

From policy to populism: Donald Trump's trade policy in global context

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Theme

An open multilateral trade system is under direct challenge from the policies of President Donald Trump. The year 2018 will be crucial.

Summary

This paper reviews US trade policy one year on after the election of Donald Trump. It demonstrates that after a year of exacerbating transactionalist and protectionist rhetoric we are now in a position to observe the direction policy is taking in practice. Sadly, it is becoming clear that practice is indeed matching rhetoric. The evidence is gathering. Commencing with withdrawal from the TPP, policy has hardened towards an open multilateral system. The year 2018 has seen attacks on the WTO (stopping appointments to the Appellate Board), followed by moves to introduce tariffs on white goods, aluminium and steel and a strategy for direct activity towards China. The year will also see a hard line towards NAFTA re-negotiations. The prospects of enhanced trade tension –trade war, even– is the obvious next stage flowing from Trump's policy. Major players are likely to retaliate.

Analysis

Introduction

Just after his election but prior to his ascent to office in 2016, I wrote a short piece for the Elcano Royal Institute on the prospects for US trade policy under Donald Trump (see Higgott, 2016) in which I suggested his populism would be moderated by the rationales, logics and imperatives of policy once he was in office I argued that while he would be rhetorically protectionist and bilateral in tone he could, nevertheless, be expected to surround himself with people of talent and experience who could resist his more outrageous protectionist sentiments. Office, I argued, would instil in him the norms and principles of a rules-based, multilateral open world trade system.

With the benefit of hindsight, I was naively optimistic to believe that good sense would prevail. Trump's first year or so in office has proved to be detrimental to, and dangerously destabilising of, a global liberal order, albeit one in need of reform (see, *inter alia*, Ikenberry, 2017 and 2018; Kaplan, 2017a and 2017b; and Luce, 2017). Enough has happened, and more is foreshadowed, to confirm the fears of even the most pessimistic observer of the global economic order in general and the global trade regime in particular.

Instead of assuming the continuance of a liberal global order built on three interdependent 'pillars' –North America, Western Europe and East Asia–, what we are seeing is a strong populist-nationalist 'thread' across the international spectrum from Trump's America First, through the rise of 'illiberal' democracy across parts of West and Central Europe, a 'Putinesque revanchisme' in Eastern Europe and a Chinese model of authoritarian capitalism in large parts of Asia (see, *inter alia*, Brubaker, 2017; Werner Muller, 2016; Mudde & Latwasser, 2017; and Higgott & Proud, 2017) leading to a model in which Russia and China, for their different reasons, are dissatisfied with a liberal order underwritten by US power –which they now see as challengeable and a US unwilling to continue underwriting that order–. Where others once saw the US leading that order as a 'self-binding hegemon' (Martin, 2004) the current Administration now sees a self-denying ordinance tying US hands in the global economic (and political) order.

Nationalist trends in the organisation of the contemporary global economic order have been in train at least since the time of the Global Financial Crisis (GFC) of 2008, but it is the more recent populist challenge in the US and many European countries and the accompanying growth of 'culture wars' that are replacing broad economic understandings of the benefits of an open global economy that gives it life. Recourse to these views by populist leaders reflects a disturbing ignorance, or wilful disregard, of the relationship between security and international economic openness that makes contemporary US trade policy a genuine cause of concern for global stability. It is the purpose of this short paper to put current US trade policy into its proper context and to identify several key issues in need of deeper scholarly and policy analysis.

Global trade needs analytical friends not ideological boosters

The progressive evolution of the GATT into the WTO over a 50-year period of regular trade rounds created a liberal rules-based trading system with a set of agreed norms and practical rules that were deemed, at the time of the creation of the WTO in 1995, to be sensible, legitimate and on balance a good thing. Indeed, the formation of the WTO and the subsequent membership of China seemed to be the tipping point for global acceptance of the universalism of the global trade system in which an open, but managed, international trade regime became non-contentious. The same assertion cannot be made today. The system and the WTO are in trouble. Support for the multilateral process has stalled and a range of hurdles has presented itself to the global trade system. The last decade has seen, among others:

- (1) The failure of the Doha Development Round.
- (2) A dramatic growth of interests in preferentialism of both a regional and bilateral nature –with an increase in the number of preferential trade agreements at the bilateral level and the Trans Pacific Partnership (TPP/RCTPP) and the Transatlantic Trade and Investment Partnership (TTIP) as the exemplar of mega regional trade negotiations.
- (3) The drift into 'murky protectionism' in the wake of the 2008 GFC (see Baldwin & Evenett, 2009).
- (4) More recently, and most substantially, the backlash against an open global trade system on the back of the growth of populism (see Brubaker, 2017; and Higgott & Proud, 2017) and protectionist rhetoric.

It is the current populist anti-trade rhetoric and practical political follow-on that has the potential to do the greatest damage. Such rhetoric is invariably bereft of any comprehension of 20th-century trade history. It reflects no knowledge of the 1930s depression in which 'beggar thy neighbour' protectionist policies, especially the passing of the Smoot Hawley Act of 1930, represented a massive exercise in self-harming for the US and furthered the collapse of world trade (see Irwin, 2017.)

Under conditions of globalisation, hard-line Hayekian neo-liberal advocates of unfettered free trade have played into the hands of the populists. A failure to be honest about some of the downsides of free trade has given it a negative reputation it does not deserve. Free trade generates massive aggregate global welfare gains. But it invariably does so with uneven distributional effects that have meant that not every sector of the community gains in every exchange. As Heckscher-Ohlin, Stolper Samuelson (HOSS) theoretical trade-modelling tells us, low-skilled workers in developed countries can, in the long run, lose out to similarly skilled workers in poorer countries (see Krugman, 2008), although the magnitude of this impact on the economy and wage rates in a developed country such as the US remains widely disputed (see Stone & Cavazos-Cepada, 2012).

This is not the same as saying that trade inevitably fuels inequality. Indeed, the evidence suggests that this is not the case. Trade would appear to be but one factor, and a marginal one at that, in recent explanations of growing inequality (see Frankel, 2018). However, that there may be no strongly measurable relationship between a country's trade deficit (or surplus) and a decline in employment, wage levels and inequality is less significant than the political utility of a trade deficit in the hands of a populist nationalist politician.

If these challenges have not put globalisation into reverse they have put the brakes on deeper international economic integration. In recent years trade has ceased to grow at rates significantly greater than output, which had been the prevalent relationship until the early 2000s. This poses tough questions for the architecture of international trade governance, with the WTO especially being weakened as an instrument of global public policy coordination in recent years.

As is now widely understood (see Rodrik, 2017a, 2017b and 2017c), failure to acknowledge the complex reality of trade and an unwillingness to develop public policy correctives to its unequal distributional consequences has provided ammunition for advocates of the worst kinds of populist protectionism (on both the political left and right). This is complicated economics. In the hands of a populist ideologue it can easily be used to argue the case for protectionism. It is in such a context that the trade policy of the world's largest economy and most powerful state becomes so important.

The present: why it is rational and not alarmist to worry about Donald Trump

Ironically, at a time when the US is looking as though it will need to share global power with old and new rising great powers in the future, its role in securing or undoing the economic stability of the current order is becoming greater than ever. How it behaves in the economic domain affects the wider geo-strategic picture more than the behaviour of

any other state. In what amounts to a fundamental break with the past, US policy under Trump is no longer about enhancing a global liberal trade regime. It is about rectifying large bilateral trade imbalances wherever they exist and notwithstanding that much of the explanation for these imbalances is to be found at home in the US, where less than 1% of companies export anything at all and where thoughtful domestic policy reform could have a bigger impact on US export competitiveness than international retaliatory action (see McKinsey, 2017).

Of course, the US remains a commerce-minded international power. US foreign policy may not be isolationist and Trump's actions to make America great again may have been more rhetorical than real in the international trade domain to date (Boot, 2017). But the US under Trump is currently operating with a narrow, bilateral and transactionalist conception of interest. America First might not imply America Alone, but it does suggest that the US is no longer inclined to accept responsibility for the 70-year-old wider global order underwritten by a network of multilateral institutions. In the economic (and security) domain, US trade partners and political allies are having to readjust to a less predictable, lower-trust environment where contest and conflict rather than cooperation and consensus in US trade relations (and the management of the global financial regime) is becoming the norm.

Trumpian trade rhetoric (and practice) is disruptive and self-defeating for the contemporary trade order. Essentially mercantilist, Trump sees trade as zero-sum. He insists on reciprocal and fair trade, yet his only measure seems to be if the US is running bilateral deficits –sufficient proof for him of foreign cheating and/or poorly negotiated trade deals–. His view is both wrong and misleading. His focus on goods –primarily industrial and manufacturing– reflects in part atavistic thinking associated with classic economics regarding value and accumulation. Trump ignores that in the all-important service sectors –finance, banking, insurance, AI and intellectual property– US providers invariably run surpluses.

Further, it is not low tariffs that explain dramatic industry closures in the manufacturing sectors of mature economies such as the US. Manufacturing jobs are on the decline globally (see Baldwin, 2017). Global ability to produce is outpacing growth in demand. Technological innovation, especially AI and robotisation, means that fewer jobs are created. And those that are not only require higher skills they will not automatically land in those parts of the US that have undergone high job loss in the last several decades. Relocation will continue as China and India (both major beneficiaries of a liberal economic order) become more integrated actors in a global economy dominated by the development of an unbundling of production and ever more complex global supply chains. This genie is not about to be put back in the bottle, US presidential determination or not.

Thus, the future of global trade viewed from a Trump-led Washington is firmly about undoing the multilateral progress of the post World War Two age. Donald Trump is explicitly opposed to multilateral trade cooperation; especially the mega-regional initiatives such as the TPP and TTIP (in its current form) (see 'Fears for global trade as Trump fires first shots to kneecap WTO', <https://www.ft.com/content/5afbd914-a2b2-11e7-8d56-98a09be71849>). His decision to quit TPP is reinforced by his determination

to renegotiate NAFTA (which Trump has called the worst trade deal ever made). Strongly supported by US Trade Representative Robert E. Lighthizer, Trump has also turned his rhetorical guns on the WTO as an institution and multilateralism as a *modus operandi* for trade.

For Trump, the WTO is merely a forum where other states have for too long taken, and continue to take, advantage of the US. Wrongly asserting that the dispute mechanism discriminates against the US (which has, in fact, won 90% of its 100+ appealed legal disputes) he has set in train a campaign against the role of the WTO in dispute settlement. The initial blocking of appointments to the WTO Appellate Body may only be a first step, with more to follow in 2018. The US is, of course, not the only critic of the WTO. Europe too would like to see reform.

Nor is Trump wrong about the political challenge from China, but he sees it simply, and incorrectly, as an issue of bilateral trade deficits. This misses the wider significance. China's failure to live up to its institutional obligations since joining the WTO is not accidental. Indeed, it is clear that China, in its own way, is systematically challenging the norms of a liberal international economic order. Greater integration into the world economy since its accession to the WTO has not encouraged China to behave as a normal (OECD style) market economy. Its economy, and Chinese business, remain a *de facto* arm of state power. Companies that trade successfully in China do so very much on China's terms. China works with the norms and rules that suit it but plays fast and loose with those that do not. For example, the Belt and Road Initiative (BRI) is governed by Chinese dispute resolution norms, not those of the WTO.

While the EU and Japan support the US in bringing pressure to bear on China (see 'EU, Japan and US to ramp up trade pressure on China', <https://www.ft.com/content/5f0aad90-deae-11e7-a8a4-0a1e63a52f9c>), a continuing hostile US attitude to the WTO by the Trump Administration and, perhaps more immediately, the renegotiation of NAFTA will be litmus tests of US trade policy between now and 2020. The year 2018 is crucial, and how the Administration deals with NAFTA and the impact of its aggressive implementation of tariffs and deficit-reducing policies towards trade-surplus states and regions such as the EU –especially should TTIP, as some think might be the case, come back into play (Rashish 2017 & Manning, 2018)– could have dire consequences for global trade.

January 2018 saw the first shot in any tariff confrontation when Trump signed into law the introduction of 30% tariffs on imports of solar panels and some white goods to the US. It is a move clearly aimed at China. The latter, of course, is asserting that it will retaliate (see 'Trump's 30% tariffs on solar imports anger global sector', <https://www.ft.com/content/288cac76-000c-11e8-9650-9c0ad2d7c5b5>). These, it seems, were opening salvos in future trade conflict. Steel and aluminium were added to the list in March and further white goods and intellectual property can be expected to follow if practice is lined up with Trump's rhetoric.

We should note that to date, the other major trading powers, notably the EU and China, have not shown any inclination to follow Trump's line. The EU's Strategic Vision (2016) was and remains firmly committed to an open, liberal and multilateral economic order.

And Xi Jinping's 2017 Davos commitment to global economic openness was a positive response to the rise of protectionist rhetoric that accompanied Donald Trump's election (Yong Wang, 2017).

Equally, it is worth noting that US withdrawal from the TPP, while it initially dampened enthusiasm for the organisation, did not kill off support for it amongst its other members. TPP came into effect in March 2018 under its new name of the Comprehensive and Progressive Agreement on Trans Pacific Cooperation (CPTPP) (see 'Trans-Pacific trade deal to go ahead without US', <https://www.ft.com/content/7a10d70a-0031-11e8-9650-9c0ad2d7c5b5>). While the absence of the US market from the CPTPP is sub-optimal, most of the Agreement's key provisions remain intact. Moreover, it is still a more advanced exercise in regional economic cooperation in East Asia than the Regional Comprehensive Economic Partnership (RCEP) pushed by China.

But Trump's rhetoric and practice have, nevertheless, given China the opportunity to take a global leadership role in the domain of trade (and also the environment) at the same time as US power and standing in Asia diminished throughout 2017 (Camroux, 2017). In this regard, seemingly keen to undo Obama's vision of the region, Trump's withdrawal from TPP was as much a strategic mistake as an economic one. CPTPP already is, and will become, more than an economic organisation. CPTPP's structure keeps it open to further members from countries such as South Korea, Thailand and Indonesia, which have all expressed interest. Most importantly, it sends a message that the dominance of the region will not simply be gifted to China if the US continues on its current absent-minded route.

Of course, future membership of CPTPP also remains open to the US. And it is not axiomatic that the US will simply and successfully undertake bilateral deals on a one-off basis with CPTPP members. Both Japan and Vietnam have declined invitations to talk and Trump surprisingly announced in January 2018 that he '... would do TPP if we made a much better deal than we had' (see 'Trump opens door to US rejoining TPP', <https://www.ft.com/content/3cb22bb8-0205-11e8-9650-9c0ad2d7c5b5>).

Yet Trump's messaging on trade is accompanied by wider practical implications. Not only does US policy allow China to play an increasingly successful role in the domain of global institutional economic governance in established bodies like the IMF, World Bank and WTO, it has also encouraged it to **develop new bodies** like the AIIB. While other actors such as the EU –and Germany and now France individually– have aspirations, they are not playing a global leadership role reflective of their influence and standing. Threats to the international economic and political orders in the absence of both individual and collective leadership from the world's greatest power is real. While the US is still a major player in the overall economy of the Asia Pacific, it has effectively vacated the institutional playing field. APEC, as with the Da Nang November 2017 Summit) is treated merely as a platform for Trumpian rhetoric while the rest of the region appears to get on with its economic business.

Even discounting for the problematic impact of Trumpian diplomacy in the Asia Pacific, the US is a diminished regional player. But what the Trump Administration does not contemplate is that the US could also be a major loser from its combative trade

diplomacy. It is possible that the US becomes progressively isolated from any new trade-liberalising activity in which it would usually be included, if not indeed be a leader. As the *Financial Times* has argued –possibly prematurely, we should caution– ‘Trump may huff and puff. The rest of the world will limit the damage’ (see ‘A protectionist advance is far from inevitable’, <https://www.ft.com/content/bf94549c-e663-11e7-8b99-0191e45377ec>).

How to think about global trade now?

The current struggle to keep global trade open is very much part of the wider geo-strategic game to determine the shape of the emerging global order that looks to gradually be pushing beyond the US led order that prevailed for much of the post World War Two era. In this context, trade is not simply an add-on. It is not a mere necessity that will take care of itself. It affects and is affected by practically everything else that takes place at the interface of national and international relations. We require a closer alignment for analytical purposes of the international economics of global trade and the wider changing and increasingly contested geo-political and-strategic environment in which trade occurs.

So, in that time-worn phrase, what is to be done? Particularly, how should we respond to the current role of the US other than hope for the best and plan for the worse? There is no law that forces the US to accept global responsibility/leadership. It did, lest we forget, sit out the 1920s and 1930s while the rest of the world collapsed economically. Unlike the 1920s-30s, however, US geography and wealth no longer insulates it from exigencies of global economic and political calamity in a manner it might have once done. The technological wiring of the global economy cannot by-pass the US. Notably, most US productive export activity is embedded in complex global supply chains from which its major corporations are unable or unlikely to disengage. Moreover, while US economic power for much of the 20th century was near absolute, now it is not. There was no rising China and India or other big economic players in the inter-war period of the 20th century. Trumpian logic –practising what Richard Haass, President of the Council of Foreign Relations calls the ‘doctrine of withdrawal’– does not provide the US with a real exit option in any global economic failure this time.

The contemporary global trade regime is replete with serious problems of both a political and technical nature that need to be addressed if we are to ward off some of the worst exigencies of the contemporary backlash against international trade openness in the era of Donald Trump. There is a literature emanating from the trade academic community (see, for instance, Braga & Hoekman, 2018) that addresses some of the technical questions. But there is little literature that deals with global trade as a political question embedded in wider geo-strategic contexts. We have to think about trade differently in the 21st century. We need to understand the wider geo-strategic contexts in which trade takes place. We must take account of three sets of inter-linked issues: the international, the domestic and the institutional.

Key international challenges

Internationally, the key challenges are: (1) managing the combative economic relationship between the US and China; (2) the slower growth in the transatlantic area (the US and Europe); and (3) the role of regional trade agreements (RTAs).

As regards managing the combative economic relationship between the US and China, there is a very real prospect of heightened trade conflict –trade war if you must– in the relationship between the US and the major economic powers following President Trump's quixotic 1 March announcement of the introduction of tariffs on steel and aluminium. Notwithstanding the target for the tariffs was China, the victims will be major allies, notably Canada, Germany and South Korea, notwithstanding that Trump is fighting the wrong battle with China. Intellectual property, not steel, is the battleground on which China is challenging the US. The introduction of the tariffs on steel and aluminium, if that does eventuate –and if the WTO is unsuccessful (as is most likely given current US policy and attitudes to the DSM) in mediating the case–, will certainly be greeted by retaliation. Indeed, the EU, Canada and Brazil have already indicated that will be the case.

The level of escalation of any such action cannot be known at this stage. But a trade war will exacerbate the weakening of, if not destroy, the liberal norms of openness that have characterised the global trading regime since the end of World War Two. It will detract from China's infractions of the global trade system, cede moral high ground to China and very possibly strengthen its relations with Europe at the very time when transatlantic cooperation is also being weakened by US behaviour.

The slower growth in the transatlantic area (the US and Europe) is generating discontent and nourishing populism. While noting that the relationship began to unwind before Donald Trump and is unlikely to return to normal after Donald Trump (Steltzenmuller, 2018), the need to reboot the transatlantic economic dialogue is paramount to the wider strategic dialogue if the rapidly shifting centre of economic gravity towards East Asia that is tilting the traditional balance of power is to be moderated.

The role of regional trade agreements (RTAs) for the global trade regime is becoming even more theoretically problematic at the same time as it becomes more practically salient. While there is a massive literature on the subject there is no definitive agreement on whether they are to be trade-enhancing rather than defensive mechanisms in the wider geo-strategic game. Analysts and practitioners alike are not sure if RTAs are distractions or a complement to a more broad-based approach to global trade governance. For example, are a sub-optimal TPP and a dormant TTIP reflection of the wider malaise facing the WTO in particular and multilateralism more generally or are they an economically fruitful (as opposed to politically expedient) alternative routed to the organisation of global trade?

Key domestic trade challenges

Domestically, the key trade challenge is to address the sustained failure by governments to defend an open global trade regime and its advantages. Preferring, often by default, to let trade relations (dealings with foreigners) take the blame for technological disruption is leading to increased domestic political and international tensions. This is not helped by the unwillingness of governments to take adjustment policy seriously. This has major implication for the relationship between the citizen and the state and the future of democratic governance that cannot be discussed here (see Higgott & Devetak, 1999).

Key challenges facing the WTO at the institutional level

At the institutional level, the key challenges facing the WTO are that:

- (1) Decision-making in the WTO is close to paralysed. Consensus-based decision-making all too often turns into veto politics, incoherence and turf battles amongst members, yet consensus in some form or another remains essential to legitimacy and good policy implementation.
- (2) The WTO has focused far too much on trade liberalisation since its creation. Large multilateral trade negotiations are no longer feasible and many other venues for sector-specific negotiation exist.
- (3) More attention needs to be paid to upholding the WTO's rule-making function. The existence of the rules –not necessarily their use– is a global public good that is uniquely supplied by the WTO. And the rules are more important than is understood by populist rhetoric as mechanisms for enhancing pre-commitment, levelling and compliance.

The future of the WTO is in jeopardy unless responsible global actors can pick up the baton dropped by the US. To give two small examples here, other WTO members must defend the DSM by continuing to act in line with their commitment towards each other regardless of US behaviour. They could also decide to appoint judges to the appellate body by a large majority consensus (see Elek, 2018).

Conclusion

In sum, the future of the global trade regime, and especially trade governance, is in much greater danger than we think. This is the case at both the normative level of a lack of commitment to an open liberal multilateral system and, at the practical level, of the problematic future of the WTO. Trade needs more, not less, openness and liberalisation, but also greater institutional cooperation, preferably operating under WTO rules. The future of the global trade regime depends on educating President Trump, his supporters, and indeed other populists, that an open liberal trade system is an opportunity, not a risk, and the WTO, even in an age when it is not overseeing multilateral trade negotiations and its Dispute Settlement Mechanism is under challenge, remains the best source of trade-policy information sharing, norm compliance and the major forum for the resolution of key global trade policy issues in an age of increasing great power economic competition.

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