The New Political Economy of U.S. Trade

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Abstract

The second presidential administration of Donald Trump has ushered in a new era in American trade policy. The course taken by the Trump Administration in the past year breaks with over 200 years of U.S. trade policy, abandoning such basic principles as Most Favored Nation (MFN) status and multilateralism. The administration's policy reflects a neo-mercantilist bias against trade deficits, including bilateral deficits. It appears to have several goals, not all of them consistent with one another: traditional protection, reindustrialization, and coercive bargaining over economic and non-economic issues. Like all trade policies, these will have distributional effects within the United States: consumers and those who use imported inputs are likely to be harmed, while protected producers are likely to benefit. In a world of complex supply chains, the costs and benefits are difficult to calculate, but it seems likely that the vast majority of the burden of the trade barriers will be borne by Americans rather than foreigners. The Trump trade trajectory has important implications for the rest of the world, which must decide on the mixture of resistance and adaptation it wishes to pursue. For now, much of the rest of the world's nations appear content to let the United States go its own way within its perceived sphere of influence, while maintaining some of the previous international trading structure intact. These trends suggest a need to enrich our understanding of the international political economy of trade, going beyond standard models of special-interest politics to analyze the ways in which broad views of the national interest contend and are put into action. Trade policy is likely to continue to be contentious both within the United States and internationally, but the terms of the contention have changed.

The administration of President Donald Trump has made trade central to its economic and foreign policies. This is unprecedented in recent times, although it is not surprising. For decades Trump has argued that other countries have been exploiting the United States with unfair trade deals. He fought a trade war with China in his first term. In his second campaign for a second term, Trump declared, “To me, the most beautiful word in the dictionary is ‘tariffs.’ It’s my favorite word” (Wiseman and Colvin 2024). In office, he has followed through, threatening, then imposing, suspending, reimposing, postponing, and finally enacting a wide range of tariffs on nearly all U.S. trade partners with rates that vary by country, and sometimes by product.[1]

This essay starts by providing historical context for the Trump Administration’s trade strategy, explaining what is new about it. It then examines the reasons for this dramatic turn in American trade policy, the likely domestic and international effects of the strategy, and the implications for our analysis of the international political economy.

U.S. Trade Policy in Historical Perspective

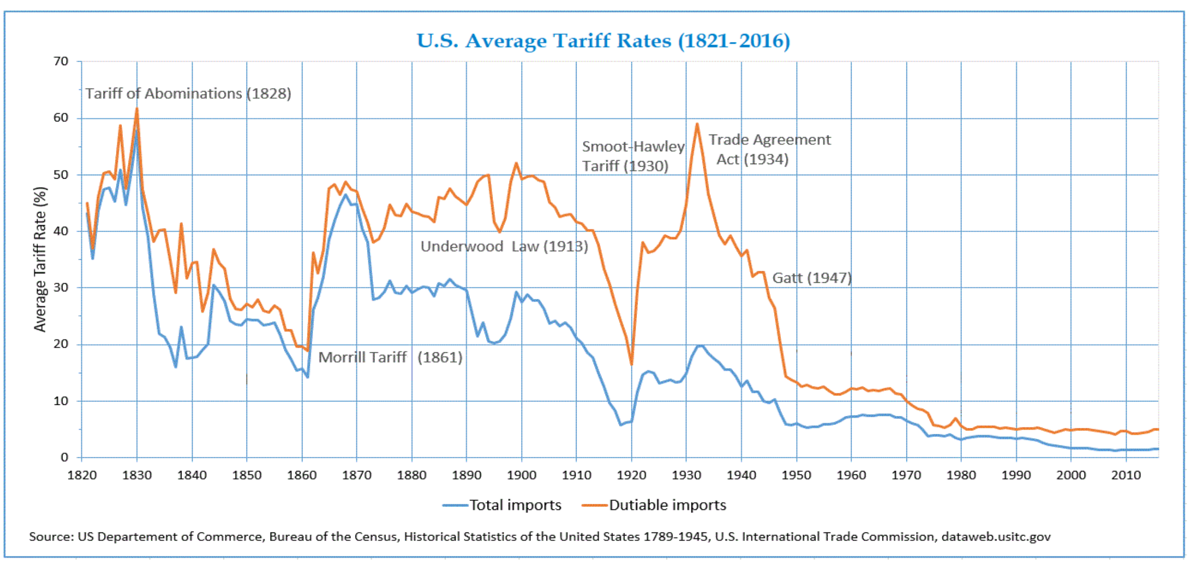
The second Trump Administration’s trade strategy is unlike any in U.S. history. It focuses on balancing bilateral trade flows to try to eliminate country-specific trade deficits. In this, the regime’s closest cousin is the mercantilist policies that flourished in Europe between the 16th and 19th centuries. In the mercantilist era, countries tried to restrict imports while encouraging exports, in part to hoard gold. This limited trade among the major powers and suppressed the overall level of global trade. The mercantilist policies of the British Empire were a major source of American complaints about British rule, and U.S. trade policy has typically eschewed them – until now. There have been three major eras of U.S. trade policy (see Irwin

[1] On tariff threats that were not imposed, see Grantham-Philips (2025).

2017). They differ both with respect to the process by which trade policy was made and the eventual levels of trade barriers imposed. The Trump policies may be ushering in a fourth era.

Congressional Revenue Tariffs (1787-1860): The Constitution assigns the power to regulate trade and set tariffs to Congress, which exercised its rights vigorously for over 150 years. Tariff rates varied up and down over time, as shown in Figure 1. Prior to the Civil War, Congress was roughly evenly divided between the free trade South and more protectionist North. At the beginning of this period Congress used tariffs primarily to raise revenue, and they constituted between 80 and 90 percent of all Federal government revenue at the time. As the North industrialized, it began to demand higher protection, resulting in the so-called Tariff of Abominations in 1828. Opposed by the South, the act spurred the "Nullification Crisis" in 1832-33, which threatened to split the Union. The North backed off, Midwestern farmers intent on exporting their surplus sided with the South (James and Lake 1989), and tariff rates fell dramatically. In this first era, then, trade policy was made by Congress and the South-Midwestern alliance in Congress meant that the policy tended toward openness.

Figure 1



Congressional Protectionism (1861 to 1934): After the Civil War, the North's protectionist preferences dominated (Terrill 1973). Tariffs were largely set by logrolls in Congress, in which representatives traded votes on protection for "their" industries in exchange for support for the industries of other representatives. The House Ways and Means Committee would hear petitions from producers and draw up a proposed tariff schedule; a flurry of amendments would be added from the floor by Representatives who believed their firms and industries had not gotten the protection they deserved; the legislation would be passed and sent to the Senate, where the process would largely be repeated. The president would sign the completed bill.

The overall effect of these congressional logrolls was tariff rates beyond levels that any one person, firm, or legislator might think desirable. Importantly, throughout, tariffs were set by product, often finely graded by the level of "work" or stage of manufacture.[2] As one example, tariffs on textiles typically increased with the number of threads per inch. Tariffs on raw materials and other inputs into the manufacturing process were duty-free or taxed at much lower rates than finished products. As Figure 1 shows, the tariff on total imports was significantly lower than the tariff on "dutiable" imports, which reflects this escalation in rates with the degree of processing. Congress set tariffs in an almost entirely inward-looking fashion, giving priority to the needs of import-competing sectors. It was not until the McKinley Tariff of 1890 that Congress began using reductions in the U.S. tariff to try to open foreign markets for American goods, and then only in limited form as a way of stimulating manufacturing exports to Latin America (Lake 1988).

This system broke down during the Great Depression when Congress imposed the infamous Smoot-Hawley Tariff of 1930. The world and U.S. economy had never fully recovered

[2] For a detailed description of these tariffs, see Taussig (1931).

from World War I. In particular, agriculture in the United States, which had expanded to meet demand during the war, was in crisis throughout the 1920s. Surpluses caused prices to fall, farmers who had borrowed heavily during the war to increase capacity went bankrupt, and droughts pushed farmers to demand government support. This meant protecting the domestic market for farm goods from foreign competition – even though the United States was a net exporter of farm products. In 1930, Congress began to negotiate a limited revision of the tariff to support agriculture, but the onset of the Depression turned the tariff-making process into a free-for-all, with nearly all industries demanding higher duties. The final bill was an orgy of logrolling and produced among the highest tariff rates in U.S. history (Schattschneider 1935).

Smoot-Hawley set off a classic trade war of reciprocal increases in tariffs. Canada, Britain, France, Italy, Spain, Switzerland, Mexico, Cuba, Australia, and others explicitly raised tariffs in response. World trade spiraled downwards as markets closed, losing about two-thirds of its value and exacerbating the effects of the depression. Exactly how much Smoot-Hawley and the subsequent retaliation contributed to the Great Depression is a matter of some debate (Eichengreen 1989; Mitchener et al. 2022). Trade would have declined as a result of the Depression no matter what. Nonetheless, policy makers after World War II drew the lesson that protectionism contributed to economic hardship and war and thus should be avoided whenever possible.

Presidential Liberalization (1934-2016): Congress responded to Smoot-Hawley and the trade war that followed by passing the Reciprocal Trade Agreements Act (RTAA) in 1934. Recognizing the dysfunctional process of log-rolling in Congress, the legislature delegated much trade policymaking to the president (Bailey et al. 1997; for a different interpretation, see Hiscox 1999). With a national constituency, the president was expected to internalize the negative externalities of tariffs, which hurt importers and consumers who were otherwise poorly represented in Congress, and in general to favor liberalization. The assumption that presidents would be more liberal than Congress was “baked into” the RTAA and subsequent legislation by giving the executive considerable discretion (a fact relevant to developments in the second Trump administration). The RTAA delegated authority to the president to negotiate reciprocal reductions in tariff rates of up to 50 percent from Smoot-Hawley levels. President Franklin Delano Roosevelt moved swiftly to negotiate agreements with more than 16 countries. Reciprocity transformed the politics of trade policy, empowering exporters who sought foreign markets against the traditional import-competing sectors that had previously dominated Congress (see Bailey et al. 1997).

After World War II ended, with European industry devastated and U.S. manufacturing essentially unrivaled, this Congressional authority led the United States to lead in creating the General Agreements on Tariffs and Trade (GATT). Over eight rounds of negotiations, the GATT dramatically lowered tariffs for nearly all industrialized countries, especially the United States and Western Europe. In 1947, before the first round, average tariff rates for 23 member countries have been estimated at approximately 22 percent (Irwin and Bown 2017). By 1994, at the end of the Uruguay Round, average tariffs for 123 members were roughly four percent. Subsequent rounds of the GATT proved less efficacious as members moved to negotiate with developing countries and over non-tariff barriers to trade.

The GATT operated on a principal-supplier rule. When two or more countries wanted to negotiate tariff reductions on a particular product, the right to bargain for the best concessions was generally given to the *principal supplier* of that product to the country making the concession. In other words, if Country A imported most of its widgets from Country B, then B was the *principal supplier* of widgets to A; in a tariff negotiation round, B had the primary right to negotiate with A over widget tariffs. Once A and B struck a deal, the new lower tariff was extended to all GATT members under the *Most Favored Nation* (MFN) principle. The effect of this practice was to ratchet down nearly all tariffs over time.

The GATT was reconvened as the World Trade Organization in 1995, whose primary innovation was a more elaborate and binding Dispute Settlement System (DSS) (Barton et al. 2006). In the single undertaking establishing the WTO, countries accepted all core agreements previously accepted under the GATT, thereby eliminating many of the carve-outs and special exemptions and standardizing the rules. The WTO also expanded its remit to include not only tariffs and non-discrimination but also all goods, services, and intellectual property. Overall, the WTO continued the drive for liberalization within a more formally defined set of legal rules and obligations.

Donald Trump's New Trade Strategy

Since retaking office in 2025, President Donald Trump has launched an Executive-driven trade war encompassing the entire globe, reversing 250 years of trade practice and 75 years of trade liberalization (see Rickard 2025, for example). With extensive powers delegated by Congresses that assumed the president would be relatively liberal, Trump – the first overt protectionist in the office in one hundred years — has exploited executive discretion to change fundamentally the direction of U.S. trade policy.[3] The Trump Administration justifies many of

[3] Republican presidents in the 1920s (Harding for the Fortney-McCumber Tariff of 1922 and Hoover for the Smoot-Hawley Tariff of 1930) signed the Republic-led logrolls from Congress but were not themselves strident protectionists. The last overtly protectionist president was

its trade barriers on national security grounds, as Congress has granted the president extensive powers on matters of national security. Steel and aluminum tariffs, for instance, were adopted under Section 232 of the Trade Expansion Act of 1962, which gives the President authority to impose tariffs, quotas, or other restrictions if the Secretary of Commerce finds that specific imports threaten national security. It is noteworthy that the administration of President Joe Biden also used national security as a rationale for its trade and industrial policy initiatives but, unlike Trump, worked with Congress to enact the Inflation Reduction and the "Creating Helpful Incentives to Produce Semiconductors and Science" (CHIPS) acts to subsidize the development of critical industries and create supply chain resilience.

Trump's broader tariffs have been instituted under the International Emergency Economic Powers Act (IEEPA), which allows the president to regulate transactions with foreign entities once he declares a national emergency. Trump used this authority in his first term in the trade war with China. It has been used far more extensively in his second term, claiming that a large and persistent trade deficit, illegal immigration, and fentanyl trafficking all constitute emergencies. The president's use of the IEEPA is contested, with the Court of International Trade in the United States finding that the law does not authorize the executive to impose broad-based tariffs; the court's finding is stayed pending appeal by the administration (Update after Supreme Court arguments). Trump has used the ambiguities in the powers of the executive to promote his agenda, while the Republican Congress has largely allowed the President to circumvent its authority over trade policy.

William McKinley, author of the 1890 tariff bill that bears his name and, as President, supporter of the Dingley Tariff of 1897.

The Trump Administration's trade policy appears to have several aspirations, some of which are not consistent with others. This probably reflects the positions of competing factions within the Administration. In rough order, Trump wants to rebuild American manufacturing, especially in industries that actually "make things," for both economic and security reasons. This goal may also reflect a domestic political strategy that appeals to regions that have experienced a loss of manufacturing in the Industrial Belt, and to young, less educated workers seeking employment. He also seeks to use tariffs, or the threat of tariffs, to extract concessions on trade, drugs, and, in a significant departure, other non-economic issues, including those related to personal grievances (see Wong and Kanno-Youngs 2025). Finally, Trump wants tariffs to generate revenue for the government, perhaps to offset Republican tax cuts. The proximate aim is to balance the flow of goods between the United States and each of its trading partners, meaning that U.S. exports of physical goods should equal U.S. imports on a bilateral basis. This focus on physical goods ignores trade in services in which the United States typically runs a surplus. Nonetheless, the emphasis on bilateral balance is a clear example of how the Trump trade policy is mercantilist; it also appears to be the President's implicit indicator of whether trade is "fair."

These goals were not so clear in the first Trump Administration's classic trade war with China.[4] Trump imposed tariffs on Chinese goods, China then imposed tariffs on U.S. goods, and duties spiraled up and trade spiraled down until the two sides called a ceasefire and preserved rates at their then elevated levels. Throughout this period, it was unclear whether Trump was using tariffs to open the Chinese market to U.S. goods, services, and investment – delighting capital – or using tariffs to protect U.S. industry – pleasing import-competing sectors and their

[4] Conybeare (1987) provides an overview of classic trade wars.

workers. Trump also issued approximately 40,000 “exemptions,” allowing firms that won his favor to import goods at the old tariff rate – a subtle but effective way of distributing benefits to specific firms that supported his agenda (Fotak et al. 2025). The resulting coalition allowed exporters and importers to get onboard, though they thought the train was going to different destinations.

The new trade strategy enacted in Trump’s second term has three crucially important features. First, the Trump Administration is bargaining solely *bilaterally* over trade, explicitly challenging the unconditional MFN principle explained above. In the words of an official American communication to the WTO itself, “The MFN principle…was designed for an era of deepening convergence among trading partners….That expectation was naïve, and that era has passed” (World Trade Organization 2025).

Trade policy has always been the subject of hard bargaining among countries, especially within the GATT and WTO. However, the bargains struck were generalized to other countries through MFN. The Trump Administration has abandoned MFN and no longer extends lower duties on, say, imports from South Korea to other countries. This has important implications. The United States has abandoned the multilateral trade regime, even as the rest of the world’s governments continue to negotiate trade agreements among themselves. Indeed, to offset losses in the American market, countries appear to be turning to new markets outside the United States and forming new liberalizing trade pacts. The lower tariffs in these agreements will not automatically extend to U.S. producers, meaning that American firms will face higher duties in third-country markets than exporters from other countries that still respect MFN. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) uniting 11 former key trading partners, for instance, now excludes the United States.

Second, as noted above, the United States is freely using its bilateral bargaining approach to link tariffs to non-economic issues. Trade has been used in the past as a tool of broader political goals, such as with the imposition of trade sanctions on hostile nations. Now, however, the Trump Administration has been using tariffs to coerce allies as well as adversaries, and for goals that seem to have little to do with the national interest. These have included trying to halt the prosecution of former Brazilian president Jair Bolsonaro for having fomented a coup, punishing the Indian government for failing to credit Trump for calming tensions with Pakistan, and penalizing the Canadian government because the province of Ontario ran an advertisement on American television pointing out that Ronald Reagan was a strong opponent of tariffs. Trade negotiations are no longer just about trade.

Third, for the first time in U.S. history, the Trump Administration has been setting a single tariff *per country*, not tariffs on particular products. With some exceptions, he is also imposing tariffs on a flat rate, regardless of the level of "work" entailed. Both changes from historic practice are likely connected to his desire to balance bilateral trade and strengthen his bargaining leverage. However, both changes risk disrupting global supply chains and hurting U.S. manufacturers dependent on raw materials and intermediate inputs produced in global value chains. This combination has also led to some nonsensical tariffs, such as the often-cited example of 47 percent (later adjusted to 15 percent) tariffs on goods from Madagascar, which exports mostly vanilla that is not produced in the United States. More important, flat-rate tariffs by country change the politics of trade policy in an era of globally integrated supply chains. In the past, tariffs largely benefited final goods producers, who could import raw materials or intermediate products duty free or at lower levels. Now, all imports from a country enter at the fixed rate, punishing producers who source inputs abroad. Indeed, bilaterally negotiated country-level tariffs might well harm U.S. producers who compete against final goods from, say, Japan with a relatively low tariff rate of about 10 percent but buy intermediate goods from India with a relatively high tariff of 50 percent. That is, American firms are paying higher taxes on inputs from countries like India than are, say, Japanese firms, making U.S. exports less competitive not only on global markets but even in the U.S. market, where higher duties on intermediate products may not be fully compensated by the lower duty on final products.

The Domestic Effects of the Trump Trade Policies

Although the future of American trade policy is uncertain, it seems likely that the eventual level of effective protection in the United States will settle somewhere in the 20 percent range (lower for most of the world, higher for China).[5] It has been a very long time since the United States – or any developed country – had tariffs as high as this. This makes it difficult to predict with any precision what the impact of these tariffs will be domestically.

Tariffs protect domestic producers of goods that compete with imports; this is their traditional effect. This positive effect will be felt especially by industries and firms that will be able, as a result of trade protection, to raise prices. Very high tariffs on steel and aluminum, as well as on many automobiles, are clearly meant to stimulate those industries, which have faced stiff import competition over past decades.

Tariffs have domestic costs as well, and a crucially important question is about their incidence, that is, who bears the burden for them. Tariffs are, of course, taxes on trade paid at the border. However, how these taxes are "passed through" among various economic actors can vary

[5] For country-specific estimates as of December 2025 see Fritz (2025), according to which the trade-weighted average tariff for China and India is 35 percent, and for most EU countries 12 percent. See also Romm et al. (2025).

from industry to industry, firm to firm, and product to product. Exporters, importers, wholesalers, or retailers may swallow some of the tax in order to avoid losing customers. The tariffs themselves may affect world market prices (of which more below). Domestic producers may respond by raising their prices now that foreign goods are more expensive in the domestic market. All this depends on complex considerations about the industries, firms, and products involved – such as industry concentration, firm market power, and demand elasticities. The considerations are complicated even further in today's international trading environment, which is characterized by interwoven global value chains (Antràs 2025). Most international trade today takes place among connected firms, and even within single firms. It will require very detailed studies to provide a truly accurate picture of how the Trump tariffs affect producers, intermediaries, and consumers.

Studies of the Trump I tariffs, and early studies of the Trump II tariffs, nonetheless, tend to show that the duties were passed through almost completely, which means that the brunt of the burden of the tariffs will be borne by American consumers – both intermediate consumers of inputs and final consumers (Amiti et al. 2019; Faigelbaum et al. 2020; Cavallo et al. 2025; Flaaen et al. 2025). Evaluations of the overall impact of the tariffs on US economic growth are even more complex and difficult, but early analyses suggest a substantial negative impact in the medium to long run (Amiti et al. 2025).

The global nature of the Trump trade war suggests that at least some of the tariffs may aim to take advantage of the large United States market in ways that improve the country's terms of trade. At the national level, this is reminiscent of optimal tariff theory (OTT), in which a government can exploit its country's market power to force others to absorb some or all of the costs of its tariffs and improve its terms of trade.[6] The idea is that a country that dominates a product market can adopt tariffs that force exporters to lower prices of their goods sufficiently that consumer losses are more than offset by tariff revenues, leaving the country as a whole better off. In principle, the tariff revenues could be distributed to those within the large country who are harmed by the tariffs. Faced with such a tariff, trade partners have little incentive to retaliate, as imposing tariffs in response will not cause the large country to remove its tariffs and retaliatory duties only hurt their own consumers. This might seem consistent with current outcomes: few targets of Trump's higher duties have attempted to retaliate against the United States.

Most of the evidence indicates, however, that optimal tariffs are rare, and apply only at the level of individual products, depending on the importing country's share of the market and price elasticities.[7] It is unlikely that Trump's current country-wide flat-rate tariffs have somehow hit upon optimal tariffs for goods imported from America's trading partners. While the lack of retaliation by others might accord with OTT, across-the-board duties by country make little economic sense. Detailed studies will have to wait, but most analysts expect that the Trump II tariffs, like the Trump I tariffs, will eventually be passed onto American consumers of intermediate and final goods.

The Trump Administration's trade barriers will raise revenue, probably on the order of $250 billion a year. This revenue, of course, is contingent upon the Administration's tariffs being

[6] Optimal tariffs were originally discovered by Johnson (1953). For a current model, see Davilla, et. al. (2025)

[7] For one study that finds a positive optimal tariff, which however reduces American welfare by 4 percent, see Ignatenko et al. (2025).

upheld by the judiciary. Even if they are, or if new constitutionally sanctioned tariffs replace them, tariff revenue is unlikely to offset consumer losses. Whether they do or not, tariffs will have clear distributional effects. Tariffs typically raise prices on imports and, by reducing foreign competition, allow domestic producers to raise their prices – after all, that is how tariffs are expected to encourage domestic industrial investment. Most generally, tariffs pull American production away from the country's comparative advantage. Trade barriers reduce the gains from trade, a point well established by Adam Smith and David Ricardo more than 200 years ago.

Whether tariffs will foster a reindustrialization of the United States is an open question. Even if firms and industries bring back ("on-shore" or "re-shore") production that was previously moved off-shore, it is likely to be capital-intensive and highly automated, creating few jobs for low-skilled workers. Some American workers may benefit from trade protection, but even if there is a substantial increase in manufacturing output, this is unlikely to create many good blue-collar jobs or to significantly increase unskilled wages. Comparative advantage still matters, regardless of the height of the tariff barrier. U.S. industries will always try to replace scarce (and expensive) labor with relatively abundant (and cheaper) capital and technology.

In addition to the impact of tariffs on relative prices, industrial investment, wages, and overall growth, the attempt to remake the country's trade relations is likely to affect capital flows. This is a particularly contradictory feature of the Trump Administration's policies. A current account deficit must be covered by a capital inflow; reducing the current account deficit reduces the capital inflow. If the tariffs reduce or eliminate the current account deficit, they must perforce reduce or eliminate net capital inflows. Perhaps the Administration has in mind to reduce the deficit in goods, but to run a large deficit on services (and other entries in the current account such as investment income), on which the United States currently runs a large surplus.

This seems unlikely. And yet the Administration has prominently featured commitments from other countries to invest in the United States, even while they reduce their surpluses with the United States. How this is mathematically, or economically, feasible is a mystery.

One possibility is that the Trump Administration has in mind substantial controls on inward and outward investment. This would allow it to restrict inward investment by foreigners to purposes, and amounts, of which it approves; and to similarly limit outward investment by Americans. There has been little discussion of this to date, but theory and history suggest that a government that tries to exercise tight control over its trade eventually extends that control to capital movements.

There is another contradictory aspect of the Trump trade policies that warrants attention. As noted, one major purpose of the tariffs is to encourage investment in American industry, while another is to use them as bargaining chips with other governments. These two purposes are inconsistent. A tariff is only useful as a bargaining chip if it can be removed, and a tariff removed can no longer serve to stimulate inward investment. This contradiction has been widely noted in the business press, inasmuch as it raises major questions about whether the tariffs should be seen as temporary – kept on until target countries concede – or permanent. The Administration cannot have it both ways. Uncertainty over the status of such tariffs complicates and likely reduces incentives for investment in the United States, once again undercutting the Administration's ambition to rebuild U.S. manufacturing.

Finally, the Trump Administration's actions on trade raise important domestic institutional considerations. The Constitution, in Article I, Section 8, clauses 1 and 3, expressly gives Congress the power "To lay and collect Taxes, Duties, Imposts and Excises," and "To regulate Commerce with foreign Nations." As noted, Congress delegated some limited trade-policy powers to the President and to such independent agencies as the International Trade Commission. Nonetheless, these remain subject to Congressional authority, and Congress could easily reclaim control. The current Republican Congress shows no inclination to revisit its delegation of trade policy to the President, but future legislatures may decide to revise the procedures for making trade policy in ways that more strictly limit executive action.

The Trump Administration's trade policies have far-reaching implications for the United States. They will impose substantial costs on some Americans and create substantial opportunities for others. They will remake portions of the country's industrial structure, although they will not create substantial new jobs in manufacturing. They may allow the Trump Administration to extract concessions from other governments, but this will limit their ability to protect American production. And, if not countered by Congress, they are remaking the institutional structure of American trade policy.

The International Effects of the Trump Trade Policies

The trade policies of both Trump administrations come at a time of crisis for the international trading system. The WTO has been hamstrung for decades; the most recent trade bargaining round, the Doha Round, began in 2001 and has been an almost complete failure. The WTO's Dispute Settlement System (DSS) has been increasingly immobilized by American objections since the Obama Administration. This has led many WTO members to seek "minilateral" alternatives to the WTO's stalled multilateralism. The Trump Administration, indeed, has justified its policies in part by arguing that the WTO does not serve its intended purpose.

However, the Trump Administration's apparent abandonment of multilateralism (and MFN) does not mean that the rest of the world has endorsed this view. Much of the rest of the world seems willing to move forward with some version of the existing system. The vast majority of world trade is still carried out on MFN principles. The European Union and several other countries have established an interim arbitration arrangement to serve as long as the DSS remains inoperative. When the United States pulled out of the Trans-Pacific Partnership, the remaining 11 members created the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which the United Kingdom has since also joined. While the Trump Administration appears to want to remake the international trading system, it may not be able to remake it in its own image. The actions of other major trading powers, especially China and the European Union, will have a powerful impact on the future of international trade.

At times it seems that the Trump Administration, or at least elements of the administration, is happy to see much of the rest of the world go its own way. There is an undercurrent of Administration thinking that harkens back to the attitudes of some American geopolitical thinkers in the late nineteenth and early twentieth century. At that point, with the United States a rising power and not a global leader, the goal was to secure the Western Hemisphere, and perhaps some promising markets in East Asia. Those views were largely endorsed by the isolationists of the interwar period (Frieden 1988). This point of view has been in abeyance in the decades since World War Two, during which the international economic order rested upon American global leadership and multilateralism. We may be returning to an earlier view of the world as composed of economic and political spheres of influence – this time, as the relative decline of the United States convinces some Americans that global leadership and multilateralism are no longer desirable.

In any case, the response of most of the rest of the world has not been to engage with the Trump Administration's trade war in classical fashion, with reciprocally escalating tariffs. The threat of massive tariff increases appears to have allowed the Administration to extract concessions from other governments in return for “merely” substantial increases in U.S. tariffs. Prior to the recent agreement, for instance, the average tariff on goods from the European Union was less than one percent. In the face of a threatened rate of 50 percent, the EU settled for a 15 percent rate and declared victory. In other cases, Trump has extracted other concessions, including promises of increased investment in the United States. Inasmuch as most of the agreements announced so far are very sketchy as to content, it may be that other governments plan to chip away at the American demands as negotiations continue. This certainly seems to be the strategy of the European Union, which has resisted virtually every aspect of implementation of the “framework” developed with the Trump Administration. Delay may well be the optimal strategy, especially given the division and confusion that appears to be reigning within the Trump Administration itself.

The principal country to counter Trump’s trade war successfully has been China. In response to Trump’s threat of prohibitive tariffs of up to 145 percent, the Chinese government embargoed imports of American soybeans – denying American farmers an important market -- and put restrictions on Chinese exports of rare earths, which are essential to many modern industries. Eventually, presidents Trump and Xi signed a “framework agreement” reducing the average tariff from 57 to 47 percent and boosting China’s purchases of U.S. soybeans; China agreed to remove export controls on rare earths. Most observers regard China as the victor, at least in this round of the trade war with the United States. President Xi has made it clear that he will meet fire with fire, using the dependence of the United States on China-based supply chains to impose high costs on the United States should it escalate the conflict. Meanwhile, China’s exports continue to rise, as it has diverted its trade from the United States to other parts of the world. It is paradoxical that the United States' principal economic competitor seems to have been more successful at escaping the effects of the Trump trade policies than America's erstwhile allies.

So far China has been the main country willing to impose substantial retaliatory duties or other restrictions on the United States. To be sure, retaliation is costly, and perhaps other governments prefer to hold their fire. Most countries are trying to diversify away from the U.S. market and negotiate deeper preferential trade agreements with non-U.S. partners. Europe might have sufficient market power, but it chose to negotiate rather than fight, in large part because European governments feared that an escalation of the trade conflict might cause the Trump Administration to abandon Ukraine in its war with Russia. This highlights the extent to which the Trump Administration's trade policies are affecting, and are affected by, broader geopolitical relations – a phenomenon that has come to be known as "geoeconomics" (Clayton et al. 2025; forthcoming).

Implications for the Study of International Political Economy

The populist backlash to economic and political integration in the United States and elsewhere is consistent with current theories of Open Economy Politics (OEP), the workhorse model of International Political Economy. OEP has two basic assumptions (Lake 2009). First, OEP assumes that the policies adopted by countries have little or no effect on global production and prices. This is the "small country" assumption in Economics, a simplification that allows the external environment to be considered exogenous when explaining a country's choice of trade (or other economic) policy. Second, economic policy is driven by interest group demands. Indeed, OEP uses what Richard Caves (1976) once called the "adding machine" theory of politics.[8] The government adds up the conflicting pressures from importers demanding protection, exporters desiring foreign market access, and consumers wanting cheaper goods and out comes a tariff. In accordance with decades of interest group models of policy, OEP added a deductive approach to defining interests based on economic theories of how trade (and other types of economic exchange) privileged some factors of production, sectors, and firms while harming others (see Frieden and Rogowski 1996). In this way, OEP allows analysts to theorize the winners and losers from globalization and then test theories of interest group politics. It is a "bottom-up" approach to politics.

Both of these assumptions are called into question by recent American trade policy. As for the first, Trump's use of tariffs for bargaining, his success at extracting concessions from others, and the failure of other countries to retaliate against higher U.S duties suggest that the small country assumption is inappropriate for large countries like the United States and, now, China. Part of this is simply a bargaining issue: large countries can impose costs on others (at a cost to themselves) that small countries cannot. Bargaining is all about the outside option, and large countries have much better outside options than small countries – and the United States is largest of all, with China not far behind. Then there is, as above, the Optimal Tariff Theory argument about trade. Scholars of IPE did not take optimal tariffs very seriously, both because they did not seem that common and because historical trade policies did not seem driven by attempts to manipulate the terms of trade. If any country had a positive optimal tariff, it was the United States immediately after World War II, but the country did not exploit its market power and instead led the world toward freer trade (Gowa 1994). Now that the United States has embraced bargaining tariffs and is attempting to use its market dominance to extract concessions

[8] Refined in Grossman and Helpman (2002).

from vulnerable trade partners, it is time to relax the small country assumption and begin to theorize when, how, and why large countries can use market power to benefit themselves.[9]

On the second point, OEP has regarded the particularistic interests of producers and consumers as central to the determination of trade policy. Postwar liberalization benefited consumers and exporters directly, dramatically increased global trade, and raised per capita incomes. After 1990, as most developing countries opened their economies to world trade, the resultant dramatic increase in economic growth rates in much of the developing world brought more people out of poverty than ever before in human history (Dollar 2005). Trade liberalization, however, had clear distributional effects within countries; the economic impact was well predicted by standard theories of trade, and much of the political impact was similarly well predicted by OEP. In the industrialized countries, trade tended to benefit owners of capital and human capital and those sectors that used those factors intensively, while less skilled workers and sectors that used labor intensively were harmed. Technological change, especially the automation of production, accelerated and magnified these distributional effects. Together, since the 1970s globalization and technological innovation have caused many manufacturing jobs to disappear and led real wages for unskilled workers to stagnate or decline across the United States and Europe (Granvelle 2020).

China's export-driven development drive, capped by its joining the WTO in 2001, contributed to this process, effectively increasing the world's labor supply by one-third overnight. The global liberalizing trend over the past fifty years has dramatically raised incomes around the world, but it has also caused many dislocations, shifting comparative advantage and trade patterns and creating the greatest income inequality since the era of the "robber barons" in

[9] For an earlier call along similar lines, see Lake (2009) and Rickard (2021).

the late nineteenth century and the first period of populism in the United States (Flaherty and Rogowski 2021). The social displacement of working-class people and stagnant incomes for less skilled workers fueled grievances among voters who turned to Trump (and Senator Bernie Sanders). Although OEP's expectations are rarely seen at the individual level, as survey respondents seldom express preferences consistent with their economic occupation or position, it has proven remarkably good at predicting the pattern of protection across industries and sectors within countries, and at highlighting political cleavages over trade, especially at the regional level (Broz et al. 2021).

Trump's new trade strategy suggests the need to revisit core assumptions and insights of OEP. First, many of the distributional effects of the Trump tariffs are hard to explain on OEP grounds. To be sure, some traditionally protectionist industries – steel, aluminum, autos – have received protection, and the pattern of exemptions granted under Trump I suggests standard political-economy motivations (F

otak et al. 2025). However, it is hard to square typical distributional concerns with the imposition of flat rate tariffs by country. This is especially true given the complexity of today's global supply chains. Final goods producers – the usual beneficiaries of traditional protection – now face conflicting pressures. Many, especially small and medium enterprises dependent on foreign inputs without the market power to pass costs on to consumers, are likely to suffer due to higher duties. This has created cracks in what might otherwise be a protectionist coalition. It also gives firms an incentive to lobby the administration for tariff exemptions, as they did during Trump's first term – increasingly an "open door" as the administration worries about "affordability" (Swanson et al. 2025). Nonetheless, the Trump tariffs require a revised view of the distributional implications of trade barriers in the context of global value chains and the Trump trade politics.

Second, using tariffs as a bargaining tool introduces additional considerations of interests that are not well captured in OEP's models of the distributional effects of trade. Tariffs as bargaining chips can be a tool to get other governments to act more favorably to American firms. For example, the Trump Administration has targeted the European Union's regulation of American technology companies as one of its major complaints and has used its tariff war as a weapon to try to induce a change in EU policy. In this context, tariffs may harm (or help) some American firms in the American market and also help (or harm) some American firms abroad. Again, this makes the distributional implications of the tariffs much more complicated than the typical distribution of surplus from consumers to producers.

More directly challenging to OEP is the use of trade policy to try to achieve broad national goals – including idiosyncratic partisan and personal objectives – that are not reducible to the special interest pressures of industries, firms, and workers. As noted above, US governments have long used trade policy as a weapon of diplomacy, such as during the Cold War (Baldwin 1985; Mastanduno 1992; 1998). But in most previous instances, the weapon was wielded in favor of goals that were almost universally regarded as in the national interest – such as opposing the Soviet Union. Today, while the Trump Administration would argue that it is similarly using American trade policy in the national interest, it is clear that its goals are hotly contested within the United States, and in some cases are quite clearly partisan and even personal as in the example of Bolsonaro noted above.

Interests and lobbying are still an important part of the mix of trade policy making, but the Trump trade policies make clear that the logics of lobbying and bargaining are distinct and do not always point in the same direction. In moving to bargaining as an explanation we must reconsider the role of special interests. An Administration that uses trade policy to pursue broad national goals may well not be acting in ways that are reducible to the special-interest pressures of an industry or industries. More generally, the major national security rationales used in recent years to justify and support government intervention in key industries and trade more generally suggests that IPE needs to once more focus its attention on the connection between foreign economic policy and foreign policy more generally. IPE always paid central attention to issues of power and national security, starting with Steve Krasner (1976) on "State Power and International Trade" and Robert Keohane and Joseph Nye (1977) on Power and Interdependence, through to the work of Joanne Gowa and Edward Mansfield (Gowa and Mansfield 1993) on security externalities. But over the past thirty years, in the era of high globalization, most IPE attention was on the role of the state in regulating international market forces, protecting property rights, and setting rules for exchange.

More recently, disenchantment with economic integration has grown, geopolitical tensions have risen, and both geopolitics and the experience of the pandemic have concentrated ever more attention on nationalist industrial policy and supply chain control. The Trump administration has pursued its trade policies with only limited domestic support, even where it has claimed national-security and national-interest justifications. This should lead us to consider more carefully how government goals are set (Krasner 1978).

This does not by any means suggest that the domestic political economy is not important for understanding the use of economic tools for geopolitical bargaining. Indeed, to some extent, it heightens the importance of domestic politics in affecting how national goals are defined. For most of the past 75 years in the United States there has been a general, centrist, consensus in favor of a set of national economic and geopolitical goals shared by both the center-right and the center-left; this has largely been the case throughout the OECD. That consensus has now clearly shattered, which makes it all the more important to understand the sources of the contending visions of the national interest that are in play in both the United States and elsewhere (Myrick 2025). Those visions undoubtedly have both international and domestic sources, both of which require systematic investigation. Just as OEP focused on economically explicable differences among economic actors to interpret their response to a common international economic shock, it should now expand this approach to try to understand how different domestic actors respond to common international geopolitical developments.

Under what circumstances do states use trade policy as a tool in competition with a geopolitical rival – or even an ally? This trend has been evident in both the Biden and Trump administrations. To what extent do security or other national considerations explain the role of the US government – and other governments – in attempting to regulate foreign investment (Li 2025)? What explains which governments subsidize which industries: when are such industries seen as critical to industrial strength and military success? China, the United States under Biden selectively (the CHIPS Act), Trump more broadly, and the European Union in expectation have certainly taken national-security considerations into account as they implemented or contemplated policies affecting international trade and investment. These questions seemed less central to scholars after the Cold War gave way to globalization; but they are now very much on the agenda.

The increased use of trade policies for purported (if contested) national and national-security goals may help explain the institutional puzzle mentioned above. Since the 1930s it has been commonplace to argue that while members of Congress have no reason to be concerned about the negative externalities their logrolling trade-policy proclivities create, the president, with a national constituency, is more likely to internalize the externalities – and therefore more likely to be pro-trade. The logic still holds, but perhaps recent trends suggest that presidents also feel more strongly the need to address national security concerns. In the case of Biden, this led to the CHIPS Act; in the case of Trump, this has led to a radical shift in international economic policy in ways the Trump Administration believes more accurately reflects the national interest. To be sure, the executive's interpretation of the "national interest" may vary tremendously from administration to administration.

The broader analytical point is that while "normal" trade policy was not very partisan, reflecting primarily the interests of concentrated industries, firms, and workers, today's version of trade policy is much more about a vision of the nation's role in the world. In this sense we may be back to the very origin of the post-war era, in which dueling perceptions of the national interest contended until the remnants of Republican isolationism were effectively defeated by bipartisan internationalists, a defeat made relatively easy with the emergence of the Cold War with the Soviet Union. Today there are similarly dueling perceptions of national interest in the face of domestic doubts about international economic integration, the problems of multilateral institutions, and geopolitical tensions with Russia and China.

Conclusions

We have emphasized the turning point under the Trump administration, but we do not believe the policies and consequences of this particular president will be transient. The United States will not "snap back" into prior form and once again lead the world towards greater liberalization. President Biden maintained the first Trump administration's tariffs on China and embraced targeted industrial policies, similarly justified by a combination of national-security and national competitiveness concerns. Any new president in 2028 will likely continue at least some elements of the new trade policies. It may be too early to declare a fourth era of U.S. trade policy, but it is quite clear that the United States has broken with the third in ways that will be hard to reassemble.

Whatever the future of U.S. trade policy, the international trading system will not revert to its previous state. The United States under Donald Trump has moved rapidly away from its traditional role of exercising its considerable power to stabilize and liberalize the international economy, and has made clear that it will work largely unilaterally, and coercively, to extract concessions from adversaries and allies, in its self-perceived national interests. These interests are complicated, often inconsistent, and are likely to be hotly contested within the United States. Nonetheless, the rest of the world now knows that the United States cannot be relied upon to play its previously accustomed role. The world is adjusting its expectations of American behavior – with the understanding that future presidents will not return to U.S. trade policy pre-2016. The contours of the new international trading system are not yet clear, but they will not be based on an American commitment to leadership, liberalization, and multilateralism.

Analytically, the events of the past decade suggest that we need to return to the roots of IPE, thinking seriously about the use of state power in international economic relations and about the ways in which the "national interest" is defined and defended. Trade policy in the previous "normal times" has been largely a matter for special-interest politics and the redistribution of income among consumers and producers. These are no longer normal times. Trade policy has now been harnessed to real or perceived national goals in both the economic and non-economic realms. The new world of American trade policy seems to be refocusing away from conflicts among industries, firms, workers, and consumers, and toward a vision of what America's role in the world should be. That battle is likely to be the centerpiece of American, and world, politics for the next decade or more.

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