explain why the US' hegemonic attacks were intended to reform a regime, not obliterate it. In Nixon's case, the demand for the international monetary regime meant the US had little support initially in seeking regime change. For Trump, the demand for the trade regime is a mixed blessing because those wishing to operate under a trade regime include states who broadly support the US (Europe and Japan), but also China, his leading opponent.

The global coronavirus pandemic of 2020 will likely accelerate the trends we have examined above in a number of ways. First, without coordinated global resolution, now looking very unlikely given the narrative of 'China-bashing' emerging from the Trump Administration, it is possible that the global pandemic will bifurcate the world economic order. Specifically, the global economy may revert to a bipolar world that, from a trade perspective, will appear something like the Cold War stand-off between the USSR's COMECON trading bloc and the US-led OECD trading area, with developing countries siding with one or the other as they see fit. China is already ahead of the post-pandemic global great game, with its much vaulted aid to often stricken developing nations. Second, if the world divides into competing regional trading blocs, the UK, EU, the broader Anglosphere and Japan will likely join the US 'camp'. China would certainly be more successful in winning allies in the developing world than was the case with the USSR, especially in parts of Asia, the Middle East and the former Soviet Union. But India (for historical reasons) and many other Commonwealth, Francophone and Latin American states, plus much of the Middle East, would likely side with the US. Third, if the world lined up in this fashion, with trade largely within the two regional trade blocs, not between them, life would not be comfortable. Competition for secure sources of supplies would be fierce. The situation within the US trading bloc might resemble the 19th century world where states competed through formal and informal colonisation or through their "national champion" companies for access to supplies, except in the 21st century competition would be through overseas direct investment rather than formal colonisation. Ferocity of competition would, as now, be evident in bidding in international markets, and additionally where companies were bidding to acquire ownership of foreign-based producers of key inputs. Competition from deep-pocketed "national champion" companies based in North America, Europe and Japan would in many cases crowd out British bidders. Security of supply, where achievable, would come at a cost. Neither the US nor China possess the positive structural power required to avert this outcome. If it does eventuate, spurred on by post-pandemic hardening of relations, the world will be a poorer and more troubled place if indeed this is what emerges.

