

America Alone

Sean Randolph – April 1, 2025

A senior Russian diplomat once told his American counterpart that one thing that differentiated Russia from the United States is that “you have allies”. That was candid, and true. Russia can align with countries like Iran, North Korea, and sometimes China, but it’s a narrow group with little in common besides an entrenched authoritarianism. For the U.S. it’s different. We have genuine friends and allies who are connected by the shared values of democracy and pluralism and a commitment to market principles. That has helped us stay safe and prosperous, the leader of a broad community that whatever its flaws and shortcomings has held together as a force for openness and stability. At least until now.

The dramatic shifts and reversals of policy we’ve seen will continue to evolve. What is clear, however, is that the economic dimension of what is happening is merging with the political, causing both businesses and governments to look for new footing.

First the politics. In North America, consider that 350,000 Mexicans recently gathered in Mexico City’s main square to rally behind their president as she negotiates with the United States. The Premier of Australia, one of America’s closest allies, has called the April 3 tariffs “not the act of a friend”. The political standing of Canada’s Prime Minister is growing as Canadians also rally. Airline bookings from Canada to the United States are down 70% from this time last year, Canadians are starting to boycott U.S. products, and PM Carney says that Canada is under attack and the United States is no longer a reliable partner. Our president’s referring to Canada as the 51st state and it’s Prime Minister as the Governor of Canada doesn’t help.

Europe is having the same debate and could go its own way. That might be hard to do given the depth of economic ties. If at the end of the day European countries are prompted to spend more on their own defense that’s a good thing. But the damage inflicted in the meantime — if a tariff war ensues, if the U.S. adds EU technology regulation to its tariff agenda, or if the EU responds with tariffs on U.S. service exports— will be deep.

Rhetoric about the U.S. taking Greenland from Denmark and complaints about Denmark's commitment to security further undermines confidence. Faced with U.S. pressure, four of Greenland's political parties have formed a coalition government as popular pushback grows. As an EU member and NATO partner Denmark has drained its military stockpiles and sent them to Ukraine. In January it increased its commitment to arctic defense by \$2.1 billion, including the acquisition of new naval vessels and long-range drones and satellites. Questioning the reliability of one of our best NATO partners is no way to keep friends.

It's questionable what this gains us, economically or as a country. Investors like certainty and investment decisions are stalling because our policies are so volatile. Despite a campaign that focused on inflation, the President has said he doesn't care about rising costs. Tariffs add to these costs for consumers but also for manufacturers who import intermediary parts. While this might eventually push some companies to invest more in the United States that production will be more expensive. Estimates of the added cost to new cars sold in the U.S. run from \$6–12,000. There's a reason why companies trade and invest globally, and economics tells us that building markets and leveraging assets across the world brings more benefits than an industrial island produced by building barriers.

Wherever tariffs settle out, the deeper damage is reputational. An anchor of global alliances and free market principles, we have long benefitted from soft power — an identification of people in other countries with the U.S. based our values, the openness of our society, and our real if sometimes flawed global leadership. That may be largely gone. Transactional relationships of the kind we're seeing today, are value-free and don't command loyalty or respect. As one outcome, like-minded countries around the world may come together to establish a new world system where the U.S. is no longer at the center. China will present itself as a reliable trading partner, expanding its markets as the U.S. builds walls.

So where does this leave us today? Businesses will need to monitor policy changes day-to-day, not just in the U.S. but overseas. Expect some market opening as countries try to avoid threatened tariffs. But the scale of the across-the-board and country-specific tariffs announced on April 3 has fundamentally changed the game, and even if some deals result much higher global tariffs will be a fact of life. Defense spending and procurement in Europe, particularly from European sources, is likely to grow. In North America the US-Mexico-Canada Trade Agreement (USMCA) is due for a scheduled

review and how that's managed will impact the future of the North American market and hemispheric business strategies. China is a wild card, with the potential for deals that stabilize the business relationship for a time, but a greater potential for conflict as geostrategic priorities take center stage for both countries. Its matching of the latest round of U.S. tariffs at 34% is a clear sign. Whatever happens with China, U.S. investment will continue to leave. But if President Trump and Prime Minister Modi can find common ground India could be a bright spot.

This assessment closes on a personal note, since in some way we're all part of this story.

A good friend and classmate from graduate school recently retired from USAID, having served for decades in posts like Bangladesh, India, and Ghana. These weren't plush assignments and he was dedicated to the mission. Last year he passed away from cancer. I can only imagine what he would say today but can assure anyone who reads this that contrary to statements by the head of DOGE he was not part of a "criminal enterprise".

Closer to home, the United States Commercial Service is a small arm of the Commerce Department that helps small and mid-sized companies find markets overseas. I've worked with the Commercial Service for many years and its team is efficient, highly professional, and absolutely non-political. In February its four top directors in the region — in San Francisco, San Jose, Oakland, and the North Bay — received the "fork in the road" email offering pay through September if they quit now. Faced with losing their health benefits in retirement all of them took the deal. With their departure went more than 100 years of accumulated knowledge, expertise and relationships — a loss to businesses here and nationally.

It takes longer to build something than to tear it down, and in periods of uncertainty like this it will be critical to sustain long-term relationships — both political and economic.

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