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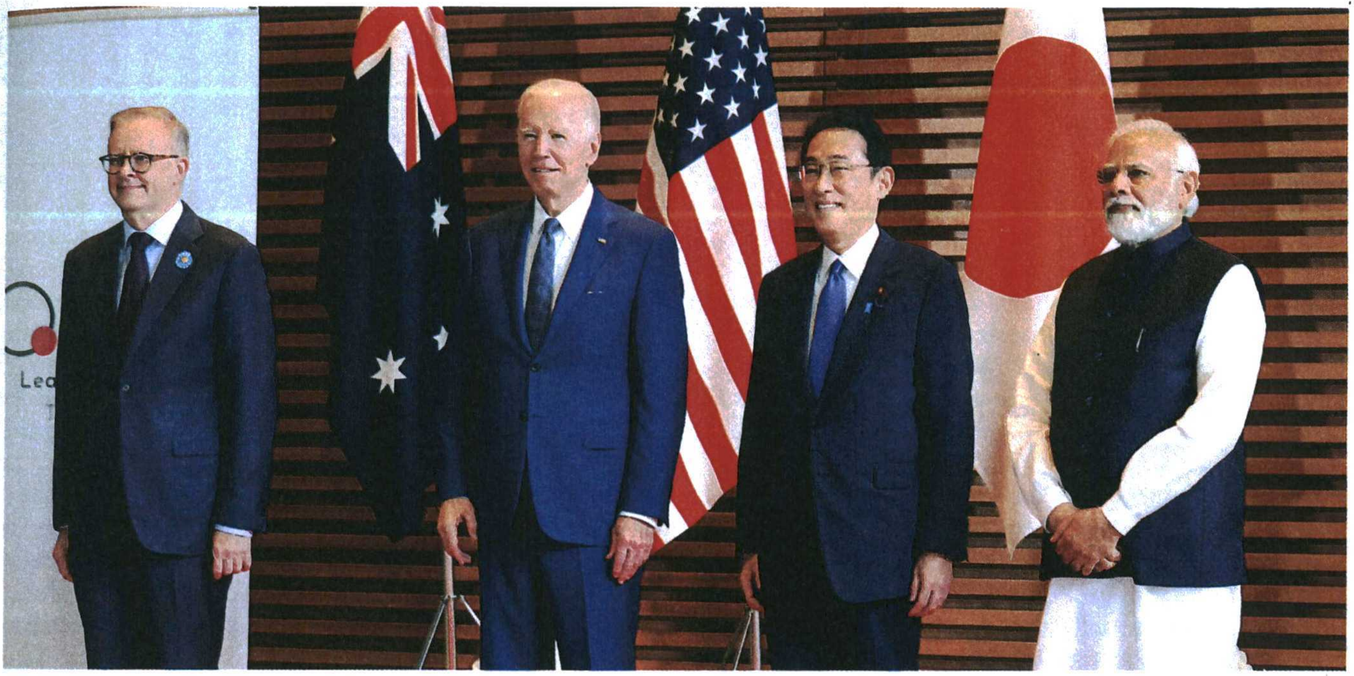
The Evolution of U.S. Leadership in the Global Economy:

Dilemmas and Choices

by Daniel W. Drezner



The Quad leaders hold a summit. (From L to R) Prime Minister of Australia Anthony Albanese, U.S. President Joe Biden, Prime Minister of Japan Fumio Kishida, and Prime Minister of India Narendra Modi pose for a photo at the entrance hall of the Prime Minister's Office of Japan on May 24, 2022, in Tokyo. President Biden arrived in Japan after visiting South Korea, part of a tour of Asia aimed at reassuring allies in the region. ZHANG XIAOYOU/GETTY IMAGES

Over the past two presidential terms, the U.S. has strongly pivoted away from neoliberalism as a foreign economic policy approach. Under Presidents Trump and Biden, the U.S. has embraced a post-neoliberal approach to economic policymaking. This approach relies on tariffs, export controls, unilateral economic sanctions, and other restrictive measures to a degree unseen in the postwar era. These measures have antagonized U.S. allies and adversaries alike, throwing some sand into the foreign policy ointment. It remains an open question whether the U.S. can continue to exercise leadership in the security realm if it fails to keep the open global economy intact. Donald Trump's re-election only heightens these policy contradictions. This essay explains why post-neoliberal economic policy is incompatible with liberal internationalism, and sketches out multiple scenarios for the future of the global political economy.

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Neoliberalism—An economic ideology that supports free markets with minimal regulation and the privatization of certain public services, such as education and health care.

Liberal interna.tionalism—A string of ideas that strive toward a liberal world order, including the promotion of democracy, cooperation among states, and free trade.

Post-neoliberal economic policy—An approach taken by former U.S. Presidents Trump and Biden that imposed tariffs, export controls, and other regulations are contrary to the "free market"/neoliberal policies that the state usually abides by.

English economist John Maynard Keynes addresses the Bretton Woods Conference in July 1944 in New Hampshire. BETTMANN/GETTY IMAGES

When Joe Biden succeeded Donald Trump as president in January 2021, he took pains to signal that liberal internationalism had returned as the lodestar guiding American foreign policy. Biden repeatedly declared, "America is back!" on the global stage. Under his presidency the U.S. quickly rejoined the 2015 Paris climate change accords, from which President Trump had withdrawn in 2017. The North Atlantic Treaty Organization (NATO) alliance was strengthened and deepened in the wake of Russia's 2022 invasion of Ukraine. In contrast to the Trump years, the Biden administration fostered a wide array of bilateral, minilateral (collaborations between small groups of nations), and multilateral initiatives designed to showcase U.S. leadership. Amid all the talk of a fraying liberal international order, Biden's foreign policy was consciously intended to be restorationist. It was not just that America was back—the U.S. was ostensibly back to advancing the same rules, norms, and procedures that 12 postwar U.S. presidents had advanced in the decades prior to Trump winning in 2016.

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There was one significant issue area, however, where the Biden administration embraced continuity with the preceding Trump administration: foreign economic policy. Biden's policies on trade, investment, immigration, foreign direct investment, industrial policy, and engagement with global economic governance were far closer to the Trump administration than to prior administrations. The Biden White House embraced tariffs, export controls, unilateral economic sanctions, and other restrictive measures to a degree unseen in the postwar era. These measures have antagonized allies and adversaries alike, throwing some sand into the foreign policy machine.

The Biden administration's rejection of an open global economic order was more of a foreign policy side-effect of domestic policy initiatives than an intentional slight of allies and partners, but it raised some thorny questions about the future of the rules-based global order. The re-election of Donald Trump makes those questions impossible to ignore. For most of the postwar era, the U.S. has tied its global leadership to cooperative agendas aimed at creating a more open global economy. That linkage has now been severely weakened. Under Presidents Trump and Biden, the U.S. has advanced new, post-neoliberal ideas about trade, industrial policy, competition with China, and the organization of the world economy. This shift in U.S. economic ideas raises a host of policy questions. What are America's options and opportunities as a leader of the world economy? How will America's "foreign policy for the middle class" and strategic competition with China impact its leadership role? Can the postwar rules and institutions of the world economy be made safe for economic nationalism and great power competition?

This essay will explain the roots of bipartisan rejection of the open economic order and consider whether such an approach will be sustainable in the years and decades to come. The global economy is facing a "Kuhnian moment" in which long-held economic precepts like Ricardian comparative advantage are being discarded in favor of approaches emphasizing economic resiliency. It remains an open question whether a "post-neoliberal" economic paradigm can be reconciled with a U.S.-led liberal international order – particularly given recent gyrations in U.S. grand strategy. Ironically, the sustainability of the postwar global order may rest on how hypocritical U.S. policymakers will be in the near future. The more hypocrisy contained within post-neoliberalism, the more likely that policy shift can coexist with the other planks of the liberal international order.

Neoliberalism RIP

Debating the concept of overarching economic policy paradigms is like debating whether generations actually exist—it is simultaneously a gross oversimplification but nonetheless possesses real explanatory power. Perhaps the best way to think about hegemonic economic ideas is akin to the scientific paradigms discussed in Thomas Kuhn's *The Structure of Scientific Revolutions*. Economic paradigms arise to explain critical anomalies in the world. As they establish hegemonic status, unexplained anomalies begin to pile up until the old paradigm is replaced with a new one. The new paradigm might not be any better in terms of overall explanatory power, but it outperforms the discredited paradigm in explaining critical policy problems. It was in this way that the Keynesian ideas at the root of Bretton Wood–era embedded liberalism came to an end during the stagflation of the 1970s.

Neoliberalism supplanted embedded liberalism. Within the Western bloc during the Cold War, and then globally after the collapse of the Soviet Union, the U.S. promoted a set of rules and norms dedicated to the spread of free-market capitalism. As international relations scholars debated the end of history, U.S. policymakers were keen to promote the "Washington Consensus"—a template of neoliberal policies for transition economies as well as for the Global South. These policies included concepts like balanced budgets, low but broad-based taxation, deregulation, privatization, and the liberalization of foreign economic policies. This translated into widespread reductions of tariffs and non-tariff barriers, as well as the removal of capital controls and restrictions to foreign direct investment. By the end of the 1990s, the result was a hyperglobalized world economy that was more deeply integrated than at any time in history. Equally important, neoliberal ideas had been accepted as the new policy status quo. As *New York Times* columnist Thomas Friedman put it in *The Lexus and the Olive Tree*, national economic policymakers faced a golden straitjacket, a choice between "free-market vanilla and North Korea."

United States Trade Representative Katherine Tai speaks during her Senate Finance Committee confirmation hearing in Washington, D.C., on February 25, 2021. BILL O'LEARY/THE WASHINGTON POST/BLOOMBERG /GETTY IMAGES

While there were economic reasons behind the U.S. embrace of neoliberalism, foreign policy motivations played a part as well. Liberal internationalism rested on a "Kantian triad" of democratic enlargement, global governance, and economic interdependence to ensure a peaceful, stable global order. As the number of democracies expanded and a panoply of global governance structures were strengthened, promoting economic globalization was perfectly congruent with American national interests. Furthermore, as G. John Ikenberry, editor of this issue of *Great Decisions*, has addressed in multiple books and essays, neoliberalism was a key plank of openness that made the liberal international order so inviting for other countries, and so resilient to negative shocks. During the heyday of the Washington Consensus, the promise of increased access to U.S. markets seemed worth it for most countries. This bought the U.S. a tremendous amount of goodwill on the security side of the equation. It was undoubtedly one factor behind the absence of a balancing coalition in the aftermath of 2003's Operation Iraqi Freedom.

The power of neoliberalism as the

Grand strategy—The strategy that a state implements internationally to advance their national interests.

Keynesian ideas—The belief that the economy proves to be unstable without government intervention and regulations.

Postwar Bretton Woods system—A system establishing fixed monetary exchange rate for states; the U.S. dollar became the standard currency, with a linked value to gold, to which all other currencies were pegged.

Stagflation—An economic situation where unemployment and interest rates are high/increasing while the economic growth rate is slowing down

Free-market capitalism—An economic system where supply and demand determine the value of goods and services, with very little government intervention.

Collapse of the system in 1971—U.S. President Nixon announced an executive order to suspend the Bretton Woods system in 1971 after the dollar became overvalued in the 1960s due to foreign aid/investment and military spending. This led to a surplus of dollars with not enough gold to balance it out.

dominant ideational paradigm during the post–Cold War era was considerable. A massive number of countries in the Global South were disillusioned with the failures of statist development policies that emphasized import substitution and industrialization. These countries embraced more market-friendly policies. Countries like China and Russia embraced neoliberal policy advice from the Bretton Woods institutions of the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO). Country after country from the Global South petitioned to join those institutions. Even the 2008 financial crisis initially failed to dislodge neoliberalism's ideational hegemony. Most of the immediate post-crisis measures were designed to restore the open global economic order rather than transform it.

Despite the dominance of the neoliberal paradigm, underlying trends called into question the viability of hyperglobalization, in which capital and goods could cross borders with a minimum of fuss. Globally, the post–Cold War era witnessed an escalating degree of financial volatility, from the Mexican peso crisis of 1995, sparked by Mexico's sudden devaluation of the peso against the U.S. dollar, to the Asian financial crisis of 1997–99 to the Russian default on its debt in 1998 to the dot-com stock crash of the early 2000s to the subprime mortgage crisis of 2008. Within the U.S., an unparalleled wave of immigration, combined with the "China shock" from the People's Republic of China's 2001 entry into the WTO, increased U.S. imports of Chinese goods, and U.S. losses of manufacturing jobs whipsawed the American political economy. U.S. productivity surged, but so did economic inequality and deaths of despair.

The bipartisan adherence to neoliberalism ended in the aftermath of Donald Trump's shocking 2016 election victory. Beginning with the Trump administration and continuing with the Biden administration, U.S. political discourse on foreign economic policy began to deviate significantly from the Washington Consensus. Despite America's growing political polarization, Democrats and Republicans agreed that the hyperglobalization of yesteryear needed to be put out of its misery.

For decades before being elected, Trump evinced the belief that the U.S. had been on the losing end of the liberal international order. He interpreted trade deficits as a sign of economic weakness and insisted that a renegotiation of trade deals like the North American Free Trade Agreement (NAFTA) establishing a free-trade zone for Canada, Mexico, and the U.S. beginning in 1994, was vital to U.S. economic and national security. In his 2017 inaugural address, Trump declared: "We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength." In March 2018, he tweeted: "When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win." A year later, he characterized tariffs as "the greatest negotiating tool in the history of our country." Trump connected an open foreign economic policy with a weakening of U.S. national security. His 2017 National Security Strategy explicitly stated: "The United States [needs] to rethink the policies of the past two decades—policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false."

The Trump administration matched its protectionist rhetoric with protectionist actions. His administration played a pivotal role in sabotaging the WTO's Appellate Body, a standing body of seven recognized authorities who hear appeals to WTO legal findings and a key cog in that organization's Dispute Settlement Understanding. The Trump White House withdrew from the Trans-Pacific Partnership in 2017 and renegotiated NAFTA into a more restrictive trade agreement. Beginning in 2018 his administration enacted higher tariffs on steel and aluminum, declaring that high imports of those materials constituted a national security threat. That same year, the Trump administration launched an unproductive trade war with China.

Almost all of Trump's protectionist actions remained in place when he left office in January 2021. In terms of both rhetoric and policy, the Biden White House's foreign economic policy represented continuity rather than change

Head of the World Trade Organization Mike Moore (L), Qatari, Economy and Finance Minister Sheikh Yousef Hussein Kamal (R), and Chinese Foreign Trade and Economic Cooperation Minister Shi Guangsheng share a toast during the signing ceremony of China's entry into the WTO in Doha on November 11, 2001. RABIH MOGHRABI/AFP/GETTY IMAGES from Trump. Biden campaigned on a "foreign policy for the middle class," implying that U.S. diplomacy had to be geared toward materially benefiting ordinary Americans. Policy principals ranging from U.S. Trade Representative Katherine Tai to National Security Advisor Jake Sullivan explicitly criticized the "oversimplified market efficiency" of prior foreign economic policies. A cluster of other events hardened the Biden administration's thinking in this area. The Covid-19 crisis convinced some policymakers that excessive dependence on global supply chains introduced security vulnerabilities. The war in Ukraine and China's increasingly bellicose attitude toward Taiwan suggested that great power politics took precedence over globalization.

Biden's team proposed a post-neoliberal alternative centered far more on national resilience and economic security. When a WTO panel ruled against the U.S. on national security exceptions to WTO obligations, the Biden administration echoed the populist nationalism of the Trump administration and declared: "The WTO has no authority to second-guess the ability of a WTO Member to respond to a wide-range of threats to its security.... The WTO now suggests that the United States too must stand idly by. The United States will not cede decision-making over its essential security to WTO panels."

The Biden administration's actions matched its words. Biden largely kept Trump's steel and aluminum tariffs in place. His administration continued to veto any appointments to the WTO's Appellate Body, thereby hindering its ability to settle trade disputes. The key difference was that the Biden administration invested far greater resources in industrial policy. The administration's signature economic policy accomplishments—the 2021 Infrastructure Investment and Jobs Act, the 2022 CHIPS and Science Act, and the 2022 Inflation Reduction Act—all represented a pivot to industrial policy. The idea behind these bills has been to stimulate domestic investment in leading-edge technologies.

Observers noticed the policy paradigm shift. In 2022 the UC Berkeley economist Brad DeLong told the *Financial Times* that, "the U.S. is now an anti-globalization outlier." By the summer of 2023, *The Washington Post* had concluded that, "[Biden] is making it clear that the United States' rejection of full-throttle globalization during the Trump administration was no aberration." Indeed, in many ways the Biden administration built on the Trump administration's moves, implementing more comprehensive measures to restrict trade in strategic sectors.

Critics of neoliberal policies celebrated the paradigm shift inside the U.S. *The American Prospect*'s Robert Kuttner concluded, "We've just about won the battle of ideas.... The core neoliberal claim that the economy would thrive if government just got out of the way has been demolished by the events of the past three decades." Rana Foroohar of the *Financial Times* noted, "Paradigm shifts begin with narrative shifts." When it comes to U.S. foreign economic policy, the narrative has definitely shifted as well. For foreign policy observers, however, the knock-on effects on international security are a source of concern.

The North American Free Trade Agreement was initialed in San Antonio, TX, on October 7, 1992, with (standing, L to R) Mexican President Carlos Salinas de Gortari, U.S. President George H. W. Bush, and Canadian Prime Minister Brian Mulroney in attendance. Chief trade representatives (seated, L to R) Julie Puche of Mexico, Carla Hills of the U.S., and Michael Wilson of Canada hold treaties that are still to be ratified by the countries' legislatures. BETTMANN/GETTY IMAGES

Hyperglobalization—The exponential growth of globalization in all areas of economy, society, and culture, particularly from the late 1990s to the 2000s.

Development of IMF and World Bank—The International Monetary Fund (IMF) and the World Bank were created during the establishment of the Bretton Woods system in July 1944. The IMF focused on global exchange rates and balance of payments, while the World Bank would provide states with postwar reconstruction loans and grants.

Establishment of WTO—The World Trade Organization (WTO) was established in 1995 as a means of regulating and facilitating trade. The WTO, which is based on rules set by the General Agreement on Tariffs and Trade (GATT), works to bind governments to their trade agreements with other states.

Economic ideational hegemony—The economic dominance that a state wishes to impose on other states/actors.

Mortgage crisis of 2008—A financial crisis within the U.S. housing market that led to mass foreclosures.

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Post-neoliberalism and the liberal international order


Surrounded by applauding steel and aluminum workers, U.S. President Donald Trump holds up the "Section 232 Proclamations" on steel imports that he signed at the White House on March 8, 2018. CHIP SOMODEVILLA/GETTY IMAGES

The key compact undergirding the liberal international order has been that the rules of the game bind not only the weaker members of the international system but also the stronger states. Indeed, the implicit quid pro quo of the open global economic order was that while the rules of the game benefited U.S. hegemony, the U.S. was equally bound by those rules. Furthermore, key U.S. allies and partners constructed their national security strategies around their security commitments to—and from—the U.S.

When the Trump administration began to reorient U.S. foreign policy in 2017, its revisionist actions triggered two corrosive effects on the stability of the liberal international order. First, in erecting higher barriers to inward economic flows such as imports and immigrants, Trump weakened the diffuse reciprocity between the open global economic order and U.S. hegemony within the global security order. Suddenly, for many countries, the reward for acquiescing to U.S. security interests was smaller than it had been a decade earlier—particularly with respect to trade expectations of the future.

Second, the reversal of course on core economic principles undermined a key assumption that most actors had made about the rules-based order. In executing its post-neoliberal turn, the U.S. made it clear that institutional constraints like the WTO's Dispute Settlement Understanding were less binding than had previously been believed. Much of the postwar global order depended less on rules than on implicit norms. This exposes not just the fragility of the economic order, but the security order as well. For example, President Trump frequently mused aloud whether the U.S. would honor its Article V obligations for a NATO ally that spent an insufficient amount on defense. That uncertainty had profound implications for European allies. Trump's prevarications on security arrangements in Northeast Asia caused similar anxieties in Japan and South Korea.

When Biden replaced Trump, he took pains to reverse course and reinforce U.S. security guarantees. Indeed, in many ways Biden cemented the security order to a far greater extent than any other president in the post–Cold War era. Biden helped ease bilateral tensions between Japan and South Korea, making it easier to counter China in Northeast Asia. The Biden White House worked hard to wean the Philippines from China's orbit. Under Biden, NATO expanded to include Finland in 2023 and Sweden in 2024. Defense expenditures among NATO members surged in response to Russia's 2022 invasion of Ukraine. Other Biden initiatives, like the Quad (a security grouping with Japan, Australia, and India), and AUKUS (a submarine technology deal involving Australia and the United Kingdom) were designed to help counter China in the Pacific Rim. Other groupings, like the Partnership for Atlantic Cooperation, were designed to work toward a peaceful, stable, prosperous, and open Atlantic region. All of these steps were congruent with the continuation of the U.S.-led security order.

As previously noted, however, Biden largely stuck with Trump's

Rules-based order—A structured system of norms and laws that preserve order within the international system.

The Quad (Quadrilateral Security Dialogue)—A multilateral dialogue that includes the U.S., Australia, India, and Japan. It began in 2007 before ceasing negotiations in 2008, and then reestablishing itself in 2017. The negotiations in the Quad revolved around military and diplomatic agreements and were commonly seen as countering China's increasing power.

AUKUS—A trilateral partnership that includes Australia, the United Kingdom, and the U.S. This security partnership formed in 2021 to provide protection to the Indo-Pacific region. AUKUS is widely viewed as a response to the threat China poses in that region.

policy preferences when it came to foreign economic policy. Like Trump, Biden resisted adhering to WTO rules on procurement of goods and services and national security exemptions. Like Trump, Biden erected measures designed to reduce economic interdependence with China. Like Trump, Biden preferred industrial policies that would stimulate domestic manufacturing.

Unlike Trump, Biden institutionalized these preferences. Indeed, one could argue that Biden's signature legislative accomplishments were all related to industrial policy. The aim was to incentivize investments in the domestic production of semiconductor plants, green technologies, and other critical infrastructure. Similarly, regarding China, the Biden administration went further than the Trump administration in restricting trade and investment. Biden's measures included bolstering the Committee on Foreign Investment in the U.S. (CFIUS) process to limit Chinese acquisitions of strategic U.S. corporations, a complete export ban on critical computer chip manufacturing tools to China, an expansion of the list of Chinese corporations subject to export controls, a use of the foreign direct product rule to limit third-party exports to China, and a prohibition on all "U.S. persons" from any support for Chinese companies in advanced computer chip sectors.

Although not always implemented for economic reasons, the Biden administration's enhanced use of economic sanctions dovetailed with these post-neoliberal measures. The U.S. has multiple laws on the books—the 1917 Trading with the Enemy Act, the 1977 International Emergency Economic Powers Act, the 2001 U.S. Patriot Act, the 2018 Export Control Act—that enable economic sanctions. The U.S. has also developed executive branch bureaucracies like the U.S. Office of Foreign Assets Control, established in 1950 following China's entry into the Korean War, to implement and enforce sanctions. The Biden administration also exploited other preexisting laws to employ additional forms of weaponized interdependence. In the wake of Russia's February 2022 invasion of Ukraine, the U.S. began implementing sanctions that had global economic impacts. These measures included the freezing of Russian Central Bank reserves held overseas, as well as a soft G7 price cap on Russian energy exports intended to curb Russia's ability to finance operations in Ukraine.

Combined, these steps prompted objections across the globe—and not just from China. After the passage of the Inflation Reduction Act (IRA) in 2022, French President Macron suggested that the electric vehicle subsidies contained in the IRA were "very good for the U.S. economy, but they weren't properly coordinated with European economies." As the Netherlands resisted U.S. pressure to have its computer chip producers cut ties with China, Dutch Economics Minister Micky Adriaansens stated that the Netherlands and Europe "should have their own strategy." Global economic governance structures also rapped the knuckles of the Biden administration. The WTO expressed concerns over the nondiscrimination norm, prescribing equal treatment concerning trading partners and the goods and services traded, and noted worries that few countries are in agreement with the binary choices being offered by the Biden administration. The IMF criticized the U.S.. government's decision to raise tariffs on Chinese products. An IMF spokesperson stated, "Our view is that the US would be better served by maintaining open trade policies that have been vital to its economic performance."

Foreign policy observers have also noted the tension between economic decoupling and the maintenance of the liberal international order. Former U.S. security and intelligence expert Mathew Burrows and security and strategy expert Robert Manning recently wrote, "Today's conventional wisdom is that economic nationalism and zero-sum strategic competition can coexist with ample international cooperation on existential global issues. This is an illusion, however.... In the current backlash to globalization's excesses and great power rivalry, the factors that enabled a fragile peace—an absence of a post–World War II major interstate war—are eroding."

The Biden administration attempted to mollify U.S. allies through economic deals designed to segment allies and partners from rivals like China. Biden pursued a welter of economic initiatives like the Critical Minerals Agreement

President Joe Biden, center, flanked by (L to R) Sen. Joe Manchin (D-WV), Senate Majority Leader Chuck Schumer (D-NY), House Majority Whip Jim Clyburn (D-SC), Rep. Frank Pallone (D-NJ), and Rep. Kathy Castor (D-FL) delivers remarks and signs the Inflation Reduction Act of 2022 into law at the White House on August 16, 2022. KENT NISHIMURA/LOS ANGELES TIMES/GETTY IMAGES with Japan, the Americas Partnership for Economic Prosperity, the Indo-Pacific Economic Framework (IPEF), and the US-EU Trade and Technology Council to promote more strategic economic integration and de-risking exchange with the likes of China and Russia. In the end, however, several of these initiatives were unable to thrive based on post-neoliberal principles. IPEF negotiations slowed in the fall of 2023 under the weight of internal contradictions and U.S. domestic opposition. As for the transatlantic arrangement, EU Internal Market Commissioner Thierry Breton suggested that the Trade and Technology Council's agenda "no longer gives sufficient space to issues of concern to many European industry ministers and businesses."

This raises a very awkward question about the long-term viability of the rules-based international order. It is safe to say that order is already graying and fraying. The rise of China and Chinese-led structures like the Asian Infrastructure Investment Bank, the Shanghai Cooperation Organization, and the BRICS+ grouping (including founding members Brazil, Russia, India, China, and South Africa, and new members Iran, Egypt, Ethiopia, and the United Arab Emirates) represent a potential challenge to the economic portions of that order. In the past, neoliberalism as economic policy was simpatico with liberal internationalism as foreign policy. Other countries viewed U.S. economic openness as both a material benefit and a sign that the U.S. was playing according to its own rulebook. It is far from clear whether post-neoliberalism can ever be as reassuring to allies and partners. Biden administration efforts to square the trade circle on this have largely collapsed. Furthermore, officials in allied countries must be concerned about the U.S. ability to credibly commit to the security portions of the liberal international order. In sticking with post-neoliberalism, the U.S. looks less like a leader of the rules-based order and more like a revisionist actor.

Possible futures for U.S. economic leadership

Is it possible for the U.S. to exercise leadership while pursuing a post-neoliberal policy agenda? The previous sections hint at logical contradictions between current U.S. foreign economic policy and the overarching norms and principles undergirding the rules-based economic order. Donald Trump's reelection will only heighten those contradictions. Nonetheless, one can sketch multiple future scenarios depending on how deeply the U.S. embraces a post-neoliberal paradigm—and how well that paradigm works at generating global peace and prosperity

The first and most likely possibility is ***hypocritical post-neoliberalism***. In this scenario, U.S. policymakers embrace the ideas of post-neoliberalism but limit implementation to extant policies. Loud rhetorical gestures towards economic populism are not necessarily matched by significant policy shifts. In a world of hypocritical post-neoliberalism, the U.S. essentially pursues status quo policies. While Trump may want to raise tariffs across the board and deport millions of undocumented workers, corporate CEOs and Silicon Valley billionaires dependent on globalization will lobby furiously to limit the scope of any new measures.

Swedish CB90-class fast assault craft in action during the Nordic Response 24 military exercise on March 10, 2024, at sea near Sorstraumen, above the Arctic Circle in Norway. Nordic Response 24 is part of the larger NATO exercise "Steadfast Defender." The exercise involves air, sea, and land forces, with over 100 fighter jets, 50 ships, and 20,000 troops practicing defensive maneuvers in cold and harsh weather conditions. JONATHAN NACKSTRAND/AFP/GETTY IMAGES

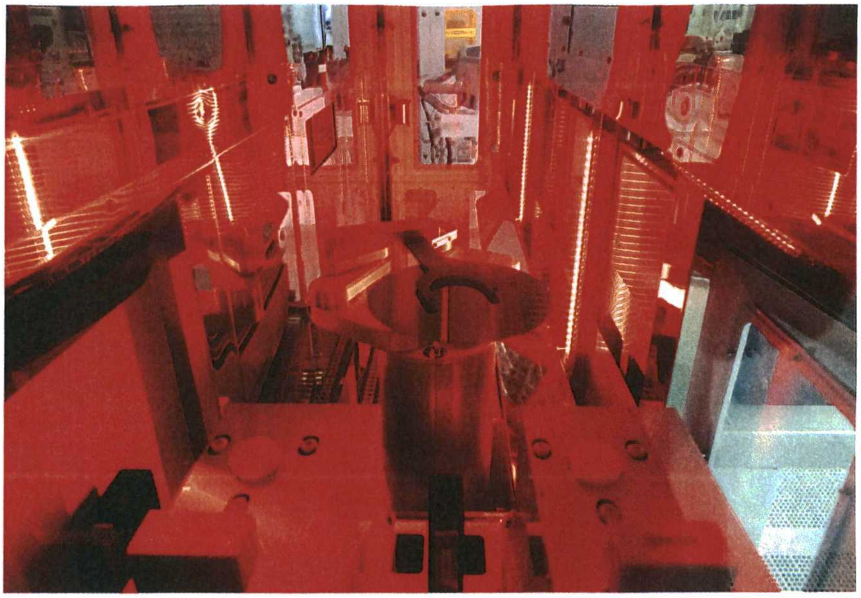
In this scenario, the U.S. is able to reconcile a rhetorical commitment to post-neoliberalism with an open global economic order. One reason is that the U.S. engine of economic growth continues to outperform most other economies in the world. As of 2024, the U.S. is the only G20 economy whose GDP exceeds its pre-pandemic output level. The IMF has acknowledged multiple times in its recent assessments that U.S. economic growth has been a key cog in the global economic recovery from the Covid-19 pandemic. Even if U.S. barriers to trade are higher than they were a decade ago, surging U.S. demand for imports counteracts the effects of protectionist barriers.

Furthermore, improvements in information and communication technologies have lowered the costs of cross-border economic flows. Even if states are erecting higher cross-border barriers, that could be counteracted by declining costs more generally. In many ways the current period might resemble the global political economy of the late 19th century and early 20th centuries. Even as countries were raising tariffs, improvements in technology and infrastructure swamped those effects, causing globalization to continue to grow.

To date, efforts by post-neoliberals to redirect economic flows have not worked out exactly as intended. Sino-American trade surged during the early 2020s in response to pent-up demand that had been suppressed during the pandemic. Multiple studies have shown that even as bilateral trade started to decline, global supply chains have remained largely intact though increasing in length. The difference between now and a decade ago is the development of third-country hubs that trade with both the U.S. and China. This has disproportionately benefited countries like Bangladesh, Mexico, and Vietnam as third-country manufacturing nodes than have access to both Chinese producers and the U.S. consumer market. Otherwise, export controls do not fundamentally alter the openness of the global economy. Even the U.S.-led sanctions on Russia have not led to trade reduction so much as trade diversion. Countries like India and China have dramatically increased Russian energy imports, while European countries have substituted energy from the Middle East and North America in the place of Russian imports.

In this scenario, U.S. public pronouncements of a post-neoliberal world would be exercises in what Stanford political scientist Stephen Krasner characterizes as "organized hypocrisy." While the norms governing the global economy would nominally be distinct from the neoliberal world order of a decade ago, the reality would contradict the stated norms in almost every conceivable way. Cross-border flows in trade, capital, information, and labor would not be impeded in a serious way. The robustness of the global economy would, in turn, help provide the necessary glue for the U.S.-led security order to persist as well.

A second possibility is a world of ***failed post-neoliberalism***. The assumptions undergirding post-neoliberal policy prescriptions might rest on faulty



A bare wafer stacker sorts silicon wafers at Micron Technology's headquarters in Boise, Idaho, on June 10, 2024. The U.S. announced in April its plans to award Micron Technology $6.1 billion in grants and as much as $7.5 billion in loans to help the memory-chip maker build new American factories, rounding out a slew of major federal awards for advanced semiconductor manufacturing. KYLE GREEN/BLOOMBERG/GETTY IMAGES

stylized facts. For example, two big motivations for promoting national resiliency as a principled idea have been the China shock and the Covid shock. China's entry into the WTO generated sustained negative economic effects felt in U.S. manufacturing regions, widening the divide between America's haves and have-nots. Many American communities struggled mightily from the loss of manufacturing. The takeaway for many policymakers was that excessive openness to the global economy had wreaked unnecessary carnage on the U.S. economy. The Covid shock seemingly revealed the fragility of global supply chains to exogenous shocks. The subsequent inflationary surge, combined with bottlenecks in the production of goods ranging from cars to computers, convinced many a policymaker that localized production chains were superior.

The problem with these stylized facts is that they do not appear to be borne out by the data. No doubt, the China shock was real, but the neoliberal policy failure was not excessive economic openness but a failure of the U.S. government to provide a sufficient social safety net. As the National Bureau of Economic Research economists who identified the China shock in the first place noted, "We are aware of no research that would justify ex-post protectionist trade measures as a means of helping workers hurt by past import competition." Similarly, neither the inflation nor the production bottlenecks during Covid-19 were the fault of globalized supply chains. The problem was that private-sector actors misjudged the Covid-fueled shifts in macroeconomic policy and consumer demand. IMF economists concluded, "the evidence to date provides no support either for the view that global supply chains were not resilient during the pandemic or that the world economy would have been more resilient if there had been less dependence on foreign inputs and trade."

The jury remains out on whether any U.S. policies conceived in the wake of these shocks will work out. Privately, U.S. officials have analogized the policy problem as akin to building a plane while trying to land it at the same time. Furthermore, it should also be noted that the international examples often cited as a policy justification for post-neoliberalism are also experiencing economic setbacks. China's economy has experienced a severe slowdown over the past decade, exacerbated by the pandemic. A decade ago, economists

U.S. President Joe Biden speaks on rebuilding U.S. manufacturing through the CHIPS and Science Act at the groundbreaking of the new Intel semiconductor manufacturing facility near New Albany, Ohio, on September 9, 2022. SAUL LOEB/AFP/GETTY IMAGES

were predicting when the Chinese economy would eclipse the U.S. economy. Stagnation in the tech sector and continued financial distress, however, have raised questions about the sustainability of the China model. Other, more autarkic economies like Russia are facing even more severe economic tradeoffs.

As the post-neoliberal policy paradigm loses its luster, some post-neoliberal policies like trade protectionism could contribute to an inflationary surge. As the 2024 U.S. election revealed, inflation is one of those outcomes that can cause voters and policymakers to experience buyer's remorse. In this scenario, future U.S. administrations would take the rhetorical turn back to neoliberalism, declaring that the post-neoliberal experiment had largely failed. This would help to reassure nervous allies and partners, and reduce the cognitive dissonance between U.S. leadership of the economic and security orders.

The third scenario is a ***viable post-neoliberal paradigm shift***. The U.S. is not the only great power to retreat from neoliberal economic principles in recent years. China's President Xi Jinping has stressed the idea of a "dual circulation" economy, one in which China grows more from domestic consumption than export promotion. Even before invading Ukraine, Vladimir Putin expressed a desire for a more autarkic economy—or, at least, an economy that was less beholden to Western markets. In response to these shifts, the European Union began to stress its need for strategic and economic autonomy. The reality of a second Trump term has only accelerated the EU's search for greater economic security. As climate change persists, a renewed emphasis on economic resiliency would further strengthen a new world order grounded in post-neoliberal principles.

Viewed in this light, the U.S. continues to exercise global leadership, but of a rather curious kind—one in which the major economic powers mutually agree to de-risk their economies from each other without completely severing cross-border economic flows. Ideas emanating from the U.S. would diffuse to other significant economies. Because other countries would be adopting these ideas, the governance incongruities referenced in the previous section would be ameliorated.

Furthermore, there are reasons to believe that an ideational shift of this kind would be sustainable for quite some time. Within national political economies, feedback effects can reinforce these kinds of policy shifts. If corporations are encouraged to source production lines locally, this incentivizes the creation of subcontractors to fulfill those functions. These new businesses, in turn, will be dependent on the new public policy status quo, and will lobby their home governments to persist in said policies even if new ideas start to emerge. This, in turn, further incentivizes more post-neoliberal, protectionist policies. At the same time, firms that rely heavily on either imported components or export markets will be weakened by policy shifts, reducing their ability to exercise voice in their lobbying efforts. The result is a redistribution of interest groups that prefer post-neoliberalism.

While economic interdependence may no longer act as the desired brake on interstate conflict, a reduction of anxieties about national economic vulnerabilities would serve to reduce great power tensions. Durable alliances between economic blocs would be unlikely. At the same time, in this scenario great power relationships would be far more transactional. There would be minimal expectations of sustainable cooperation, but more tactical alliances of convenience would be likely.

The final possible scenario is also the most disconcerting: a full-blown shift toward ***economic nationalism***. Most post-neoliberal policymakers acknowledge that they would prefer to see a relatively open global economy. To use the parlance of Washington policymakers, what post-neoliberals want is de-risking rather than complete decoupling. However, in a world suffused with populist nationalism, such a distinction may be difficult for policymakers to navigate. Donald Trump's stated policy positions during the 2024 campaign point toward a greater decoupling from the global economy.

His proposed measures include: replacing most taxes with massive tariff increases, mass deportation of tens of millions of immigrants, and treating the EU as an economic threat akin to China. Trump will have a far more loyal staff and Republican Party than he did in his first term. His ability to implement these policies will be greater in 2025 than in 2017.

Economic nationalism can be contagious. If the U.S. as the nominal hegemon decides to pursue such a policy, it will inevitably inspire copycat approaches in China, India, Russia, and elsewhere. The closest modern parallel would be the Great Depression era. The U.S. Smoot-Hawley Tariff of 1930 triggered an escalating series of trade wars and beggar-thy-neighbor policies that spanned the globe. Global trade levels plummeted, and the remaining trade centered on economic blocs: the dollar bloc, the sterling bloc, the gold bloc, and more imperial arrangements like the Greater East Asia Co-Prosperity Sphere.

Even during the autarkic era of the 1930s, however, external dependence exacerbated great power tensions. Germany and Japan were dependent on foreign sources of energy to fuel their economies and their militaries, and their leaders were paranoid that their access to hydrocarbons would be limited by hostile actors. This fear was realized by the 1940 U.S. oil embargo of Japan. Securing energy access was a key motivating factor for the Japanese decision to bomb Pearl Harbor, as well as Nazi incursions into southeastern Europe. In other words, economic nationalism can remove the pacifying effects of commercial interdependence without alleviating anxieties about relying on foreign markets for vital resources.

In the 2020s, each great power has been expanding their stated list of "critical minerals." As demand for solar panels, wind turbines, electric batteries, electric vehicles, and other smart technologies has surged, producers need reliable sources of lithium, cobalt, and a whole host of other minerals. Most critical minerals are neither sourced nor refined indigenously by the great powers; the markets for them are thin and illiquid. In the interest of developing economies of scale for these critical technologies, great powers are racing across the globe to secure exclusive access to the minerals. The possibility of great power conflicts in mineral-rich regions such as Chile and Congo would therefore increase in a global economy defined by economic nationalism.

The U.S. Smoot-Hawley Tariff of 1930—A law that was meant to protect American farmers and businesses by increasing tariffs on imported goods but turned out to be a key part of the worsening of the Great Depression due to its 67% reduction of American imports and exports.

Mark Twain famously said, "History doesn't repeat itself, but it often rhymes." A global economy in which economic nationalism becomes the dominant ideology would not necessarily lead to a replay of World War II, but any version of this scenario that rhymes with the 1930s would be calamitous for global peace and prosperity.

Conclusion

While the global political economy has experienced waves of openness and closure through the years, the dominant idea animating the global economic order has been a variety of liberalism since the days of Adam Smith and David Ricardo. Recent ideational shifts have called the hegemony of liberalism within the U.S. into question. As U.S. foreign economic policy takes a turn towards the post-neoliberal, it is worth considering whether this new set of ideas is congruent with a graying and fraying liberal international order. Can the U.S. continue to exercise leadership in a post-neoliberal world?

This essay explained the inconsistencies between U.S. economic policy preferences and U.S. foreign policy preferences. These incongruities are problematic but not necessarily fatal to the rules-based order. Going forward, there are four possible outcomes that flow from the U.S. embrace of post-neoliberalism: hypocritical post-neoliberalism, failed post-neoliberalism, a viable post-neoliberal paradigm shift, and economic nationalism. Needless to say, the global political economy for the next few years will not be boring.

U.S. National Security Advisor Jake Sullivan answers questions during the daily briefing at the White House on November 13, 2023. Sullivan answered a range of questions during the briefing, focusing primarily on Israel and U.S. President Joe Biden's upcoming meeting with Chinese President Xi Jinping. WIN MCNAMEE/GETTY IMAGES

Discussion questions

1. How are post-neoliberal economic ideas different from neoliberal economic ideas?

2. Are post-neoliberal economic policies compatible with U.S. leadership of the liberal international order? Why or why not?

3. How did the foreign economic policy of the Trump and Biden administrations differ?

4. Which of the four scenarios for the future of the global political economy do you think is the most likely? The most unlikely?

5. Should either of the 2024 presidential candidates have proposed alternate tariffs?

6. Are any of the scenarios for the future of the global political economy disastrous? If so, for whom?

Suggested readings

Alex Cooley and Daniel Nexon, *Exit From Hegemony* (New York: Oxford University Press, 2020). A discussion of the unraveling of the liberal international order.

Henry Farrell and Abraham Newman, *Underground Empire* (New York: Henry Holt, 2023). An outstanding exploration of how the U.S. has grown more comfortable with coercive economic statecraft in the 21st century.

Rana Foroohar, "After Neoliberalism: All Economics Is Local," *Foreign Affairs* 101 (November/December 2022): 134–145. Concise summary of post-neoliberal thinking on foreign economic policy.

Pinelopi Goldberg and Tristan Reed, "Is the Global Economy Deglobalizing? And If So, Why? And What Is Next?" NBER Working paper 31115, April 2023. A critical consideration of multiple post-neoliberal claims about the global economy.

G. John Ikenberry, *Liberal Leviathan* (Princeton: Princeton University Press, 2011). An argument for the sustainability and attractiveness of the liberal international order.

Eric Helleiner, "Economic Globalization's Polycrisis," *International Studies Quarterly* 68 (June 2024): sqae024. An exploration of why globalization is facing such an intellectual onslaught.

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