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## A Grand Strategy of Reciprocity

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How to Build an Economic and Security  
Order That Works for America

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## How to Build an Economic and Security Order That Works for America

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**T**he United States has pursued two grand strategies in the 80 years since World War II. One was an extraordinary success: the policy of “containment” that guided American economic investments, foreign relations, and military deployments during the Cold War, which led to the defeat and collapse of the Soviet Union and the emergence of the United States as the world’s lone superpower.

The same cannot be said, unfortunately, about the strategy adopted at the Cold War’s conclusion: an attempt to leverage superpower status to establish a “liberal world order” that Washington would secure and dominate. That strategy went by names including “enlargement,” as defined by President Bill Clinton’s first national security adviser, Anthony Lake, and “benevolent hegemony,” in the words of the neo-conservative thinkers William Kristol and Robert Kagan, writing in

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these pages. This vision promised an enduring Pax Americana in which no other country could or would challenge U.S. supremacy, all evolved inevitably toward liberal democracy, and the global free market's warm embrace rendered borders irrelevant while spreading prosperity worldwide.

By some measures, the strategy worked. U.S. GDP and stock prices steadily rose. Technology and trade stitched the world closer together. World War III did not start. But a clear-eyed appraisal of the post-Cold War era reveals a less rosy reality. Far from producing a utopia of shared prosperity and stable peace, American strategy in the past three decades has instead yielded a global economic order that allows other countries to exploit Washington's largess, an ascendant authoritarian adversary in China, and simmering conflicts around the globe in which expectations of American commitment far outstrip the reality of American capacity—all of which have contributed to economic and social decay in the United States.

Any grand strategy is, in part, a bet on a particular theory of political economy. The bet on investing to rebuild a bulwark of market democracies whose prosperity would eventually overwhelm Soviet communism was a wise one. The subsequent bet, on the ability of globalization and free markets to render political economy irrelevant, was not. The time has come for a new wager. The best way to create a sustainable trading and security bloc is a strategy of reciprocity: an alliance among countries committed to engaging with each other on comparable terms while jointly excluding others that will not fulfill the same obligations.

Demanding reciprocity would counteract the beggar-thy-neighbor policies that have created unsustainable imbalances with U.S. trading partners, curtail Washington's dependence on adversaries for critical goods, and limit the free-riding that has slowly eroded U.S. alliances and partnerships. By embracing reciprocity, the United States would also be rejecting an asymmetric order featuring a dominant power and its clients in favor of one in which participants all stand on equal footing with equal expectations. This would represent a healthy development in how the nation conceives of itself, moving away from an American empire and back toward an American republic.

Perhaps counterintuitively, the relative decline in American power has strengthened Washington's hand when it comes to negotiating the terms of a new global order. The status quo is predicated on an

American commitment to hegemony that precludes the possibility of pulling back. That commitment made sense as long as the United States remained dominant. But owing to the self-enfeeblement of its allies and the ascent of China, the United States can no longer maintain its predominance.

And so it seems plausible that a dramatic retrenchment—pulling back from global economic and military engagement and relying chiefly on the strategic depth and sizable market provided by the North American continent—could produce a better outcome than the ongoing descent into late-imperial exhaustion. Simply put, Washington can now consider walking away from the table if the terms of its relationships do not improve. Allies and partners know this and want to avoid that outcome, because the U.S. market and military remain indispensable to their own prosperity and security.

Which means that, for the first time in the lives of contemporary policymakers, the United States is in a position to frame its demands around narrow self-interest, back them with credible consequences, and expect them to be taken seriously. The question that will define the next era of American statecraft is, What should those demands be?

In his second term, President Donald Trump has made progress toward developing a strategy of reciprocity. He and his administration deserve credit for recognizing the need for change, and they have been persuasive in signaling that they see walking away from the table as preferable to tolerating the status quo. German Chancellor Friedrich Merz has conceded that European countries have been “free-riders,” taking advantage of the United States, and the most recent NATO summit concluded with an unprecedented commitment by members to raise their defense spending from at least 2.0 percent of GDP to at least 3.5 percent. Credibly threatened with tariffs, Canada and Mexico have begun reducing their economic ties with China; Japan, South Korea, Vietnam, and the European Union have all worked toward agreements to reduce their trade imbalances with the United States.

But even though Trump defines U.S. interests and weighs costs and benefits differently than did his predecessors, he has not yet translated his “America first” instincts into a coherent vision of a new global settlement. His trade agenda has appeared haphazard, and confronting

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all countries suddenly, simultaneously, and harshly has needlessly antagonized allies and heightened uncertainty. On China, the administration has oscillated unpredictably, pursuing a sharp decoupling one day and a grand bargain the next. And it has been difficult to discern the logic behind moves such as imposing stiff tariffs on India, purportedly in response to that country's oil purchases from Russia.

To reset relationships and forge new ones on new premises requires communicating the reasons for the change, the shape of the new strategy, the character of American demands, and the consequences for failure to reach agreement. Reciprocity can provide those premises, on terms fair to both the United States and prospective allies. But Washington needs to establish and articulate those premises and terms as clearly as possible.

#### A BAD BET

For a brief moment after the defeat of Soviet communism, Americans debated whether they should return to the humble and noninterventionist foreign policy tradition that a bounty of natural resources and the protection of two oceans had enabled in the republic's early years. But officials and politicians were exhilarated by victory, possessed of an astonishing hubris, and seduced by visions of empire offered by scholars and pundits. The United States, they decided, could and should dominate global affairs indefinitely.

The seminal Defense Planning Guidance developed by the George H. W. Bush administration in 1992 called for the United States to "promote increasing respect for international law, limit international violence, and encourage the spread of democratic forms of government and open economic systems," and to "retain the pre-eminent responsibility for addressing selectively those wrongs which threaten not only our interests, but those of our allies or friends, or which could seriously unsettle international relations." The following year, Clinton ratified this bipartisan consensus in a speech at the United Nations. "We cannot solve every problem," he said, "but we must and will serve as a fulcrum for change and a pivot point for peace." Four years later, in his second inaugural address, Clinton went further, anointing the United States the world's "indispensable nation."

Within a remarkable 12-month period surrounding that speech, a chorus of prominent thinkers cheered on this new credo. Kristol and Kagan assigned the American people "fundamental interests in

a liberal international order, the spread of freedom and democratic governance, an international economic system of free-market capitalism and free trade,” and a “responsibility to lead the world.” The *New York Times* columnist Thomas Friedman published his observation that “no two countries that both have a McDonald’s have ever fought a war against each other.” And the economist Paul Krugman asserted that “a country serves its own interests by pursuing free trade regardless of what other countries may do.”

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The expert class came to see open markets and alliances as ends unto themselves.

Embedded in these declarations were three interlocking assumptions. First, that the United States, standing alone as the world’s sole economic and military superpower, would have the ability and will to dictate global events when and where it chose. Second, that all countries of geopolitical significance would move inexorably toward market capitalism and democratic governance and thus would have interests and systems compatible with a U.S.-led liberal world order. And finally, that free markets would automatically generate prosperity, for the United States most of all, and thus the expansion and integration of markets would reinforce the American position.

As long as those assumptions held, the costs incurred by the United States to preserve the status quo could yield it far larger benefits. Domination of global affairs allowed Washington to push other countries toward economic and political liberalization, which further expanded markets that the United States could then dominate and orient toward its own priorities. Outspending the rest of the world, combined, on defense and tolerating market abuses on the part of other countries—including currency manipulation, industrial subsidies, regulatory barriers, and wage suppression—were small prices to pay, and ones that the United States could easily afford.

For a time, these core assumptions seemed to hold. The 1990s began with the triumph of the U.S.-led coalition in the Persian Gulf War. Israel and the Palestinian Liberation Organization signed the Oslo accords, South Africa transitioned from apartheid to democracy, and NATO intervened successfully in the Balkan wars. The North American Free Trade Agreement took effect, the World Trade Organization launched, and the European Union adopted a common currency.

At the decade's end, the United States arrived at the crest of an economic boom, with a federal budget comfortably in surplus, unchallenged in any sphere of global leadership.

But in 2000, the Russian Federation elected Vladimir Putin as president, and he has led the country ever since. That October, the United States granted “permanent normal trade relations” to China with the expectation that the embrace would “increase the likelihood of positive change in China and therefore stability throughout Asia,” as Clinton had explained earlier that year at the annual meeting of the World Economic Forum in Davos. “What some call globalization,” elaborated President George W. Bush the following July, “is in fact the triumph of human liberty across national borders.” Two months later, the Twin Towers fell, and the U.S. military plunged into Afghanistan.

In the years that followed, systems bearing no resemblance to market democracy gained traction, and countries that adopted them grew stronger, undermining international institutions built to serve liberal states, violating international law with impunity, and making a mockery of the global trading system. Washington failed to build stable democracies in Afghanistan and Iraq, and the invasions of those countries accomplished little besides mirroring the United States in “forever wars” that cost thousands of American lives and trillions of dollars. Elsewhere, few young democracies consolidated their gains, while countries such as Russia, Turkey, and Venezuela slid further backward into authoritarianism.

More than 40 U.S. military bases and some 80,000 American troops in Europe did nothing to deter Russia from invading Georgia in 2008, then Crimea in 2014, then the rest of Ukraine in 2022. The only perceptible effect of these massive deployments was to discourage Washington's European allies from investing in their own defense. Meanwhile, China chipped away at the military dominance that was the prerequisite for American hegemony. By some estimates, its defense spending is equivalent to that of the United States, and it fields the world's largest active-duty fighting force and largest naval fleet. China's industrial power allows it to influence foreign conflicts—for instance, bolstering the war machine that powers Russia's assault on Ukraine—and would give China an advantage in a lengthy war of attrition. U.S. shipbuilding capacity trails China's by a factor of 1,000.

China's growing advantages are a symptom of the broader failure of globalization. For the past three decades, the unfettered flow of goods and capital devastated American industry, helped drive up federal deficits, and provided the fuel for the financial meltdown that led to the global financial crisis of 2008 and the Great Recession that followed. The manufacturing sector's crown jewels, from Intel to Boeing to General Electric, became laggards—overtaken not by new American entrepreneurs but by foreign state-subsidized enterprises. The sector has atrophied so badly that, according to data on productivity published by the U.S. Bureau of Labor Statistics, factories today need more workers than they did a decade ago to produce the same output.

Although the U.S. service sector's rise in relative importance was natural for an advanced economy, the stagnation in manufacturing was not. The abandonment of production, typified by Apple's "designed in California, made in China" strategy, sent factory jobs overseas first—but the innovation soon followed. In the mid-2000s, the United States was ahead of China on 60 of 64 "frontier technologies" identified by the Australian Strategic Policy Institute. By 2023, China led on 57.

In the twenty-first century, American military leadership and economic forbearance neither achieved an "enlargement" of the community of market democracies nor boosted American security and prosperity. It merely consumed the physical, financial, and social capital that the country had painstakingly accumulated. For global superpowers as much as for families, it turns out, one generation builds the wealth, the second enjoys it, and the third destroys it or sees it squandered.

#### NO MORE FREE RIDES

The hallmark of U.S. strategy during hegemony was the unconditionality of its vision, providing benefits to other countries regardless of how they exploited the arrangement. When NATO allies refused to meet their defense spending commitments, the United States might cajole, but its own commitment to defending every NATO country from any possible attack remained rock solid. If China manipulated its currency, subsidized its national champions, stole intellectual property, and denied U.S. firms access to its market, Washington might complain, but the American market would remain open to Chinese

companies. When it came to its allies and partners, the United States would say “do this” and “stop that”—but it rarely said “or else.”

Over time, what developed among the expert class in Washington was a belief that open markets and alliances were ends unto themselves, so valuable that they were worth pursuing at any price, regardless of how other countries behaved. That belief was unfounded even when the United States was the predominant power; in the post-hegemony world, it is unmoored from reality. The country needs a new path.

One alternative would be retrenchment: taking advantage of the strategic depth afforded by geography to build a “Fortress America” with only Canada and Mexico as close partners. This would be a dramatic transformation but an entirely plausible one, and preferable to a status quo in which the United States continues to absorb the costs of attempting to preserve hegemony while enjoying none of the benefits that depend on preserving it. But that would be far from ideal: the country would lose the capacity to influence events around the world in situations that involved critical U.S. interests. Retrenchment would also shrink the scale of the broad open market in which American businesses innovate and grow.

At the same time, although the days of incurring costs in pursuit of benevolent hegemony are over, it would also be a mistake for the United States to pursue a nakedly coercive empire that leverages its economic and military power to exploit putative allies. Doing so would corrode the country’s democratic republic by elevating the interests of elites over those of ordinary citizens and would corrupt the country’s ethos of liberal governance and self-determination. It would also trigger resentments that would make U.S. alliances less stable and conflicts within them more likely.

Instead of pursuing either of those extremes, the United States should pursue reciprocity, focused on a set of commitments that allies must make to each other for the alliance to function well. Going forward, the question Washington should pose to any ally or potential partner is this: If each member were behaving the way you are, would the alliance be a strong one benefiting all members, or would it collapse?

On this basis, the United States should make three core demands of any prospective participant in a U.S.-led trading and security bloc. First, Washington should insist that its allies and partners are prepared to take primary responsibility for their own security. A country

that does not even attempt to defend itself brings a security deficit to a coalition and acts as a drain on the collective defense, imposing obligations on others that it cannot reciprocate.

Consider Germany, which has relied on the United States for security in its region since the end of World War II. “We cannot substitute or replace what the Americans still do for us,” Merz conceded in May. The same cannot be said about what, if anything, the Germans still do for the United States. The basing of so many American troops on German soil, at American expense, serves the Germans, the rest of Europe, and the dreams of empire that some in Washington still harbor. But it does not serve the interests of the typical American. The U.S.-German relationship is not an alliance in any meaningful sense of the term: in reality, Germany is a client and the United States is a patron, although one that gets little in exchange for its patronage. The bases in Germany should be German bases, hosting German troops paid by the German government to maintain comparable capabilities.

Conversely, a country that can take responsibility for deterring and defeating common foes in its own region while contributing intelligence and technology to its partners is invaluable. In June, the Israeli air campaign against Iran provided a concrete illustration. Israel hoped the United States would join, but had little leverage to make it do so. U.S. leaders were able to assess their options and decide which best advanced American interests. When Trump opted to take part, American B-2s were able to follow a path already cleared and strike targets already softened by Israeli forces. Iran found it unwise to attempt more than a symbolic retaliation.

A strategy of reciprocity would call for ending direct U.S. aid to Israel; it is wholly unnecessary given Israel’s wealth and strategic position, and it does not deliver a clear benefit to the United States. But Washington should gladly continue selling arms to Israel, and even providing financing for those sales, as it should for other allies that take primary responsibility for their own regions. Israel generally allocates more than five percent of its GDP to defense spending even when not engaged in active conflicts, and it mandates conscription for a majority of citizens. Israel does these things not to secure Washington’s blessing but to secure itself. Imagine what the United States would save, and how much more secure from Russian and Chinese aggression the world would be, if countries such as Germany and Japan were equally determined to deter their regional adversaries.

IN OR OUT?

If it pursued reciprocity, Washington would also make a second demand: balanced trade. Economists have long understood that the benefits of free trade are undermined if countries adopt beggar-thy-neighbor policies that shift productive capacity to themselves at the expense of partners. In its efforts to achieve benevolent hegemony, the United States tolerated being beggared by its neighbors. For example, major trading partners such as Germany, Japan, and South Korea have pursued aggressive industrial policies and export-led growth strategies that shifted productive capacity from the United States and created persistent trade imbalances.

The United States tolerated this state of affairs partly for the sake of securing the loyalty of its allies and partners, and partly out of a mistaken belief that making things did not matter anymore and offshoring American industry would lead to cheaper goods for American consumers and better jobs in high-value service industries. Those tradeoffs have become untenable, as a weakened manufacturing sector has frayed the social fabric by eliminating millions of good blue-collar jobs, shattered the foundations of local economies across broad swaths of the country, reduced investment and innovation, imperiled supply chains, and eliminated the strategic depth afforded by a robust industrial base.

The United States should be a strong advocate for a large and open market as a core feature of an alliance, but it must insist that all participants foster the mutual benefit that a well-functioning trading system provides. In practice, this requires that each country commit to maintaining balance in its own trade, buying as much from others in the bloc as it sells to them. In the global trading system today, the United States operates as the consumer of last resort, absorbing surpluses from all who wish to run them. No other country can match China's abuse of the global trading system, but Germany, Japan, and South Korea all rely on export-led growth and expect the U.S. economy to absorb their massive export surpluses, too, to the benefit of their producers and the detriment of American competitors.

Although a bilateral imbalance between any two countries is not necessarily problematic, an alliance cannot tolerate members pursuing large overall surpluses, which by definition necessitate others to run large deficits. Reciprocity would require using tariffs, quotas, or

other regulatory barriers to discipline any country that is creating a structural imbalance. Countries running persistent surpluses could also commit to voluntary restraints on their own exports and could encourage their companies to build capacity in allied markets, as Japan did in the 1980s after the Reagan administration objected to Japanese automakers pouring cheaper cars into the American market. Countries that refused to play by the rules and pursue balance would be pushed out of the common market and face a high, uniform tariff from all members of the bloc.

In an era when the United States guaranteed open access to its market regardless of whether participants followed the rules, other countries quite rationally took advantage. If the United States instead conditioned access to its market on trading relationships that are balanced and thus mutually beneficial, countries will find it in their interest to adjust accordingly. The shock waves triggered by the Trump administration's tariffs are educating both economists and U.S. allies on this point. Canada, Japan, Mexico, South Korea, the United Kingdom, and the European Union have all altered their own trade policies—lowering barriers for U.S. exporters and raising barriers for China's, in various combinations—and some have also made large commitments to invest in expanding U.S. capacity.

#### CONSCIOUS UNCOUPLING

The third demand of a reciprocity strategy is simple: “China out.” The strategy of benevolent hegemony atop a liberal world order assumed the United States would remain the lone superpower, all countries would move toward market democracy, and free trade among them would foster prosperity for all. But China didn't follow the script. How would U.S. leaders in 1997 react if a time traveler could go back and tell them that China—whose GDP per capita was then lower than that of the Republic of the Congo—would remain an authoritarian country with a state-run economy yet rise to match the United States geopolitically and outcompete it in industrial power? Presumably, they would laugh. But anyone who believed it would surely abandon the blind embrace of China on the spot. The United States, after all, had triumphed in a Cold War during which not even the most orthodox free-market libertarians advocated that the United States pursue trade with the Soviet Union or otherwise entangle the American and Soviet economic and political systems.

U.S. producers will not be able to enjoy the benefits of free trade if they are forced to compete against state-subsidized Chinese competitors in the Japanese market, or face imports from Malaysia into the U.S. market that rely on Chinese materials and components sold below cost. Thus, other countries' access to the American market must be conditioned on their willingness to exclude China. The requirement of balanced trade would itself push countries in this direction, as many are discovering in the wake of the escalating U.S.-Chinese tariff war. The American refusal to continue absorbing China's surplus has led to import surges into Europe, for instance, creating enormous headaches for leaders there. With the United States maintaining an unconditionally open market, Mexico might want to welcome enormous investment from BYD, the Chinese electric vehicle manufacturer, in factories that would then export cars into the United States. But if Mexico cannot run an enormous trade surplus with the United States, the proposition loses its appeal.

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The idea of spheres of influence offends liberal internationalist sensibilities.

The China challenge goes far beyond trade imbalances, of course. As Chinese leader Xi Jinping shuts off the global supply of rare-earth magnets, the world is seeing the cost of letting the Chinese Communist Party manipulate and corner vital strategic markets. China makes investments abroad to usurp critical technologies and exercises political leverage over investors in the Chinese market. Governments and corporations will repeatedly see advantage in accepting what China offers, even as the cumulative effect of those bargains weakens both. If Washington pursued a strategy of reciprocity, the security of the United States and its allies and partners, and the freedom of the open market they would share, would depend on holding all participants accountable for disavowing that course.

Investment flows likewise require decoupling. The United States and its allies and partners should prohibit inbound investment from China (including foreign direct investment that results in China-based firms operating within their borders) and also prohibit their own citizens and firms from holding assets or making investments within China's borders. Technology ecosystems will also need to diverge, especially as the United States leads efforts to restrict China's access

to cutting-edge artificial intelligence chips and chip-making equipment. On all fronts, the principle must be that one can do business in the Chinese sphere or the American one, but not both.

After decades during which Washington entangled the U.S. and Chinese economies, abandoned expertise and neglected to invest in domestic manufacturing, and accepted dependence on Chinese supply chains, the process of decoupling will impose real costs on the United States. In the short run, some consumer products will become more expensive. Some businesses will suffer from the loss of suppliers or customers. Reindustrialization will require substantial new investment, which implies some reductions in consumption.

But these results are best understood as the price of losing the bet on globalization. Climbing back out of that hole was always going to be expensive. The longer that policymakers refuse to acknowledge reality and insist on doubling down on the failed status quo, the more expensive it will become. Conversely, paying those costs now represents an investment in reindustrialization that will pay enormous dividends for decades.

#### RECIPROCITY TO THE RESCUE

The United States retains considerable leverage to redefine its role in the world and shape a new U.S.-led alliance system accordingly. Other countries will sulk when they realize that the old deal is no longer available. But if Washington can make clear that the options are a new alliance or no alliance, other market democracies will rationally accept the offer.

The deal would be a fair one. The United States would hold other countries only to the same conditions to which it would expect to be held. Obviously, it would remain a heavy spender on its own defense and the common defense; it would not expect other countries to pay the full cost. In seeking balanced trade, it would be asking others to meet it in the middle, not to accept a role reversal in which American producers get to dominate global markets.

These new American demands would disrupt the status quo and impose short-term costs on allies and partners. But they, too, would ultimately benefit. Those in Asia surely wish they could credibly defend Taiwan without wondering whether the United States would truly do so if push came to shove. Those in Europe surely wish they could have credibly warned Putin away from invading Ukraine. In

Germany and Japan, especially, export-led growth models appear to have run their course and have given way to stagnation. Both countries would do well to turn toward strategies that boost domestic consumption. And while the lure of cheap Chinese goods and capital has repeatedly proved irresistible in the short run, all are aware of the long-term risks. Any market democracy should be excited to accept a partnership on those terms over the alternative of falling into a Chinese sphere of influence, and the United States can afford to hold firm on the terms.

The idea of spheres of influence offends liberal internationalist sensibilities. “During the cold war,” *The Economist* argued in July, “American- and Soviet-led blocs amounted to spheres of influence. After the USSR fell, both Democratic and Republican administrations repudiated such spheres as deplorable artefacts of the past, calling instead for a liberal world order, open to all.” That is true as a descriptive matter, but it only underscores the wishful thinking that underpinned the repudiation. What happens to a liberal world order “open to all” when some accept the invitation to join but not the terms of membership? They can be welcomed anyway, leading to a world order that is far from liberal, or they can be excluded, preserving the prospects for a liberal order that excludes some of the world. The former has been tried, and it failed. The latter, by insisting on reciprocity and accepting spheres as inevitable in a world of competing and incompatible economic and political systems, gives the United States a much better chance of achieving its goals and advancing its values.

Reciprocity holds the promise of improved economic prospects, reduced foreign commitments, and a return to the politics of a republic focused foremost on the interests of its own citizens. But adopting such a strategy will require American leaders—and ordinary Americans—to accept a more limited role for their country on the world stage. Patriotism demands realistic assessments of abilities and interests, not the outlandish embrace of goals the country has no power to achieve.

The gambler who responds to frustrating losses by placing bigger and riskier bets is said to be “on tilt.” In the United States, too many analysts are still assessing the hypothetical benefits of a hyperpower status that does not exist; too many politicians are still giving speeches about their affection for various forms of imagined empire. With a humbler and more realistic strategy of reciprocity, Washington would finally be placing a bet that the United States can win. 🎲