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The art of the deal

Trump's trade policy blends aggressive tariffs, legal manoeuvring and transactional diplomacy. But could he really blow up the global trade system?

President Donald Trump won his re-election on the promise of fighting an unprecedented trade war against the rest of the world. He has proposed a universal tariff on all goods imports to the United States of between 10-20 per cent, rising to 60 per cent for shipments from China and even higher in some areas. After winning the election, Trump initially doubled down further on this rhetoric, threatening a 25 per cent tariff on goods from Mexico and Canada.

The Trump transition team are divided over these proposals but appear to be sticking to the idea of some form of universal tariff. Reports suggest though that they plan to target strategic industries such as defence manufacturing and metallurgy, medical supplies and pharmaceuticals, and energy production. This would still amount to a radical disruption of the global trading system. It would also lead to retaliatory action from the United States' larger trading partners and violate the terms of the US-Mexico-Canada Agreement (USMCA).

America cannot simply 'decouple' from China

Economic and geopolitical competition with China has become an obsession of the American political elite. The Trump administration first introduced tariffs on China in 2018, and these were kept by his successor and extended further in 2024. One of the reasons that the Trump administration are edging towards the idea of using universal tariffs is the failure of China-focused tariffs to bring down the overall US trade deficit in goods, which has exceeded $1 trillion each year from 2021 to 2024. The Trump administration's focus on Mexico and Canada reflects the fact that they, along with China, are by some distance America's major source of goods imports, each accounting for in excess of $400 billion in 2023. But the Trump team make the mistake of thinking about the global economy as a series of bilateral trade relationships when it is

actually a complex and highly integrated system of connections.

The decline and plateauing of the US-China trade relationship since 2018 disguises how supply chains adapted with Chinese components routed into final line assembly in Southeast Asian states. American industry is itself embedded in such networked production. Richard Baldwin and Rebecca Freeman calculate that 'Chinese inputs into all the inputs that American manufacturers buy from other foreign suppliers… is almost four times larger than it appears to be' in trade statistics. In a still highly integrated world economy, China's competitive production and its dominance of goods exports make it an unavoidable partner — and its sluggish domestic economy increases its dependency on its export strength. For the United States to tackle the rerouting of goods through third countries to avoid tariffs would require complex rules of origin tests that would be challenging and expensive to implement.

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The imbalance that the Trump administration highlights is certainly real. It has long been recognised that the United States economy is heavily skewed towards consumption over production — and that the opposite is the case for China. The gross savings rate – the proportion of national income not spent on consumption – in China is more than double the level of the US. China's low consumption and high savings provide the basis for huge investments in production with the goods then needing to be consumed elsewhere.

This relationship shapes the world economy: the US consumes an enormous amount of goods, and China provides many of these goods. By 2030, China is expected to account for an astonishing 45 per cent of all global industrial production — an increase from just six per cent a quarter of a century ago. Trade imbalances on this scale pose a problem for the global economy. For many years, lonely voices on the left argued that the goal of trade efficiency – e.g. the plentiful cheap industrial products China offers – should be balanced against other objectives like supporting jobs and environmental protection.

But today, the idea that trade should not be 'free' but conditional on the political choices we make enjoys much wider support. Numerous conservatives that are hawkish on competition with China now agitate very loudly against American economic dependency on its supply chains. While this American turn has raised important questions about supply chain resilience, the relationship between trade and human rights, and

how to design industrial policies that deliver the outcomes we want, Trump's brand of 'strongman' nationalism offers no serious answers.

Trump's heterogeneous coalition

The Trump administration would like to lower the price of the dollar to boost US goods export performance, but the blunt single instrument that they favour – tariffs – will not bring this about. As David Lubin argues, while tariffs increase the cost of imported goods in the American market, this in no way equates with weakening the dollar. The general strength of the US economy and the importance of its market for global exporters mean that tariffs will create downward pressure on the currencies of states that are subject to them. Added to this is the inflationary effect of tariffs and Trump's expansive fiscal policy – i.e. his huge tax cuts – which will incline the Federal Reserve to increase interest rates. So, rather than a weakened dollar the result would be the opposite: a dollar with even more buying power.

Unless the Trump administration start from an analysis that the trade deficit is closely related to the combination of two internal imbalances, the American imbalance towards consumption over investment and the reverse in China, their policies will simply not work.

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To bring about the kind of rebalancing in global trade that the Trump administration claims to want would require multilateral cooperation — the antithesis of 'America first'. It points to thinking holistically about the global economy and its rules — addressing not only goods trade but also services, finance and capital movements. Some in the Republican Party are asking these questions. The conservative think tank American Compass has identified financial liberalisation as the critical source of trade imbalances. Vice President J. D. Vance has even argued that the role of the dollar as a global reserve currency is a 'massive subsidy to American consumers but a massive tax on American producers'. However, any move to greater control of capital movements would put the Trump administration on a collision course with Wall Street, which seems unlikely.

The Trump camp includes a coterie of far-right-moving billionaires like Elon Musk who see his authoritarianism as a vehicle for their brand of

economic libertarianism, which conveniently supports subsidies and government spending when it benefits their interests. These backers would recoil at the idea of capital controls. Trump has also threatened huge tariffs on any states that pursue de-dollarisation and his Treasury Secretary nominee Scott Bessent has confirmed the administration will maintain the dollar's position as a global reserve currency. A more moderate proposal is to reach out to Beijing to agree on a plan for dollar devaluation. Shahin Vallée suggests Trump could launch a multilateral initiative to strike a deal on a package of coordinated measures. However, this would require reducing the US budget deficit — an effort that becomes much harder in the context of the administration's plans for huge tax cuts.

The Trumpian method of politics

All of these proposals assume, however, that the Trump administration is capable of developing policies with some sense of the general interest in mind. Trump's own statements provide little grounds for anticipating this.

Consider how his team have previously hinted at exploiting ideological divisions within the European Union. Trump's propensity to link trade policies with non-trade issues, such as immigration and drug enforcement, could be applied to European states to offer quid pro quos that seek to circumvent the EU institutions. While EU states share a Common External Tariff, Trump may be inclined to offer unilateral tariff reductions to his far-right co-thinkers in exchange for deals that benefit his networks and have nothing to do with a trade. As Viktor Orbán's Hungary is a landlocked state, it could not match any US tariff concession (given that all goods it received would have to pass through another EU member state), but he may have something else to offer team Trump. In the United States, it is also highly likely that the tariffs would be riddled with exemptions and opts-outs, providing obvious avenues for kleptocratic deal-making with corporate lobbyists.

Trump should not be read then as a champion of 'Main Street against Wall Street'. Or as the head of a political faction aimed at mobilising the powers of American statecraft to redesign its domestic economy and external trade relations. Instead, it might be better to analyse Trumpism – and the ideologically heterogeneous networks and actors that constitute it – as representing an oligarchisation in which institutions are captured to secure sectional advantages for supporters, exchanging political for economic power and vice versa.

The transactionalism fundamental to this approach to politics seems

likely to carry over into the administration's trade policy with potentially chaotic and contradictory effects.



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