Neo-Mercantilism in Action - Mexico, Canada, and China under Trump's 2025 Tariffs: A Trade Perspective

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Abstract

The 2025 United States (US) tariff policy targeting its principal trading partners (China, Canada, and Mexico) departs from modern pro-trade economic policy and adopts an unconventional conservative stance on neo-mercantilism. By utilising an indefinite period of protectionism to maintain trade hegemony, President Trump departs from the philosophical underpinnings of List and Hamilton. Rather than attempting to perform empirical estimations (which, given the frequent changes in messaging by the US, would quickly become outdated), we engage in a diagrammatic theoretical approach to elucidate the likely trade implications over time. The long-run expectation of the policy is a contraction of domestic and global consumer welfare. We argue that if the policy aims are to reduce strategic dependence on China, support US firms to internalise operations, incentivise firms to relocate production within the US, and insulate trade networks to align with the US policy agenda, then triggering a trade war through tariffs is unlikely to result in the favourable economic outcomes the Trump administration seeks to achieve.

Keywords: Tariffs, US, Trade Policy, China, Canada, Mexico, Protectionism, Neo-Mercantilism, Trump.

1. Introduction

While President Trump's neo-nationalist stance is not novel within the history of US policy (Helleiner, 2021), his execution departs from the fundamentally liberal philosophical underpinnings of neo-mercantilist forefathers, as articulated in Friderich List's *National System of Political Economy* and Alexander Hamilton's *Report on the Subject of Manufactures* (Levi-Faur, 1997; List, 1916, Ed. 2013). Empirical estimates of tariff impacts vary widely (The Yale Budget Lab, 2025), reflecting the uncertainty created by President Trump's willingness to negotiate variations on his initial hardline stance with countries such as Mexico and Canada (Brown, 2025).[1] Theory suggests that any benefits from the policy will be short-term, with long-run declines in aggregate domestic and global welfare for producers and consumers. By targeting Canada, Mexico, and China simultaneously, President Trump risks disrupting the gradual reduction of US strategic trade reliance on China - a process underway since 2015, whereby the US has been increasing its share of strategic imports from Canada and Mexico.[2]

For Canada and Mexico, the medium and long-term outlook remains uncertain due to President Trump's selective exemptions for specific commodities and industries. At the time of writing, approximately 50% of US imports from Mexico and 62% of Canadian imports are expected to face tariffs (Sherman and Race, 2025)[3]. In addition, the 50% tariff on all steel and aluminium imports from the EU, in addition to the 15% blanket tariff rate, threatens the US-EU relationship. This makes it less likely that the EU will expand its trade with the US and reduce its reliance on Chinese inputs (Buchwald, 2025a).

Taking into account these uncertainties and the nascent stage of the current trade war, this timely paper addresses a number of questions: (i) What are the likely economic effects of US tariffs on China, Mexico, and Canada? (ii) How do these tariff measures align with the theoretical and historical traditions of mercantilism, neo-mercantilism, and protectionism? (iii) To what extent is explicit tariff warfare an appropriate instrument for reducing US strategic

[1] Whether tariff threats should be interpreted as concrete policy actions or as tools of negotiation is not always evident.

[2] America's reliance on her geographic neighbours to facilitate decoupling from the Chinese trade engine is evident in the United States-Mexico-Canada Agreement (USMCA), which was entered into on July 1, 2020 during the last year of President Trump's first term (Office of the United States Trade Representative, 2020). The stated objective of this agreement was to create a fairer competitive landscape for American manufacturing and agricultural exporters (Office of the United States Trade Representative, 2025). In reneging on his promise of regional free trade, President Trump has disrupted the interdependence between these economies (Contreras et al., 2025) potentially damaging the economies of all parties involved, including the US (McKibbin and Noland, 2025).

[3] On March 6th, President Trump suspended tariffs on products imported from Canada and Mexico under the United States-Mexico-Canada Agreement (USMCA). On July 12th, President Trump indicated that tariffs on US imports from Mexico will commence on August 1st at a tariff rate of 30%.

dependence on its principal trading partners? We address these questions through a theoretical and historical lens rather than relying on complex empirical modelling, which is highly dependent on the rapidly changing tariff regime under the current US administration. Therefore, we offer an alternative framework for understanding the implications of tariff changes within a highly uncertain policy environment. This is an important contribution to the literature since such uncertainty constrains empirical modelling exercises.

The paper is structured as follows: Section 2 reviews classical mercantilism and the traditional role of protectionism in mercantilist economies. This is followed by an exploration of the theoretical foundations of neo-mercantilism, distinguishing it from its classical heritage and discussing its contemporary relevance. Given the role protectionist policy plays in the US history of neo-mercantilism, we then discuss the outcomes of previous US tariff wars. We next examine the theoretical impact of tariffs, tariff retaliation, and economic welfare through an original diagrammatic development. In Section 3, building on this theoretical context, we analyse Trump's neo-mercantilist tariffs as applied in 2025 and assess how these regimes may affect US strategic dependence on its principal trading partners. Finally, we present conclusions on the effects of the tariff regimes on businesses, the overall economies of the targeted countries (China, Canada, and Mexico) and, to a lesser extent, other economies.

2. Background

President Trump's tariff regime has been described by mainstream analysts as unprecedented in both application and theory. In this section, we examine the veracity of this claim. First, we explore the theoretical underpinnings of the historical precursor to President Trump's political approach to trade: classical mercantilism. We trace its global history through to the modern strain of neo-mercantilism, contrasting the Trumpian application of the embedded concepts against the historical and contemporary variations of these economic-political stances. We show that while the legacy of mercantilist thought continues, President Trump's application of it represents a rarer conservative strain. The Trumpian brand of neo-mercantilism, particularly in the liberal utilisation of tariffs, draws a historical parallel with the Smoot-Hawley Tariff Act of the 1930s, which we analyse and contrast with the 2025 applications. Finally, we examine, through an original diagrammatic development based on conventional concepts within the pure theory of international trade, the expected welfare implications of the tariffs for global trade and the US economy.

2.1. Classical Mercantilism and Foundations of Protectionism

Mercantilism refers to a collection of economic ideas that prevailed from the early sixteenth century to the late eighteenth century (Ekelund and Hébert, 2014). Emerging in the 1500s "*in response to the failure of Spain*" (Perrotta, 1993, p. 19), it spread throughout Europe and became the dominant economic philosophy (Verma, 2016) during the seventeenth and eighteenth centuries, particularly in reaction to the triumphs of the Dutch Republic and Colbert's France (Reinert, 2004; Reinert and Reinert, 2011).[4]

As a result, classical mercantilism is frequently used to describe the set of economic thinking and policies of Early Modern Europe (Magnusson, 2015)[5]. Over time, it developed into an economic doctrine that emphasised the nation's economic interests above those of individuals or regions (Ekelund and Hébert, 2014). As LaHaye (2024, paragraph 1) defines it, mercantilism is "*economic nationalism for the purpose of building a wealthy and powerful state*".

At its core, mercantilist economic philosophy promoted the development of industry to secure a favourable balance of trade by maximising exports and minimising imports (Kurtzleben, 1997; Ekelund and Hébert, 2014). The guiding principle is that money entering the economy (i.e., revenue received from exports) is beneficial, whereas money leaving the economy (i.e., monies spent on imports) represents a financial outflow and is therefore harmful to the well-being of the nation. Indeed, Thomas Mum, a director of the British East India Company who is considered to be the founder of the traditional English mercantilism philosophy, stated in the 1630s (cited in Krist, 2013, paragraph 4): "*the ordinary means therefore to increase our wealth and treasure is by Foreign Trade, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value…*". In other words, this theory regards the inflow of export revenues as synonymous with national enrichment. However, modern trade theory illustrates that the gains from trade are not reliant

[4] The Dutch promoted trade, banking, and commercial ventures, emphasizing exports and state-controlled trade. Similarly, Colbert implemented protectionist policies in France, boosting domestic manufacturing and limiting imports to strengthen the economy. Colbertism refers to a specific form of mercantilist policy, through which businesses were encouraged to align with the broader interests of the nation rather than allowed to pursue their own self-interest, as was typical in traditional mercantilism (Kurtzleben, 1997). As a result, mercantilism focused on nationalistic goals is often referred to as Colbertism today (Kurtzleben, 1997). These developments reinforced the mercantilist focus on state intervention, the favourable balance of trade, and economic self-sufficiency.

[5] As presented in Table A1 in the Appendix, mercantilism referenced a transitional period between feudalism and economic liberalism (Ekelund and Hébert, 2014); a "*kind of passage from medievalism to modernism*" (Ekelund and Hébert, 2014: 57); with mercantilism and the absolute state being fundamental institutions in the transition from feudalism to capitalism (Bresser-Pereira, 2025).

on running trade surpluses (Krugman, 1987; Bhagwati, 1994) and that positive net exports reflect intertemporal saving and investment propensity rather than 'national success'[6].

Thus, mercantilists perceive trade as a zero-sum game in which the seller gains and the buyer loses. Consequently, mercantilism typically involves government policies that adopt protectionist strategies to strengthen domestic industries and shield local businesses from foreign competition. Such policies often include the imposition of tariffs on imported goods, limiting market access for foreign products, and establishing other trade barriers to protect the domestic economy. Mercantilists perceived that positive trade balances would facilitate achieving the broader goals of maximising the power of the state, fiscal capacity and national security.

Opposition to mercantilism came from Adam Smith and David Hume through a coordinated academic challenge to mercantilist theory. Smith and Hume are seen as the pioneers of anti-mercantilist ideology, with Smith heavily criticising mercantilism in his *Wealth of Nations* (Kucukaksoy, 2011).[7] Smith critiqued mercantilist philosophy on normative grounds as erroneously privileging the producer in considerations of national welfare. Smith (1776: 537) states directly that "*consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer... In the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer*". Hume, by contrast, critiqued mercantilism from a monetary perspective based on empirical evidence, arguing that the accumulation of wealth results in domestic inflation, precipitating the erosion of the coveted external competitiveness (Hume, 1752, Ed. 2020).

Since Smith, the perception of mercantilism has existed in two forms. In the academic literature, mercantilism has been heavily criticised, according to various economic arguments, such as the rent seeking critique[8] (Ekelund and Tollison, 1981) or Ricardian theories of comparative advantage. Yet in popular and political discourse, mercantilism remained influential, tending to gain traction around moments of global distress, as can be observed by the response to the 1929 financial crisis (Fand, 1989) or its revival in the Western world after

[6] In the Ricardian/Heckscher–Ohlin trade theories and modern general equilibrium frameworks, the gains-from-trade does not hinge on positive net exports. In these trade theories welfare gains are accrued through price-based reallocation along with macroeconomic diversification and scale effects.

[7] According to Kurt (2021), Smith dedicated a significant portion of his writings to thoroughly analysing and critiquing the flaws of mercantilist trade policies.

[8] Rent-seeking occurs when productive resources are redirected toward activities focused on gaining economic advantages rather than contributing to overall production, leading to an inefficient allocation of resources (Chakraborty and Dabla-Norris, 2006).

World War II (through the increased use of a broader range of strategic trade policies despite the general decline in tariff rates). A more charitable academic view of mercantilism appears in a consistent canon that runs through the sixteenth century and is reflected in the work of Friedrich List (Reinert and Reinert, 2011). Plainly stated, mercantilism can be simultaneously understood as an early developmental trade strategy (manifesting as a form of import substitution) to increase the external competitiveness of domestic businesses (Perrotta, 1993) and as a political mechanism for enhancing the power of the nation-state (Schmoller, 1897).

2.2. Neo-Mercantilism and Protectionism in the Modern Day

The mercantilist doctrine suggests that, rather than explicitly preventing imports from entering domestic markets (Shafi et al., 2023), the state plays a major role in supporting the development of domestic industries (Levi-Faur, 1997) and subsidises local production to enhance competitiveness against foreign companies (Collins and O'Brien, 2022). Neo-mercantilism represents a resurgence of the classical mercantilist doctrine, reviving its political and economic principles within modern contexts (Shafi et al., 2023). However, unlike classical mercantilism, which preceded an era of trade liberalisation, neo-mercantilism has emerged as a response to the unsustainable hyper-globalisation of the 1990s and early 2000s (Antràs, 2020a). During this period of hyper-globalisation, academic literature and policy directives were based on the perceived benefits of global value chains (GVCs) (World Bank, 2020).[9]

GVCs extend Ricardo's argument of gains from specialisation based on comparative advantage. Ricardo argued that mutual gains may be derived from the specialisation of nations in the production of that commodity which they are able to produce relatively cheaply compared to their trading partners. GVC theory atomises the production process and splits it across nations. In effect, nations have firm-level hyper-specialisation (World Bank, 2020) along the production process of a single commodity (Antràs, 2020b). In this way, firms and, in turn, countries may become more productive relative to when they were forced to master every stage of the productive process of a given good or service. Additionally, for developing countries that are part of sophisticated GVCs, positive spillovers may be derived from the dispersion of technology, modernisation of regulatory standards, as well as reducing barriers to foreign direct investment. For example, India's strategic shift from manufacturing to IT and services value chains has been cited as a significant driver of endogenous productivity and growth (Asian Development Bank, 2021).

[9] Political considerations may also play a role, as greater economic integration increases the costs of conflict.

However, the benefits of GVC integration come with increased interdependence (Jones et al., 2019) and potential exposure to shocks (Crowe and Rawdanowicz, 2023). Therefore, it is unsurprising that growth in GVCs has slowed following the global financial crisis, as countries seek to limit their exposure to exogenous risks (Solingen et al., 2021). In the post-pandemic context, renewed economic nationalism (Gur and Dilek, 2023), rising geopolitical tensions (Arnal et al., 2024), and concerns over supply chain security (Collins and O'Brien, 2022) have increased neo-mercantilist tendencies. For example, the Covid-19 pandemic severely impacted food security and nutrition, disrupted food systems, and limited food access (Committee on World Food Security, 2023). Self-sufficiency in agricultural supply chains can ensure food security. Indeed, Russia's war on Ukraine can be understood as not only a political action in pursuit of Russian hegemony[10] (Saridakis et al., 2022), but also as a move to strain global trade by exacerbating the world's existing food security challenges (Caprile, 2022).

Governments pursuing neo-mercantilist strategies employ multiple trade policy tools to manage their economies (Helleiner, 2021). Tariffs on imports raise the relative cost of foreign goods, steering demand toward domestically produced alternatives (Chorev, 2007). Non-tariff barriers, such as strict regulatory standards (Jouanjean et al., 2016; Grundke and Moser, 2019), import quotas, and government procurement policies, further restrict foreign competition (Arnal et al., 2024). Additionally, currency manipulation strategies make exports cheaper in international markets, allowing domestic industries to expand their global market share (Cwik, 2011), while state intervention via subsidies for key industries ensures that firms can maintain low production costs and competitive pricing even in the face of global competition (Lin, 2022).

In the case of the US, Helleiner (2020) examines diversity within neo-mercantilist thought. The Trump administration has embraced neo-mercantilist policies, framing them as part of a long-standing national tradition (Petersmann, 2020; Kurt, 2021). However, this portrayal oversimplifies the historical landscape. While all neo-mercantilists stances are in essence a manifestation of economic nationalism, President Trump's tariff policy may be described as idiosyncratic. Trump's mercantilist approach takes the form of immediate blanket tariffs on a wide range of trading partners, ad hoc exemptions, bilateral purchases and investment commitments, with a lack of conditional subsidies or an export promotion coordinating agency. Trump's tariff-first, and industry capacity development later approach

[10] Note that on Wednesday ,27 August 202,5 the Trump administration placed a 50% tariff on India a 25% increase as a penalty for the importation of Russian oil (Inamdar, 2025).

diverges from the theoretical underpinning of List and Hamilton, which focuses on temporary protection along with institutional coordination to support early-stage industry development, which transitions from capacity development to gradual liberalisation. As Helleiner (2020) highlights, Trump's economic nationalism represents a distinct iteration that differs significantly from earlier economic strategies in terms of both intention and the utilisation of protectionism.

The US-China trade war, initiated under Trump's administration over the 2018 to 2021 period, exemplified a shift toward protectionist policies (Gur and Dilek, 2023) aimed at reshoring jobs and reducing reliance on foreign production (Corcoran, 2025). On the surface, this is not dissimilar from the principles of neo-mercantilism and economic nationalism advocated by List.[11] While both perspectives may be couched in a brand of nationalism, Trump's brand of neo-mercantilism eschews some of the centrist leanings of List's arguments to align more closely with a conservative strain (Helleiner, 2020). This contrasts with South Korea's developmental mercantilism experience from the 1960s to the early 1990s. Here, 'Listian' neo-mercantilism functioned through institutions and policy sequencing, driven by an Economic Planning Board and the Korea Development Bank, which focused on industrial development. This approach to neo-mercantilism facilitated the country's rapid development over a five-decade period and led to the country joining the 'one-trillion-dollar trading club' by 2011 (Koo and Hong, 2014).

2.3. Tariff Wars: What Do We Know?

Amiti et al. (2019: 188) define a trade war as "*tit-for-tat sequences of imposing tariffs*". As stated by (Kapustina et al., 2020: 2) "*Trade wars have no winners, as global history proves … but every trade war recognizes three losers: both trade partners and the global decline in trade, leading to a slowdown in the global economic growth*". Despite this, "*a trade war*[12] *of unprecedented scope and magnitude currently engulfs the world's two largest*[13] *economies –*

[11] Friedrich List (1789–1846) was a German-US economist who advocated for tariffs to foster domestic industry while supporting free trade within national borders. In *Outlines of American Political Economy* (1827), he argued that tariffs were necessary for early industrialization, viewing them as investments in long-term national productivity (Britannica.com, 2025). List is widely recognized as one of history's most influential trade theorists, being among the first to popularize the *infant industry* theory (Levi-Faur, 1997).

[12] To explain, a trade war is an economic conflict between economies, which is fought by imposing various forms of protectionist policies (e.g., tariffs, import quotas, subsidies, currency devaluation, embargoes). While trade barriers may protect industries in the short term, they typically have negative long-term effects on the overall economy (CFI, 2025).

[13] In 2019, 2024, and 2025, the US maintained its position as the largest economy, with GDP figures of US$21,539.98, US$29,167.78, and US$30,337.16 (billion), respectively. China consistently ranked second during these years, with GDPs of US$14,340.6, US$18,273.36, and US$19,534.89 (billion) (using IMF Online Database,

the US and China"[14]. These words, written over half a decade ago, are even more relevant today.

2.3.1. Tariffs, Tariff Retaliation, and Economic Welfare

This sub-section draws on the trade theory (see Yarbrough and Yarbrough, 2006 and Salvatore, 2014). Figure 1 depicts tariff retaliation between the home country (HC) and the foreign country (FC). In the initial equilibrium, where the HC and FC offer curves intersect, trade occurs at terms of trade at tot_1. When the HC imposes a tariff, its offer curve shifts inward from HC_1 to HC_t, worsening the terms of trade for the FC. If the FC retaliates, its offer curve shifts from FC_1 to FC_t, resulting in a further trade reduction. The offer curves thus demonstrate the inefficiencies created by protectionist policies and trade wars.

[Figure 1]

Moreover, tariff retaliation reduces global welfare by distorting production and consumption decisions, leading to inefficient resource allocation. When one country imposes tariffs and trading partners respond with counter-tariffs, there is, in combination, a terms of trade effect and a volume of trade effect. The terms of trade effect may initially benefit the tariff-imposing country, but as retaliation escalates, global demand shifts, negating these gains. Firms face increased costs due to inefficiencies in production (World Bank, 2023b) while consumers face higher costs and a contraction in real income. Meanwhile, the volume of trade effect reduces market access for exporters, diminishing overall economic output.

The disruption also fragments global supply chains built on comparative advantage, increasing production costs and reducing economies of scale. Retaliatory tariffs also distort investment flows, as uncertainty discourages capital allocation in trade-dependent sectors (Thiagarajan et al., 2025). The loss of efficiency from retaliatory measures creates deadweight losses, reducing potential gains from specialisation. Over time, the cumulative effect of reduced trade integration slows economic growth, disproportionately affecting small and open

2025). Moreover, China's meteoric rise led to its emergence as the top commodity exporter in 2015, cementing its dominance in global trade (Kapustina et al., 2020).

[14] China's expanding economic influence over recent years, coupled with the US's declining share of the US of global production and international trade at the start of the 21st century, has reshaped the geopolitical landscape and led to the emergence of the 'Group of Two': the G2 countries (Kapustina et al., 2020). In recent years, trade relations between the US and China have been characterized by imbalances, with both countries adopting protective measures that have intensified tensions between them (Indrayani and Madjid, 2021).

economies (World Bank, 2023a). Therefore, avoiding a tariff war is crucial to maintaining global efficiency, fostering economic stability, and ensuring long-term prosperity.

In an international trade context, a large country is defined as one capable of influencing world prices. The US is in many respects a large country, as is evident from the metrics in Table A2 in the Appendix. Given the relative size of its GDP, changes in US policy can impact international prices. When a large country implements a tariff, the large country may improve its welfare. Figure 2 illustrates this case. We represent a large country's domestic supply curve by S^d. S^w represents the domestic plus rest of the world supply curve; that is, it represents world supply. In initial conditions with a domestic demand curve D and world supply curve S^w, the unrestricted trade price level is P_f, with domestic demand of Q_1 and domestic supply of Q_0. $Q_1 - Q_0$ units are therefore imported. The imposition of a tariff (we use a specific tariff for simplicity) shifts the world supply curve to $S^w + t$. With the tariff distortion, the new price level is $\overline{P}$ and the large country demands Q_3 units of the commodity but supplies only Q_2 units, so that $Q_3 - Q_2$ units are imported. Areas 1 and 4 are deadweight production and consumption losses, respectively. Total tariff revenue garnered by the large country is represented by the area $(\overline{P} - P_w)(Q_3 - Q_2)$, indicated in the Figure as the sum of areas 2 and 3. Area 2 represents a transfer from consumer to government, and area 3 represents a transfer from foreign producers ($P_f - P_w$ per unit of imports) to government. Area 3 is therefore a gain.

[Figure 2]

The imposition of a tariff by a large country changes welfare through two channels: the volume of trade effect and the terms of trade effect. The volume of trade effect occurs because the tariff lowers welfare by reducing trade (Q_1-Q_0 to Q_3-Q_2). The volume of trade effect occurs because of the simultaneous increase in domestic production and decrease in domestic consumption. The tariff also lowers the price received by foreign producers, and so this has a favourable effect on the HC's terms of trade. The terms of trade effect makes it much more difficult to predict the welfare impact of a tariff imposed by a large country. Specifically, the large country gains accrue at the expense of the trading partner, which will now have to work with a lower price for its exports of the good. Thus, regardless of the size of the trading partners, a tariff adversely impacts world welfare. Tariffs induce a domestic production and consumption loss, as well as a permanent loss of part of the gains from trade. Moreover, a tariff can also limit the extent to which a firm can benefit from economies of scale and specialisation.

Over time, in an environment of retaliation, the terms-of-trade and volume of trade channels interact in three reinforcing dynamics. Initially, the retaliatory tariffs imposed by the partner country lead to a contraction in the terms-of-trade nexus ($P_f - P_w$) as export diversion or import substitution occurs, leading to an increase P_w relative to P_f. Secondly, adjustments to supply chains increase the foreign export-supply elasticity of the country imposing tariffs, lowering the optimal tariff and contracting terms-of-trade gains. Lastly, uncertainty and the lagged effect of fixed costs mean that trade volumes contract, leading to an overall contraction in the terms-of-trade transfer. Thus, early national gains are short-lived, while the global welfare loss is persistent and exacerbated by the degree of retaliation by partners.

2.3.2. US Protectionism in the 20th Century and its Influence on Trump Tariffs

Smoot Hawley Tariff Act of 1930

President Hoover's rejection of economic orthodoxy in the 1930s is echoed in President Trump's rhetoric during 2025. President Hoover signed the Smoot-Hawley Tariff Act of 1930 with the stated objective of protecting the domestic interest and external competitiveness of the US's agricultural and manufacturing industries. Despite opposition from over one thousand economists, business leaders, and much of the public, the act raised tariffs on dutiable imports from 34.6% to 42.5% (Irwin, 1998; Irwin, 2017; Chan, 2024), covering 27% of dutiable products and triggering widespread trade restrictions. Canada and other major trading partners retaliated by imposing counter tariffs on one-third of US exports (see Table 1). This compounded the contraction in global trade, which was estimated to have declined by 66% between 1929 and 1933 (Madsen, 2001).

[Table 1]

The tariff failed to stimulate the domestic industry. Export demand collapsed, exacerbating the Great Depression through higher costs, deflation, and rising unemployment. Although the economic impact of the Smoot-Hawley Tariff Act, estimated at 1.4% of US GDP, makes it less severe than the US-China trade war, estimated at 3.6% of GDP by Fajgelbaum and Khandelwal (2021), it remains one of the most infamous protectionist policies in modern history. In the decades following WWII, the US moved away from import-substituting tariffs in favour of trade liberalisation through frameworks such as the General Agreement on Tariffs and Trade (GATT). However, recent shifts in political and economic priorities have led to a resurgence of protectionist tendencies, reflecting a broader pattern of sectoral imbalances and distributional conflicts that continue to shape trade policy today (see Table 2).

[Table 2]

Nixon-Connally Post Bretton Woods and the Plaza Accord of 1985

Rasmus (2018) notes that the current US-China trade frictions echo an earlier episode when the US unilaterally restructured the international economic system: President Nixon's 1971 decision to abandon the Bretton Woods gold-dollar peg. This move formed the centrepiece of Nixon's "New Economic Program", led by John Connally. Through this policy, the Nixon Administration dismantled the post-war international monetary structure, which was the main pillar of US global trade and financial dominance, while cementing US dollar hegemony. Following the collapse of the Bretton Woods system, the US dollar depreciated by 15-20%, restoring price competitiveness to US exporters as European currencies appreciated. However, during this period, the US experienced relatively high inflation. In response, President Nixon imposed a 10% surcharge on US imports, framed as an "emergency" measure to strengthen the US's trade position.

These policies led to the 1973 Smithsonian Agreement, under which central banks from major economies agreed to manage floating exchange rates. Collectively known as the "Nixon shocks", these policies were promoted by US domestic politicians ahead of the 1972 election at a time of rising protectionist sentiment (Bergsten, 2021). The legacy of the Nixon Shocks centres on demonstrating how the US leveraged unilateral economic shifts to regain its competitive position in global trade and finance (Rasmus, 2018). This precedent informs the current US trade strategy towards its major trading partners.

Over the next decade, mounting protectionist sentiment built up in the US due to dissatisfaction with the management of the floating exchange rate system by the central banks. This led to the Plaza Accord of 1985. The Accord is based on an agreement among the US and the other G5 members of France, Germany, Japan and the UK to coordinate monetary policy, via intervention in currency markets, with the goal of depreciating the US dollar (Frankel, 2016). The aim was to reduce the US trade deficit relative to the other G5 nations through the realignment of exchange rates. The Accord eased internal US protectionist pressure that threatened to disrupt world trade (Bergsten and Green 2016:14-15).[15] Ultimately, this shift helped deter the US from implementing protectionist measures (Frankel, 2016).

[15] It is noted that the Accord fell short of fully achieving its broader goals of deep policy coordination among major economies and establishing a lasting framework for international economic cooperation. However, it did make notable strides in both areas, contributing meaningfully to the long-term evolution of more effective global economic management.

2.3.3. Trump's First Term: The US-China Trade War 2018 to 2021

Since his election in 2016, President Trump's protectionist trade policies reflect longstanding US attempts to address persistent trade imbalances. Trump attributed the decline of US manufacturing to the very neoliberal system the US helped to construct. During his first term, Trump implemented neo-mercantilist policies under the slogan "Make America Great Again", disrupting global trade and seeking new ways to remove perceived barriers (Kurt, 2021). Central to this approach is the belief that China, described as "*the most successful Neo-mercantilist nation in the contemporary era*" (Shafi et al., 2023: 75), represents the US's principal opponent (Steinberg, 2023).[16] China's application of neo-mercantilism has seen the country rise as a global geo-political superpower (Yu, 2019; Collins and O'Brien, 2023).

While there have been several significant tariff wars since the end of World War II, including the Chicken War in 1960s (Smith, 2022), the Japan-US trade conflict of the 1980s (Hamada, 1995), the steel tariffs of 2002 (Lee, 2019), and the 2018 China-US trade war (Vortherms and Zhang, 2024) - the US-China trade war represents one of the largest and most sudden shifts in US trade policy history, particularly when compared to the prominent role the US has historically played in advocating for global tariff reductions (Fajgelbaum and Khandelwal, 2021; Zhang, 2022).

The US-China trade war formally commenced on March 23, 2018 (see Table 2) when the *Presidential Memorandum Targeting China's Economic Aggression* was signed by President Trump, which imposed tariffs on steel and aluminium (Indrayani and Madjid, 2021; Kapustina et al., 2020). Kapustina et al. (2020) highlight four key objectives for the trade conflict (i) to reduce the bilateral trade deficit and boost US job creation; (ii) to limit Chinese firms' access to American technologies, hindering digital advancements in China's industry; (iii) to curb the growth of China's military power; and (iv) to reduce the US federal budget deficit (Kapustina et al., 2020).

[16] Nationalism is often attached to products through branding. For example, China labels goods as "Made in China" to appeal to domestic consumers. Import taxes on foreign products are also raised to make them more expensive than domestic alternatives. This approach includes various strategies, many of which China employs to expand its influence through the Belt and Road Initiative (Shafi et al., 2023).

Following the application of tariffs on Chinese steel and aluminium exports, the US launched a Section 301 investigation, which led to broader tariffs on Chinese goods.[17] Between July 2018 and September 2019, the US launched five major waves of tariffs, with China retaliating at each stage (Table 2). A sixth wave was planned but cancelled in December 2019 ahead of the Phase One agreement in January 2020. The US tariffs covered 17.6% of 2017 imports, while China retaliated against 8.7% of US exports, causing US average tariffs to increase from 3.7% to 25.8%, while Chinese tariffs increased from 7.7% to 20.8% (Fajgelbaum and Khandelwal, 2021).

The economic impact of the tariffs was significant. As highlighted in Table 2, US consumers faced higher prices, disrupted supply chains, and losses in agricultural exports, while tariff-affected industries saw reduced profits. Meanwhile, Chinese businesses struggled with higher costs and declining exports to the US (Yang et al., 2025). Inflationary pressures increased because, although some firms absorbed the increased costs, others passed them on to consumers. Cuba-Borda et al. (2025) used a gravity model to examine the elevated trade costs due to tariff interventions and estimate an inflationary impact of 0.5%–0.8% on CPI. This was expected to persist for several years, potentially contributing to higher inflation in the US during the Biden administration. The trade war also led to a decline in trade-related industries, a reallocation of supply chains (Zhang et al., 2025), and a slowdown in global economic growth by 0.8% in 2019 according to the IMF (Klatte, 2025). Other countries and markets, such as Vietnam, Mexico, and the EU (Atkinson and Ostertag, 2025), benefited from trade diversion, attracting businesses looking for alternative markets (Tan, 2024). However, the overall uncertainty caused investment slowdowns and increased economic volatility. While the Phase One deal prevented further tariff hikes in 2020, most tariffs have been upheld, reshaping global trade dynamics (Funke and Wende, 2023).

2.3.4. Trump's 2025 Tariff War

> *"We will take in trillions and trillions of dollars and create jobs like we have never seen before… Tariffs are about making America rich again and making America great again."* – Trump (cited in Goldman, 2025, paragraph 14)

[17] On May 29, 2018, the President Trump stated, "*Under Section 301 of the Trade Act of 1974, the US will impose a 25 percent tariff on $50 billion of goods imported from China containing industrially significant technology, including those related to the `Made in China 2025' program*" (Office of the US Trade Representative, 2018).

In January 2025, the White House released its first Trade Policy Memorandum (see Brown (2025) for a timeline of Trump's trade war). Then, on February 1, 2025, Trump announced tariffs on Canada, Mexico, and China, ending the duty-free de minimis treatment of low-value packages. This led Canada to retaliate, imposing tariffs on US exports, including food, beverages, and consumer goods. Trump put his proposed tariffs on hold on 3 February. Then, on 11 March and in response to Trump imposing an additional 10% tariff on Chinese goods, raising the total tariff to 40.7%, China's foreign ministry spokesperson, Lin Jian, stated, "*Exerting extreme pressure on China is the wrong target and the wrong calculation … If the US has other intentions and insists on a tariff war, trade war or any other war, China will fight to the end*" (Hawkins, 2025, paragraph 2).

The current trade war initiated by President Trump on 2 April 2025, dubbed 'Liberation Day', is large-scale, and its economic and geopolitical impacts remain uncertain. It is claimed to be addressing issues such as fentanyl trafficking, immigration, and national security. Appendix 2 illustrates the methodology of the Trump Administration's Discounted Reciprocal Tariffs and discusses its internal contradictions. Traditionally, protectionism has been used as a temporary mercantilist policy tool with a clearly specified aim (Helleiner, 2021). However, Trump's protectionism is broad and has no predefined temporary time frame, and it is aimed at retaining US hegemony. The Trump administration leveraged universal tariffs of at least 10% across more than 180 countries and territories, affecting both its allies and adversaries. These "(discounted) reciprocal tariff" rates were higher for 90 countries (Picchi, 2025) and even higher for 60 countries, deemed the "worst offenders" (Buchwald, 2025b). Countries facing the steepest reciprocal tariffs included Cambodia at 36%, Vietnam at 46%, China at 49%, and the EU at 30%. Notably, China's new rate was added to an existing 20% tariff (as of Jan 2025), raising the total tariff on Chinese imports to a substantive 54% (Buchwald, 2025b)[18]. Trump's tariff regime (as of May 11, 2025) pushed the average US tariff rate to 10.5%, the highest since the 1940s (US Census Bureau, 1975). The administration also reintroduced steep tariffs on steel, aluminium, and key imports while tightening rules on foreign investment and digital trade. Retaliation from trade partners has triggered countermeasures, escalating tensions. The policy shifts reflect a renewed "America First" approach aimed at reshaping global trade relations in favour of US economic and strategic interests. As such, it stands apart from the

[18] On 13 May, President Trump capped tariffs on China's imports at 30%, pausing higher tariffs on the country until 12 August.

strengthening of political and economic self-sufficiency that, by the global Overton window[19], is considered to be both acceptable and necessary in the aftermath of the disruption to global supply chains caused by Covid-19.

Furthermore, on 12 July, President Trump announced tariffs on US imports from 16 of its trading partners, which will commence on 1 August. Three of the US's largest trading partners were affected, with a blanket 30% tariff on US imports from Mexico, along with a 25% tariff rate on US imports from Japan and South Korea (Doherty, 2025; Breuninger, 2025). Two weeks later, on 27 July, the US and EU reached an agreement that included a blanket 15% tariff on US imports from the bloc, along with a pledge for the EU to increase annual FDI in the US to $600 billion by the end of Trump's second term (Mangan et al., 2025). The deal also sees the EU pause its retaliatory tariffs on US imports for six months to facilitate trade negotiations. However, Trump indicated that failure to meet the FDI target would cause the US to increase the blanket tariff on the bloc to 35% (Fleming-Jones, 2025).

Beyond the direct welfare implications of Trump's tariff policies, special attention must be paid to the aggregate contraction of trade, which has evidently enhanced speculators' perception of risk. This becomes critical when one considers real investment implications alongside the speculative instability of company stock. Tariffs increase trade uncertainty, leading to supply chain and investment decision delays (Chen et al., 2021). Speculators react to this uncertainty by demanding elevated risk premiums (Bianconi et al., 2021), in turn increasing the cost of capital. In aggregate, this depresses the level of investment, which slows growth in the short and medium run (Furceri et al., 2022). Moreover, inconsistency in the application of tariffs with respect to Canada and Mexico introduces significant uncertainty in the markets; given the threatened and delayed retaliatory intentions by Canada and Mexico, firms are unable to make precise decisions to ensure their supply lines (Sherman and Race, 2025), especially in key markets with low import substitutability, such as distilled spirits (Muhammad, 2025).

3. Trump Tariffs: A Contradictory Battle for US Strategic Independence

Having established the theoretical background and expectation of President Trump's tariff regime, this section progresses to analysing the expected empirical fallout of the tariff policy.

[19] The Overton window refers to the range of policy positions that is acceptable for politicians to hold, given the socio-economic climate of the time.

While the war against fentanyl has granted President Trump legal exception to unilaterally adjust tariff policy, a complete understanding of his approach to protectionism can only be obtained through an understanding of the trade war with China. China's emergence as a threat to US political hegemony is built on its usurpation of the US's status as the global giant in manufacturing (Baldwin, 2024). Accordingly, this section analyses the context of this battle and its effects on the US's domestic manufacturing sector and external balance. Subsequently, it considers the effectiveness of the President's simultaneous application of tariffs on all three of the US's principal trading partners, and the implications for the US's ability to reduce its strategic dependence on China, given the retaliation by Canada and Mexico.

On 3 April, financial markets across the globe reacted negatively to President Trump's announcement that he was not negotiating to lower tariffs, and stocks fell sharply (Elliot, 2025). However, while the Dow Jones, S&P 500, and Nasdaq Composite were down in the weekly aggregate for the first week of April (De Mott, 2025), there was an increase of 1.14%, 1.12% and 1.46% for each respective market in response to Trump's announcement of the delayed application of car tariffs (Kimball et al., 2025).

The first signs of de-escalation by the US became apparent in the month following 'Liberation Day' with the first agreement struck with its main ally. On 8 May, the US and UK agreed to a trade deal, which sees the UK removing several non-tariff barriers to US imports (Breuninger, 2025). In return, the UK is granted preferential access to the US market. The specific details of the deal were not released, but the UK's auto industry and US agriculture and aerospace industries are expected to benefit. This agreement also suggests that the US has placed a hard floor tariff rate of 10% on imports from anywhere in the world.

US attempts to reshape its trade position were highlighted on 12 May, when trade representatives from the US and China agreed to temporarily suspend most bilateral tariffs for 90 days, cutting the 'reciprocal' tariff rate applied by both countries to 10% (Meredith, 2025a). Notably, the US's 20% duty applied to imports from China relating to fentanyl will remain, decreasing the effective tariff rate applied to China by the US from 145% to 30% in a move to facilitate trade talks between the world's two largest economies. Global financial markets reacted positively to the news, with the major stock indices surging. Chinese officials touted the pause as a victory for Beijing, as China seeks to show the world that it is a responsible trading partner (Yoon and Doherty, 2025).

3.1. Will Trump Tariffs lead to the Reshoring of US Manufacturing?

President Trump has shifted away from decades of US free trade policies, arguing that tariffs will restore factory jobs and boost national prosperity. US manufacturing exports have remained relatively stable for the last decade, with a notable dip in 2020 and recovery thereafter, and a further rise in 2022 relative to pre-pandemic levels. Manufacturing employment has trended downward significantly from the commanding heights of the 1970s until 2011. There has been some minor upward trending in manufacturing employment from 11.4 million in March 2010 to 12.7 million persons employed in January 2025 (US Bureau of Labor Statistics, 2025); however, this is a far cry from previous employment levels[20]. Unemployment, therefore, remains a critical socio-political issue, as does the direct economic significance of structural changes to US manufacturing (Araujo et al., 2021). The political benefit of reshoring manufacturing sector employment is critical to President Trump because the sectoral unemployment produced by successive governments' laissez-faire approaches to structural transformation and international trade (Rodrik, 2018) has created a bloc of disenfranchised voters who historically form a notable segment of President Trump's voter base (Bonvillian, 2016)[21]. Moreover, as a policy, reshoring in most contexts has traditionally found bipartisan support from voters (Clark et al., 2025).

The reshoring of manufacturing jobs to the US (Frazer, 2024) is seen as increasingly useful in the context where technological advances are driving increasingly sophisticated outputs (Holm, 2024), largely because the strategy reduces supply chain risk (Pourhejazy and Ashby, 2021). For instance, 88% of semiconductor production occurs outside the US, often crossing as many as 70 international borders (Thadani and Allen, 2023). In the wake of the global interruption caused by pandemic lockdowns (Luo and Van Assche, 2023), shortening and localising such crucial stages of the production process (Gao et al., 2022) is paramount to the strategic independence of the US. Moreover, the need to shorten supply lines for critical imports is being addressed via the investment patterns of other advanced economies, such as the construction of a semiconductor factory in Dresden in accordance with the European Chips Act (Blanchard and Escritt, 2023; Bornert and Musolino, 2024). However, large value chains in increasingly complex industries such as sophisticated manufacturing have an inherent stickiness to any reshoring process (D'ambrosio and Lavoratori, 2025). This is because firms

[20] The previous highest annual average manufacturing sector employment was 19,428 employed in 1979 (US Bureau of Labour Statistics via FRED).

[21] It is noteworthy that in applying retaliatory tariffs in 2018 on a product level, China appeared to be maximizing political impact by targeting sectors and products which represent a significant section of President Trump's voter base (Fetzer and Schwarz, 2021).

tend to choose their geographical location of production with consideration of the distance between stages in the value chain (Antràs and de Gortari, 2020). Accordingly, there is a greater incentive to perform nearshoring rather than reshoring in the case of specific country tariffs as firms seek to diversify and differentiate supply lines (Contractor, 2025). Rather than relocating production entirely back to the US, companies are more likely to adjust through temporary production interruptions and the restructuring of inventory management systems. These measures enhance production flexibility and better position firms to adapt to the volatility of shifting tariff regimes (McKinsey, 2025). To this end, auto manufacturers Stellantis and General Motors have both withdrawn their 2025 financial guidance, while Stellantis has laid off 900 workers in Michigan and Indiana, halting production in Mexico and Canada (Hall et al., 2025). Meanwhile, despite being exempt from tariffs, Apple has begun inventory stockpiling from India in advance, as supply chain disruptions would be devastating in such a complex industry (Butts, 2025). On the other hand, highlighting the firm-level differences in capacity to respond to tariffs by reshoring, Nvidia has committed to investing $500bn in microchip manufacturing in the US over the next 5 years (Almeida, 2025).

By raising tariffs for all products for US major trading partners, a welfare loss is induced; this is necessarily borne by consumers (Huang, 2025), who face higher prices for goods and services (Furceri et al., 2019). The domestic alternatives are more expensive, and a blanket increase in the price of goods represents a larger marginal welfare loss in lower-income homes because the effective price increase represents a relatively larger segment of their household income. Additionally, in the case where tariffs are applied uniformly rather than as a decreasing function of comparative advantage, the US is, by increasing its autarky, unable to exploit comparative advantage at a level consistent with pre-tariff conditions (e.g., Chor, 2010; Costinot et al., 2015). Accordingly, production shifts to the lower productivity sectors and firms (Cole and Davies, 2011), resulting in a reduction in real output over time (York, 2024), ultimately reducing the base of income available to social policy even in the context of short-run increases in government revenue (Furceri et al., 2020 The short-run increase in revenue is also unlikely to translate to immediate positive welfare implications due to the likely tightening of monetary policy by the Federal Reserve in an attempt to curb potential inflation (Kohlscheen et al., 2025), which may manifest as a direct response to the increased real cost of goods or because inflation expectations are increased due to the higher risk.[22]

[22] See also interesting forecasts in McKibbin and Noland (2025). For discussion about challenges in Federal Reserve's independence, see Restuccia et al. (2024).

Somewhat inconsistently, Trump links tariffs to drug trafficking and illegal immigration, but he also says they will remain until the US trade deficit shrinks (Finley, 2024; Smith-Schoenwalder, 2025; Burns, 2025). Table A3 in the Appendix shows the bilateral US merchandise trade balance with its principal partners, as well as the total trade balance with the world. Note that the US trade deficit was valued at 1,636 billion in 2024, a notable increase from 1,478 billion in 2023 (refer to Table A3). The burgeoning deficit alongside reduced employment in tradeable manufacturing jobs (illustrated in Table A4) has encouraged President Trump to take drastic action in order to encourage manufacturing exports. However, Trump's unpredictable trade policies have created global uncertainty, leaving investors and policymakers uncertain about his next move. By declaring a national emergency (The White House, 2025b), Trump has bypassed traditional trade investigations (Casey, 2025), giving himself broad authority to modify tariffs unilaterally (Anil, 2025). This in turn increases the dynamism of the tariff battle as changes to policy may be affected much more readily than in conventional scenarios. Given the existence of the United States-Mexico-Canada Agreement (USMCA) trade agreement, and its expected revision in 2026, the agreement could become a mechanism to avoid a trade war by addressing Trump's national agenda around Chinese influence.

As illustrated in Tables 3 and 4, the principal imports affected by the US tariffs on Canada and China are largely within manufacturing and energy commodities. This is consistent with the intention of the US to reshore and increase its strategic independence by addressing energy trade. In response, China and Canada have, in different ways, taken aim at the US agricultural and manufacturing trade, limiting revenue in these industries, which are critical to the US's strategic independence.

[Tables 3 and 4]

3.2. Strategic Dependence

In light of recent developments, it is important to assess the strategic dependence of the US on several trading partners, including Canada, China, and Mexico. As noted by Saridakis et al. (2022) strategic dependence is a measure of mutual interdependence in trade. In the context of the US and its strategic dependence on its principal trading partners, strategic dependence may be understood as a reliance on firms within the markets of its principal trading partners to supply a given commodity to the US market. Tariff wars, however, can act as a shock to the global network partnerships, requiring firms to adapt their strategies and relationships.

In contrast to the decline in US manufacturing, China has emerged as the manufacturing powerhouse of the world (Nicita and Razo, 2021). Moreover, its integration into the international systems of geopolitics and global industrial development (Zarkachi, 2023) has helped it generate economic growth strong enough to challenge US hegemony (Kim, 2019). The outpacing of the US by the Chinese in the global market for exports is illustrated in Table A5 in the Appendix, while the decline of the health of the US manufacturing sector in terms of labour, despite maintaining healthy absolute output and exports, is shown in Table A4 in the Appendix.

Further, on account of the complexity of GVCs, the reduction in trade incurred by the imposition of tariffs in complex industries where US firms require imported intermediate inputs may outweigh the potential for import substitution of final goods domestically. Flaaen and Pierce (2024) found that, contrary to President Trump's intentions, the 2018 tariffs were associated with an increase in manufacturing unemployment. Likewise, Clausing and Lovely (2024) indicate that there has not been a recovery in steel manufacturing jobs despite the application of tariffs on steel. These results in turn create impacts on US industries which exist further down the value chain, such as the US defence industry, which experienced acute negative stock returns in response to the 2018 tariff announcements on account of being a significant importer of steel (Klomp, 2025). Thus, while certain sectors or firms may benefit if they can substitute imports both within their production processes and in the final goods consumed by households, the broader picture is less favourable. At the industry and consumer levels, output and welfare losses are likely to outweigh these firm-level gains, resulting in an overall decline in aggregate income.

Accordingly, it is essential to look beyond the overall trade balance. Disruptions to these strategic assets imply a true welfare loss, even if the principle proposed by Armington (1969) does not hold for one trading partner, thanks to the relative importance of the asset in global supply. As the US has progressively reduced its strategic dependence on China by relying on its geographic neighbours, the simultaneous application of tariffs to all three trading partners becomes a significant shock. Retaliation by Canada and Mexico further limits substitutability in global markets, suggesting that the costs of these commodities will rise.

For the purpose of this assessment, strategic dependence is defined as being dependent on commodity k originating from a partner country. Formally, this occurs when the three following conditions outlined by Rogers et al. (2020) are met[23]:

[23] These are also discussed in Saridakis et al. (2022).

- More than 40% of commodity *k* (using HS 6-digit classification) is imported from a partner country by the US: $\left(\left(\frac{Imp_{i,k,usa}}{Imp_{i,k,world}}\right) * 100\right) > 40$.
- The US is a net importer of the commodity *k*, such that they import more than they export: $Imp_{i,k,world} > Exp_{i,k,world}$.
- The percentage of a partner country's export of the commodity in world exports should be more than 15%. That is, $\left(\left(\frac{Exp_{r,k,world}}{Exp_{world,k,world}}\right) * 100\right) > 15$.

Where *Imp* represents imports, *Exp* represents exports, subscript *k* represents the sector or commodity, subscript *i* represents the US, and subscript r represents a partner country. Data for this assessment were obtained from the World Integrated Trade Solutions (WITS) at the HS 6-digit level for each of the aforementioned countries for 2015 and 2023.

Referring to Table 5, we observe that between 2015 and 2023, the US significantly reduced its strategic dependence on principal trading partners. Over this period, the share of strategically dependent imports fell by 25.02%, declining from 20.71% to 15.53%. This aligns with the policy of strengthening US independence in trade and is, in part, an organic result of the reshoring phenomenon.

[Table 5]

Table 6 shows the relative share of total US imports attributable to each of its major trading partners in 2015 and 2023, as well as the percentage change in absolute import value and share of total imports between the two years. It is noteworthy, however, that this significant change in strategic dependence across principal trading partners is entirely due to a reduction in strategic dependence with China, and that it occurs in the context of an increasing US import value (Table 6). In observing this transformation of trade patterns, one can infer that the US has been more traditionally liberal in increasing its overall import volume globally but strategically mercantilist with respect to strategic partners. This begs the question of why President Trump believes it is necessary to enact hardcore protectionist policies in the service of neo-mercantilism, particularly regarding Canada and Mexico, with which the US has sought to strengthen its trade ties in order to reduce its reliance on China.

[Table 6]

In targeting all three principal trading partners simultaneously, President Trump introduces risk to the previous progressive decoupling of the US-China network relationship.[24] The risk becomes even more evident when assessed from a sectoral perspective. For instance, the imposition of 25% tariffs on Mexican and Canadian imports is likely to cause an immediate contraction in sectors that depend on imported components; for instance, distilled spirits play a significant role in US agricultural trade (Muhammad, 2025). Implicitly, the impact within this sector illustrates the questionable application of the 2025 tariff policy because it is excessively far-reaching with a lack of granularity and attention to the import elasticity (Mehammad and Hossen, 2024) and comparative advantage status (Costinot et al., 2015) of affected sectors. The viability of the war for strategic trade independence from China is further strained by the imposition of 25% tariffs on all steel and aluminium imported by the US (Buchwald, 2025a), through which the US is involving the EU as a potential enemy. This raises concerns about which country the US does intend to partner with if it is to facilitate the tariff-induced contraction of trade with China.

Moreover, on 26 March, President Trump announced 25% tariff levies on all imported passenger vehicles, light trucks, and key automobile components, with processes in place to expand the scope of this automobile tariff if deemed necessary (The White House, 2025b). Tariffs on cars and light trucks are set to take effect from 2 April, with tariffs on car parts for 3 May (Sehran, 2025). In enacting this tariff, Trump is adding still more uncertainty to the strategy of reducing dependence on China, as this move significantly targets several allied markets. In 2024, the US maintained a significant trade deficit in cars[25] with the World (-$162.04 bn[26]), Canada (-$13.42bn), Germany (-$17.81bn), and Mexico (-$45.58bn). However, there was a minor surplus in trade with China (1.1bn). Thus, applying these tariffs to the automobile trade, and particularly to cars, is likely to generate a swift response and retaliation because it will significantly disrupt the principal markets for cars for several US allies. Indeed, Germany's minister has called the move a "*fatal signal*" for free trade (Meredith,

[24] This decoupling process is further threatened by the targeting of India. The imposition of tariffs on India highlights the increasingly multipolar nature of contemporary geopolitics (Lingling, 2025), in which the global superpowers continue to battle for hegemony. In line with criticism of the inconsistent strategic dependence implications of tariffs on Mexico, Canada, and China, some academics have framed the early applications of President Trump's tariff policy as a game-theoretic strategy (Carvalho, 2025). However, the continued instability and arbitrariness of applied tariffs undermine the structural clarity necessary to interpret these decisions as part of a unified strategic plan (Narotzki, 2025).

[25] The following trade flow and deficit values are author calculated using UNCOMTRADE data accessed via WITS. In the absence of specific product codes provided by the Trump administration, the levy on cars is treated as HS 8703 – "*Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars*" (see HS code list).

[26] Bn is used here as a shortened form for billion USD.

2025b, paragraph 1). The Canadian Prime Minister Mark Carney called it a "*direct attack*" on Canadian workers, while EU president Ursula von der Leyen succinctly described the decision as "*bad for business, worse for consumers*" (Rushe et al., 2025, paragraph 4). Hours after the announcement, shares in General Motors, Stelantis, and Ford Motors (major US car manufacturers) all lost roughly 5% during extended trading, despite Trump's temporary exemptions for those firms (Breuninger and Javers, 2025), signalling the potential for negative spillovers into the domestic US market. In a static sense, the tariff has significant revenue potential. Purely in terms of cars to the world, a 25% tariff would raise $54.87 billion in revenue, while Will Scharf (White House aide) has claimed that the total tariff revenues when specific car parts are taken into account will reach more than $100 billion (Breuninger and Javers, 2025: paragraph 5). However, when viewed in a dynamic context, the broad scale of the action will certainly have significant negative repercussions due to the consequent redistribution of trade if these (and perhaps further) tariffs are maintained.

3.3. Trade Impact

While weighing the advantages and disadvantages of tariffs, the general consensus among neutral analysts is that the economic and political drawbacks tend to significantly outweigh any potential gain (Contractor, 2025). Several studies evaluating the consequences of trade tariffs since the start of the US-China trade war in 2018 (Russ and Cox, 2018; Amiti et al., 2019; Fajgelbaum and Khandelwal, 2021; Handley et al., 2020; Morgan, 2022) highlight the net negative impact of the first iteration of Trump's protectionist trade policies had domestically and globally.

Considering macroeconomic aggregates, there is a clear consensus among empirical estimates despite the uncertainty of what will ultimately be the medium run tariff regime on account of the frequent adjustments to US policy. The most recent estimations from the Tax Foundation's General Equilibrium Model of the impact of Trump's imposed and threatened tariffs suggest a reduction in US output by 0.9% and a decline in US capital stock by 0.8% (York and Durante, 2025). Likewise, Brookings conducts an estimation on the 25% tariffs on imports from Mexico and Canada and finds that GDP growth in the US reduces by around 0.24%, again not including any retaliation, noting that the analysis was performed in a static framework context using GTAP modelling (Meltzer, 2025).

The unfavourable evaluation of tariffs in the academic literature is corroborated when considering the overall welfare impact and distribution on consumers. Tariffs function like a regressive sales tax, disproportionately impacting certain classes and income groups, with

sectoral variation in labour outcomes depending on the industries' export share, input structure and availability of local substitutes and complements in the household budget (Klein and Pettis, 2020; Kalkavan et al., 2021; and Borusyak and Jaravel, 2024). Employed worker-level exposure statistics illustrate that trade-induced horizontal inequality accounts for greater than 99.0% of the welfare variance from trade shocks within each decile of income ranges of the US labour force. The authors explained that trade wars inflate the cost of living through the consumer-price channel and place downward earnings pressure on some labour markets based on sectoral impact. This asymmetric impact results in winners and losers within income groups throughout the earnings ladder. Added to this, the trade war is expected to lead to a deterioration in the quality of life of many working-class Americans who would have to increase labour hours in an attempt to mitigate declines in real income (Kalkavan et al., 2021).

Che et al. (2025) in an assessment of bilateral trade between the US and China in 2018, after the onset of the first internation of Trump's trade war with China, found that tariff evasion through the under-reporting of values and quantities, along with the misclassification of products, accounted for approximately 70% of the decline in the bilateral trade deficit by 2021. The authors indicated that tariff evasion was highly uneven among sectors, with the incidence highest in entry states where downstream industries depended heavily on imports from China. These actions blunt the intended effects of industry protection and revenue generation. Accordingly, it is unsurprising that Autor et al. (2024) found there was no significant impact on domestic employment in industries which ought to be protected by President Trump's 2018 tariffs.

4. Conclusions and Implications

This paper uses the theoretical lens of neo-mercantilism to critically examine President Trump's 2025 tariff policy targeting Mexico, Canada, and China. To that end, we discuss the theoretical development of the classical derivative of mercantilism in a global context, tracing its progress toward the modern strain, which we couch within the US historical canon. Accordingly, we note that while President Trump's neo-mercantilist (protectionist) stance remains in principle within the US approach to trade, being cast in the shadow of the 1930 Smoot-Hawley Tariff Act, his application of protectionism, which goes well beyond being a tool for import substitution and has become a driving political approach, diverges from the liberal foundations of List.

Theoretical analysis of President Trump's tariff regime indicates an expectation of welfare loss. This will occur both domestically and globally. The domestic loss will be caused

by US consumers having to bear elevated costs and is at odds with political promises to reduce consumer prices, whether these arise directly from the increased cost of imports, or indirectly because less efficient domestic products must now substitute for foreign alternatives. Global welfare costs will ensue from the expected contraction of trade following retaliatory action by affected economies. Furthermore, if President Trump's protectionist stance forms part of the war for hegemony in the manufacturing trade with China, his simultaneous application of tariffs to Canada, China, and Mexico seems dubious, given that in serving as a preferential market for demand and supply, Canada and Mexico play a key role in facilitating reductions to the US's strategic and trade dependence on China. In short, with respect to the US's strategically dependent commodities, President Trump has initiated a war with the aim of reshoring US supply lines without first ensuring the safety of supply. Canada has responded in kind to US tariffs. On March 4, Canada retaliated to Canada-specific tariffs by imposing $30 billion worth of tariffs on agricultural commodities imported from the US. Then, in response to the blanket tariffs raised on aluminium and steel, Canada has adopted a "dollar-for-dollar approach", setting reciprocal tariffs primarily on steel ($12.6 billion) and aluminium ($3 billion) commodities, with the total value of applied tariffs being $29.8 billion. Further reciprocal action is promised in early April if the US policy remains unchanged (Department of Finance Canada, 2025). Canada's tandem response directly threatens the very manufacturing and farming industries that President Trump's tariffs aimed to protect.

Moreover, the unpredictability with which President Trump has approached US trade policy and reneged on promised tariffs means that there is tremendous uncertainty surrounding them. This prevents firms from assessing and acclimating to international commerce's new regime of elevated costs, in turn encouraging hesitation in investment on account of the permanence of investment expenditure. This ultimately manifests in production delays even in contexts where the elevated costs are not themselves prohibitively high. Further, the trade war will also increase inflation, thus affecting interest rates and, therefore, investment rates (Matthews, 2025). Reciprocally, as firms in Mexico, Canada, and China face elevated costs for exports, there is an expected reduction in welfare for US consumers whose preferred international brands, whether because of cost or some other welfare-generating preference, are now more costly and hence less available.

4.1. Potential Effects on Selected Regions

Firms in Mexico and Canada, which export outside the USMCA agreement, along with several manufacturing regions across China, will face the immediate effects of tariffs due to disruptions

to conventional supply lines on account of elevated costs. Any intermediate goods and raw materials that have to cross geographic boundaries along the North American supply chains will now face elevated costs, leading to reduced export revenues at both the firm and country level. In response to these cost increases, some US firms may be able to internalise their operations to overcome cross-border costs, or they may diversify their supply chains. Others will be reliant on goods or inputs, which are only available through importation. Although the US has reduced its reliance on Chinese imports since the trade war began (during Trump's first term in office) by opting to import more from other countries e.g., Vietnam (Choi and Nguyen, 2023), other countries (including Mexico, Canada and the EU) have increased their share of imports from China (Haberkorn et al., 2024). One may further argue that Chinese firms are in a strong position to navigate alternative geographical markets (see, for example, the Belt and Road Initiative and the ASEAN-China Free Trade Area agreement), which will likely mitigate the impact of tariffs imposed by the US. However, Chinese firms that have established manufacturing and distribution centres in countries neighbouring the US, such as the Hofusan Industrial Park in Monterrey, Mexico, which serves as a logistics hub for the US market to avoid tariffs (Yang and Lee, 2025), may now come under pressure to consider relocating again.[27]

There will be a significant direct impact on Mexico and Canada, as exports to the US contributed approximately 35% and 22% to the respective GDPs of these countries in 2023. According to a recent estimation by McKibbin and Noland (2025), a 25% tariff rate leveraged by the US on imports will decrease the GDPs of Mexico and Canada by 1.9% and 1.1% respectively by 2030. Similarly, in light of the new tariff policy, the OECD has reduced its predicted growth rate for Canada, forecasting 0.7% growth for the next two years compared with previous projections of 2% for both years, and it expects Mexico to enter a recession, contracting 1.3% in 2025 and a further 0.6% in 2026.

4.2. Trump's Trade War and the BRICS: Moves to Maintain US Dollar Hegemony

As of 2024, BRICS+[28] comprises of approximately 45% of the global population and contributed more than 35% of the world's GDP at purchasing power parity (using World

[27] Standard theories used in international business, such as the Eclectic Paradigm (Dunning, 1980), the U-Model (Johanson and Vahlne, 1977) and the Network Theory (Johanson and Vahlne, 2009), may offer useful insights into the expansion strategies adopted by firms in response to a trade war.

[28] BRICS, an intergovernmental alliance founded in 2006 by Brazil, Russia, India, China, and South Africa, aims to strengthen collaboration across economic, political, and cultural sectors. The bloc has recently expanded - dubbed "BRICS+"- with the addition of Iran, Egypt, Ethiopia, the United Arab Emirates, and Indonesia, bringing total membership to ten as of January 2025.

Development Indicators, WDI). China's manufacturing industry stands at the heart of the bloc's trade capacity, contributing over two-thirds of BRICS' merchandise exports, which only comprises 22% of global trade. The bloc has developed an alliance based on a dense network of intergovernmental cooperation among Southern giants (Patrick et al., 2025).

Motivated by the risk of the BRICS' pursuit of de-dollarisation, President Trump has intensified economic pressure on the bloc, primarily through the threat of tariffs. Trump's proposed unilateral tariffs signal that US trade policy is driven by political alignment, which potentially risks strengthening the resolve of these countries to deepen internal cooperation to de-dollarise and undermine the hegemony of the US dollar (Asif Noor, 2024). Moreover, strategically, penalising countries like India and Brazil risks alienating democratic partners and driving them further into BRICS-led initiatives (Asif Noor, 2024).

4.3. Debunking the Counterargument

One could argue, however, that the negative impact on the welfare of US consumers might be mitigated in the long term if the US develops a location advantage that attracts more firms to relocate domestically. This shift could strengthen manufacturing, foster competitive domestic industries, and promote the production of locally made goods, ultimately driving domestic production growth and creating jobs. While this argument is appealing, it faces certain challenges.

First, we may grant that because of the absolute size of the US in terms of factor endowment and domestic market (Torstensson, 1998), it possesses benefits to scale and division of labour that may enable it to produce the product varieties (Li and Cheng, 2015) necessary to meet the domestic demand for imported commodities which would have gone unfulfilled by reason of tariff-induced displacement of the international supply (Schiff, 1996). This, as offered by List, is the classical argument for short-term protectionism (Levi-Faur, 1997) in that protectionism grants domestic firms time (assuming there is sufficient capacity and domestic ingenuity) to overcome the gap in specialisation to international alternatives. Thus, domestic supply is met, and exports are diversified, ultimately expanding the trade balance.

However, the form of protectionism that President Trump has applied faces several harsh criticisms. Specifically, this import substitution strategy is welfare-neutral only in the short run and in a case where the Armington principle of the imperfect substitutability of imports does not hold (Armington, 1969). Further, it assumes that the domestic market can scale up to meet and exceed domestic demand at a rate sufficient for firms to compete on the

international markets against foreign alternatives. This condition is dubious, as the US is seeking to expand trade balances, and it would therefore likely be competing in relatively high-technology production rather than in the simple exporting industries. As there are significant gains to specialisation in increasingly sophisticated manufacturing (Algieri et al., 2022), it is unlikely that the US will exceed the pace of international progress to achieve external competitiveness in these industries beyond its current status. Accordingly, we expect the overall tariff effect to be dominated by the negative short- and medium-term implications (Furceri et al., 2019).

4.4. The Domino Effect of the Tariff War on Global Markets

Beyond the states directly affected by disruptions to North American supply chains - particularly in industries such as automotive and electronics - there is the expectation of decreased demand for raw materials and intermediate goods exported by primary exporting countries, such as Caribbean nations. Consequently, these regions could face reduced export revenues, adversely impacting the local economies that depend on these industries. Furthermore, as tariffs are likely to appreciate the US currency (Bessent, 2025), regardless of the retaliatory scenario with respect to Europe, China, Canada or Mexico, in the context of the reliance of Caribbean states on imports, this represents an increased cost and deterioration to the stock of foreign reserves despite the improvement in external competitiveness of imports, given that small states are largely capacity constrained (Alleyne et al., 2017). Moreover, this increases the effective external debt burden of Caribbean States (Cotton and Jagessar, 2020) as foreign debts must be repaid in US currency. Finally, while opportunities to trade with the US may open up on account of its reduced trade with tariff-affected countries, the Caribbean is unlikely to be able to exploit such opportunities due to its limited capacity to improve production, which contrasts with the capacity of the region's Latin American neighbours (Glauber and Giantiempo, 2025).

Turning to the UK, a long-standing trade partner of the US, it is suggested that the direct expected export losses from the globally applied reciprocal tariff on steel and aluminium will not represent a significant loss to UK trade since the US market accounts for approximately 5% of the overall volume of UK trade in this commodity (OEC, 2025). However, as noted by Atal (2025), if the US were to follow through with its threats of country-specific tariffs, then there would be significant losses in the region of 22-24 billion pounds to the UK economy. The UK is relatively buffered from the direct impact of tariffs, even in the country-specific case, since the vast majority of UK trade with the US takes the form of services where there is a UK

trade surplus (Kaya, 2024). However, even though services may not be impacted by a goods-specific tariff, there is a significant risk of indirect effects through the exchange rate and inflation channels. Ceteris paribus, the application of tariffs by the US leads to the appreciation of the US dollar as the supply of the currency on the global market contracts (The Yale Budget Lab, 2025); this drives a relative depreciation of other currencies, as occurred in the case of the renminbi due to US tariffs on China in 2018 (Jeanne and Son, 2024). These effects remain visible in projections regardless of any retaliatory response by the UK (Kaya, 2024). Due to this expected depreciation of the UK currency, there is a corresponding real increase in the price of imports, which represents a direct welfare loss to consumers. The cost of domestic substitutes is likely to rise, as firms increase their prices in response to the increased cost of foreign alternatives, ultimately manifesting as a form of imported inflation.

Accordingly, UK officials have adopted a cautious approach with the US, as exemplified in the words of British Business and Trade Secretary Jonathan Reynolds, "*We are focused on a pragmatic approach and are rapidly negotiating a wider economic agreement with the US to eliminate additional tariffs and to benefit UK businesses and our economy.*"[29] The strong historical trade relationship between the UK and the US continues to be very important. In addition to a preferential trade agreement with the US, the UK would be well advised to strengthen its partnership with other countries and blocs. However, this recommendation is made against the background of political uncertainty, with Brexit having dented the UK's relationship with the EU, its natural geographical ally.

As the third largest supplier of steel imports to the US, the EU stood to suffer significantly from the 25% global tariffs on steel and aluminium (Verhelst, 2025). Accordingly, in contrast to the UK, the European bloc has adopted a stance of hardline and swift retaliation, announcing counter-tariffs. On account of the significant trade volumes between the EU and the US, where the US represents 20.6% and 13.7% of EU exports and imports, respectively, the application of reciprocal tariffs by both entities ensures mutual losses (Sullivan, 2025). Negotiations have proved difficult; as Malmstrom (former EU trade commissioner) has stated about the 2025 tariffs, "*This time it's much more difficult because you don't really know what the aim is … How can you negotiate in a climate like that?*" (Sullivan, 2025, paragraph 18). Nevertheless, the EU has managed to finalise negotiations and agreed a maximum US tariff of 15% across most EU products. As previously discussed, the US's history of trade wars has not reduced the country's trade deficit, since, rather than bringing about meaningful import

[29]See Department for Business and Trade (2025).

substitution, trade diversion has occurred; thus, only the source of imports has altered, which leaves the aggregate US trade deficit unchanged. But in this context, it is worth mentioning that there is potential for the affected trading partners to become more open to expanding their trade and investment opportunities, not only with other countries but also with China, which will offset the intended result of Trump's policies.

4.5. Limitations and Suggestions for Further Research

In a global context, large states that are not capacity-constrained are primed to benefit from trade diversion emanating from the application of tariffs (Vanezzetti, 2024). Such states may also benefit from the opportunity to create mutualistic limited trade agreements on account of the relatively improved trade bargaining position of non-tariff applied entities, such as the EU (Jonas, 2025). At present, there is remarkable uncertainty regarding the effects of President Trump's applied tariffs, given his willingness to change their form. If enacted in their proposed form, they have significant negative welfare implications, both globally and domestically within the US. However, there is also potential for domestic and foreign firms that are unaffected by the tariff regime to make gains if they are shrewd enough to increase their exports and thereby exploit the relative weakening of the US position in terms of trade.

Thus, the US-China trade war introduces significant economic uncertainty, with potential negative impacts on countries worldwide since all regions are heavily dependent on one or both global powers, whether in terms of trade or investment. Furthermore, the reduction of trade (in terms of both imports and exports) between the US, Mexico, and Canada due to retaliatory tariff policies will generate increases in the cost of goods on the international market. This will affect external markets by way of losses to welfare through import inflation and the reduced volume and variety of available commodities. The long-run impact of this global trade contraction is likely to arise on account of the potential for Canada and Mexico to sustain tariff retaliation due to their strategic trade significance to the US economy. In particular, Canada is the principal export destination for 34 US states (Paris, 2025), giving the country significant capacity to retaliate against the US economy in a way likely to disrupt political will, despite the welfare loss this would cause both economies. Further, Mexico and Canada could exploit their geographical proximity by increasing the strength of their bilateral relationship, particularly in energy and agriculture, which would mitigate the burden imposed by their reduced trade with the US. Further research is required to analyse the spillover effects of the 2025 US tariff policy for other affected regions, such as the Caribbean and the EU. The theoretical expectation is for indirectly affected countries to experience significant welfare

losses on account of the reduced volume of trade and the injected inefficiencies to supply lines, which would be the consequence of a shift away from global trade liberalisation.

The policy-based alternatives to tariffs recognise that, rather than adopting a protectionist policy (which reduces the competition faced by domestic firms and thereby neutralises the impetus for increases in productivity), it would be more effective to aim for an increase in business productivity. Notably, many alternatives do not align with the political narrative of the current Trump Administration. To this end, economists such as York (2024) have suggested making changes to domestic tax regimes. Firstly, prior to any restructuring of the existing tax system, a simplification of reporting standards, and particularly those required of small businesses, would reduce the barriers to domestic firms. This would allow greater competition, improving aggregate productivity. More dramatically, York also suggests replacing income tax with a consumption tax. The existing system penalises deferred consumption above current consumption, consequently disincentivising saving. A consumption tax would, she claims, increase capital accumulation and output.[30] Alternatively, in a suggestion that has a neo-mercantilist flavour in its desire to ensure reciprocity in trade, Alden Schacher, executive of the beverage firm Diageo, advocates for a change to the rules of origin for the inputs in imported alcoholic drinks, which he proposes should wholly originate *"in the United States or the territory of a strategic trade partner*" (Best, 2025: paragraph 4). The strains of thought in these suggestions are clear: one must aim directly at the domestic US market and increase the productivity of firms, whether by streamlining regulatory frameworks or by adjusting the incentive structure for investment and capital accumulation, such as through tax reform. However, if one has a firm intention to impose external policy changes, precision in targeting one's directives is essential if one hopes to avoid the welfare burden of tariff warfare.

[30] Specific alternative tax structures are discussed in York (2024).

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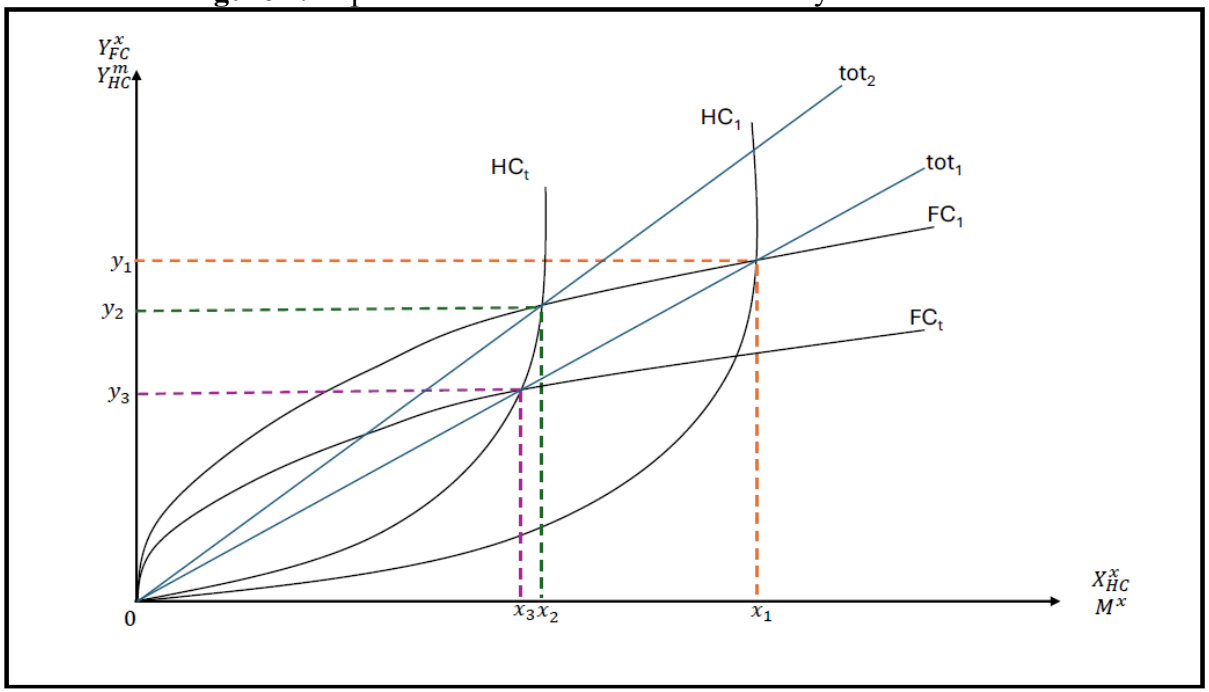
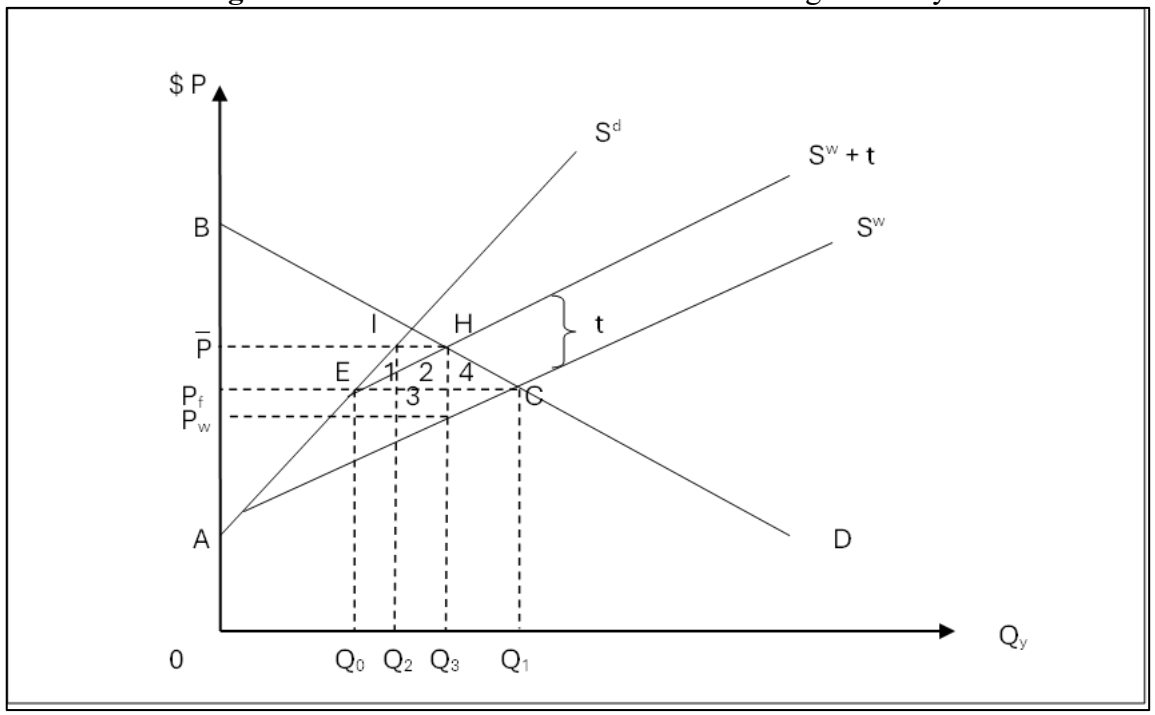
Figure 1. Impact of a Tariff on the Home Country's Offer Curve.



Source: This diagram is adapted from standard illustrations in international trade literature.

Figure 2. Economic Effects of a Tariff in a Large Country.



Source: This diagram is adapted from standard illustrations in international trade literature.

Table 1. Smoot-Hawley Tariff Act of 1930.

Aspect	**Details**
Implementation	Signed into law in June 1930 by President Herbert Hoover. Aimed at protecting US farmers and manufacturers from foreign competition.
Tariff Increase	Raised average tariffs on dutiable imports from 34.6% to 42.5%, affecting a significant portion of imported goods.
Coverage	Tariffs were raised on 27% of dutiable products, impacting a broad range of industrial and agricultural goods.
Retaliation	Multiple foreign trade partners retaliated, with Canada (20% of US exports) imposing tariffs on one-third of US exports to Canada.
Economic Impact	Contributed to a decline in global trade, exacerbating the Great Depression. World trade fell by approximately 66% between 1929 and 1933.
Comparison to US-China Trade War	Less extensive than the US-China trade war in terms of GDP impact; Smoot-Hawley affected 1.4% of US GDP, whereas the US-China trade war impacted 3.6% of US GDP.

Source: Author compiled this using various sources.

Table 2. US role in previous tariff wars and associated details.

Aspect	**Details**
Initiation	Started in 2018 with tariffs on washing machines and solar panels, followed by steel and aluminium tariffs. Section 301 investigation led to further tariffs on Chinese goods.
Tariff Waves	Five major US tariff rounds (Jul 2018, Aug 2018, Sep 2018, Jun 2019, Sep 2019). China retaliated at each stage. The sixth round was cancelled in Dec 2019 before the Phase One deal in Jan 2020.
Magnitude of Tariffs	US tariffs covered 17.6% of its 2017 imports; China retaliated on 8.7% of US exports. US average tariffs rose from 3.7% to 25.8%, Chinese tariffs rose from 7.7% to 20.8%.
US Welfare Impact	Higher prices for consumers, lower producer profits in tariff-hit industries, disruptions to supply chains, loss of agricultural exports, and shifting of investment patterns.
China Welfare Impact	Higher costs for businesses relying on US imports, redirection of trade, increased reliance on domestic consumption, and tariff-induced supply chain adjustments.
Effect on Prices	US and Chinese consumers faced higher prices on imported goods. Some firms absorbed costs, but others passed them to consumers, contributing to inflationary pressures.
Effect on Output	Reduced trade volumes between the US and China, reallocation of supply chains, slowdown in global trade, and a decline in trade-related industries.
Implications for Other Countries	Countries like Vietnam, Mexico, and the EU benefited from trade diversion, while global uncertainty led to investment slowdowns and economic volatility.

Source: Author compiled this using various sources.

Table 3. Principal US-China goods affected by tariffs.

Category	Item	Tariff Rate (%)	Value (Billion USD)
Imports from China (to the US)	Telephone sets; smartphones for cellular networks/ for other wireless networks.	20	8.35
Imports from China (to the US)	Portable digital automatic data processing machines, weighing not more than 10 kg, consisting of at least a central processing unit, a keyboard and a display.	20	6.61
Imports from China (to the US)	Electric accumulators; lithium-ion, including separators, whether or not rectangular.	20	3.29
Imports from China (to the US)	Tricycles, scooters, pedal cars and similar wheeled toys.	20	2.88
Imports from China (to the US)	Communication apparatus (excluding television sets and base stations).	20	1.55
Exports to China (from the US)	Soya beans, whether or not broken.	10-15	12.76
Exports to China (from the US)	Cotton.	10-15	2.23
Exports to China (from the US)	Grain sorghum.	10-15	1.26
Exports to China (from the US)	Meat of bovine animals; frozen.	10-15	1.19
Exports to China (from the US)	Fruit and nuts, edible; peel of citrus fruit or melons.	10	0.95

Source: Authors' calculations using UN COMTRADE data accessed through the WITS database. 20% tariff rates were uniformly applied for Chinese exports to America in accordance with the White House Factsheet (2025a), while broad categories for Chinese retaliatory tariffs are based on Pan and Wong (2025). For Chinese tariffs on the US, for those goods descriptions which correspond with an HS 4-digit product code such as soya beans and cotton, the corresponding 4-digit code value was used. For those descriptions that do not match a 4-digit HS product description the closest corresponding HS 6-digit commodity was applied.

Table 4. Principal US-Canada Goods affected by tariffs.

Category	Item	Tariff Rate (%)	Value (Billion USD)
Imports from Canada (to the US)	Oils; petroleum oils and oils obtained from bituminous minerals, crude.	10	10.33
Imports from Canada (to the US)	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc.	25	3.25
Imports from Canada (to the US)	Vehicles; with both spark-ignition internal combustion reciprocating piston engine and electric motor for propulsion.	25	1.54
Imports from Canada (to the US)	Vehicles; parts and accessories, of bodies for Moto Vehicles.	25	1.24
Imports from Canada (to the US)	Aluminium; unwrought, (not alloyed) specifically ingots.	0.25	1.19
Exports to Canada (from the US)	Food preparations; n.e.c. in item no. 2106.10.	25	0.42
Exports to Canada (from the US)	Food preparations; bakers' wares.	25	0.33
Exports to Canada (from the US)	Cosmetic and toilet preparations.	25	0.20
Exports to Canada (from the US)	Sauces and preparations therefor; mixed condiments and mixed seasonings.	25	0.15
Exports to Canada (from the US)	Rubber; new pneumatic tyres, of a kind used on motor cars (including station wagons and racing cars).	25	0.14

Source: Own calculations using line items from the Department of Finance Canada (2025), and the White House (2025a) to broadly categorize tariffs applied into energy vs non-energy, with calculations based on US COMTRADE DATA accessed through the WITS database.

Table 5. US strategically dependent commodities (% of total US imports).

Country	2015	2023	Percentage Change
Canada	1.71	1.75	1.97
China	17.72	12.32	-30.46
Mexico	1.28	1.46	14.39
Sum	20.71	15.53	-25.02

Note: The annual strategic dependence values have been rounded to two decimal places. The percentage values have been calculated using the unrounded numbers.
Source: Authors' calculations using UN COMTRADE data.

Table 6. Change in overall import reliance with principal partners.

Country	Share of US imports (%)		Percentage change	
	2015	2023	Import value	Import share
Canada	13.1	13.6	42.3	3.9
China	21.8	14.1	-11.1	-35.1
Mexico	12.9	15.2	60.5	17.2
Sum	47.8	42.8	22.85	-10.3

Note: The percentage values have been calculated using the unrounded numbers.
Source: Authors' calculations using UN COMTRADE data.

Appendix 1

Table A1. Evolution of Economic Systems: From Feudalism to Neo-Mercantilism.

Economic Dimension	Feudalism	Mercantilism	Economic Liberalism	Neo-Mercantilism
Time Period	Medieval period (5th–15th century).	16th–18th century (transition phase).	18th century onwards (post-mercantilism).	20th century–present.
Economic Structure	Agrarian, localized economies.	State-controlled trade and colonial expansion.	Free markets, minimal government intervention.	State intervention in trade for national advantage.
Main Economic Actors	Lords, serfs and guilds.	Monarchs, merchants, colonial powers.	Entrepreneurs, capitalists, labourers.	Governments, multinational corporations.
Key Resources	Land and agriculture.	Precious metals (gold/silver), trade goods.	Capital, labour, technology.	High-tech industries, strategic resources (energy, rare earth metals).
Trade Policy	Mostly self-sufficient, limited trade.	Protectionist policies, tariffs, monopolies.	Free trade, comparative advantage.	Selective protectionism, export-driven growth.
Role of Government	Lords and monarchs-controlled production and distribution.	Strong state intervention to accumulate wealth.	Limited government, market-driven economy.	Active government role in shaping trade policy, subsidies, and industrial policy.
Wealth Accumulation	Based on land ownership.	Accumulation of bullion (gold/silver).	Profit-driven investment and competition.	Trade surpluses, foreign exchange reserves, national strategic interests.
Labor System	Serfdom and rigid social hierarchy.	Early wage labour, colonial exploitation.	Free labour markets, mobility of workers.	State-supported workforce development, strategic immigration policies.

Innovation and Productivity	Slow technological progress.	Focused on trade monopolies, limited industrial innovation.	Encourages innovation, technological advancement.	Heavy investment in R&D, strategic state-led innovation.
Philosophical Justification	Divine right of kings, hierarchy.	National power and self-sufficiency.	Adam Smith's 'invisible hand', individual freedom.	Economic nationalism, self-sufficiency in key industries.

Source: Compiled by authors using various sources.

Table A2. US size as Assessed by relative share of Global trade and Economic Activity.

Year	US GDP (% World GDP)	US Imports (% World Imports)	US Exports (% World Exports)
2019	23.68	14.49	8.20
2020	23.86	14.55	7.52
2021	23.79	13.58	7.04
2022	23.62	13.81	7.62
2023	23.64	14.06	7.88

Source: Authors' calculations using the WITS Online Database for trade data and the WDI database for GDP.

Table A3. US merchandise trade balance 2007–2024 (US Billions).

Year	Canada	China	Mexico	World
2007	-104	-279	-94	-971
2008	-117	-289	-87	-995
2009	-56	-244	-73	-665
2010	-74	-297	-100	-846
2011	-84	-320	-105	-964
2012	-83	-341	-105	-983
2013	-85	-345	-102	-956
2014	-91	-371	-104	-1,012
2015	-68	-396	-114	-1,027
2016	-62	-374	-120	-1,020
2017	-72	-406	-129	-1,098
2018	-78	-454	-145	-1,198
2019	-85	-378	-166	-1,173
2020	-67	-347	-169	-1,198
2021	-112	-409	-172	-1,454
2022	-154	-442	-203	-1,629
2023	-140	-322	-227	-1,478
2024	-131	-337	-260	-1,636

Source: Authors' calculations using the WITS Online Database.

Table A4. US manufacturing Sector metrics 1987–2024.

Year	Exports (US millions)*	Employment (000's employed)	Output (Index 2017=100)
1987	178,369	17609	62.891
1988	…	17905	65.491
1989	250,426	17984	66.314
1990	291,446	17695	66.357
1991	319,847	17068	65.156
1992	341,990	16800	67.777
1993	356,225	16776	70.28
1994	399,712	17024	74.241
1995	451,025	17245	77.457
1996	486,175	17237	80.472
1997	554,447	17418	86.097
1998	558,915	17560	90.194
1999	576,258	17323	94.012
2000	644,045	17265	96.535
2001	595,466	16441	91.927
2002	565,115	15257	92.842
2003	581,977	14508	94.041
2004	606,339	14315	96.383
2005	659,257	14224	100.15
2006	807,600	14152	101.799
2007	883,385	13871	104.765
2008	941,701	13395	99.998
2009	698,793	11836	87.591
2010	836,770	11514	93.712
2011	921,133	11710	96.43
2012	958,662	11908	97.544
2013	966,462	11997	99.619
2014	995,363	12160	100.992
2015	957,359	12308	100.023
2016	917,917	12324	99.906
2017	948,962	12406	100
2018	980,272	12653	101.978
2019	971,342	12779	99.768
2020	857,523	12125	92.416
2021	1,009,204	12312	97.007
2022	1,104,207	12768	99.647
2023	1,140,829	12873	99.275
2024	1,365,089	12818	98.877

Source: Employment and output series are directly sourced from the Federal Reserve database. *Export data for 1987–2023 are sourced from the World Development Indicators database, while the 2024 datapoint was collected from the FRED. The dataset includes a missing value for 1988.

Table A5. US and China Manufacturing exports to the World (US Billions).

Year	United States	China
1992	341.99	66.81
1993	356.22	73.91
1994	399.71	99.56
1995	451.02	125.03
1996	486.17	127.28
1997	554.45	155.93
1998	558.92	160.55
1999	576.26	172.08
2000	644.05	219.87
2001	595.47	235.84
2002	565.12	292.58
2003	581.98	397.01
2004	606.34	542.39
2005	659.26	700.37
2006	807.60	895.51
2007	883.38	1,136.57
2008	941.70	1,331.47
2009	698.79	1,124.77
2010	836.77	1,476.62
2011	921.13	1,771.97
2012	958.66	1,925.00
2013	966.46	2,077.31
2014	995.36	2,201.85
2015	957.36	2,143.89
2016	917.92	1,965.83
2017	948.96	2,116.49
2018	980.27	2,318.57
2019	971.34	2,321.35
2020	857.52	2,422.68
2021	1,009.20	3,098.69
2022	1,104.21	3,283.79
2023	1,140.83	3,104.93

Source: Authors' calculations using World Development Indicators data.

Appendix 2. Trump Tariff Methodology - Discounted Reciprocal Tariffs.

As published by the (USTR, 2025) and elucidated further by (Gehringer and Duarte, 2025), the fixed formula used to calculate the reciprocal tariffs[A1] for each country can be described using a simple formula to provide a tariff rate that will balance the US trade deficit with partner countries. When a tariff is increased, imports from a particular country fall by an amount calculated as ($\Delta m_i = \Delta\tau_i * \varepsilon * \varphi * m_i$), where ($\Delta\tau_i$ represents the change in the tariff rate on country *i*, ε is the elasticity of import demand with respect to price, and φ reflects the extent to which tariffs affect import prices (the passthrough rate). As a result, the adjusted trade balance between the US and country *i* is given by the difference between US exports to country *i* ($x_i > 0$) and imports from country *i* ($m_i > 0$), accounting for the tariff-induced decrease in imports (Gehringer and Duarte, 2025). Thus:

$$TB_i = x_i - m_i + \Delta\tau_i \cdot \varepsilon \cdot \varphi \cdot m_i \qquad \text{(A2.1)}$$

Thus, the required adjustment in the tariff rate to achieve a balanced trade position, where $TB_i = 0$, with a given country, is calculated as follows:

$$\Delta\tau_i = -\frac{x_i - m_i}{\varepsilon \cdot \varphi \cdot m_i} = \frac{m_i - x_i}{|\varepsilon| \cdot \varphi \cdot m_i} \qquad \text{(A2.2)}$$

If a trade deficit exists with country *i*, $m_i > x_i$, the reciprocal tariff adjustment is positive ($\Delta\tau_i > 0$); conversely, if there is a trade surplus $x_i > m_i$, the adjustment is negative ($\Delta\tau_i < 0$). Drawing on selective academic literature[A2] and utilising 2024 trade data from the US Census Bureau to determine reciprocal rates, the (USTR, 2025) adopted fixed parameter values of ε = 4 and φ = 0.25 across all countries. This allows the change in the tariff rate to be simplified as:

$$\Delta\tau_i = \frac{m_i - x_i}{m_i} \qquad \text{(A2.3)}$$

This equation implies that, to eliminate the trade imbalance, the required change in the tariff rate can be approximated by dividing the US trade balance with country *i* by the value of imports from that country (Gehringer and Duarte, 2025). In this methodology, if the US had a trade surplus or if half of the calculated tariff change ($\Delta\tau_i/2$) was below 10%, a default tariff of 10% was applied. However, if the US had a trade deficit with a country, the full formula was used to determine a higher tariff rate (Doherty, 2025). The American Enterprise Institute

fellows, in a study conducted by (Corinth and Veuger, 2025) illustrated that Trump's global tariff formula uses an unrealistically low elasticity estimate of 0.25—based on the impact of tariffs on retail prices rather than import prices, which they argue is methodologically flawed. The authors suggest the more accurate figure is closer to 0.945. This miscalculation significantly inflates the tariff rates for most countries. Under corrected assumptions, the tariffs would be capped at 14%, with most countries facing the baseline 10% - far lower than the current 10% to 50% range imposed (Doherty, 2025).

Notably, there were some key tariff exceptions, irrespective of their country of origin, for critical minerals - such as yttrium, important for permanent magnets, and gallium, vital in semiconductor manufacturing, cobalt and lithium and base metals such as copper and aluminium, petroleum oils and oils from bituminous minerals, crude. China has 90 per cent of the world's rare earth elements (REEs)[A4] and in response to Trump's tariffs, it retaliated with a strategic[A5] list of export-controlled elements,[A6] as of April 4.

Notes:

[A1]"*Reciprocal tariff rates range from 0 percent to 99 percent, with unweighted and import-weighted averages of 20 percent and 41 percent*" (Meredith, 2025a).

[A2]As referenced in (USTR, 2025), the motivating pieces of literature to determine the extent to which tariffs affect import prices were Broda and Weinstein (2006), Simonovska and Waugh (2014), and Soderbery (2018). The principal text for the price elasticity of import demand parameterization was Cavallo et al. (2021).

[A4]REEs, a group of 17 elements, are not scarce in nature but are difficult and costly to extract and process due to environmental risks. They are critical to the energy and defence sectors, used in permanent magnets, energy storage, catalysts, and lasers. China leads global REE production thanks to early industry entry, state-backed investments, export controls, low labour costs, and lax environmental oversight. With growing demand for electric vehicles and wind energy, REE demand is projected to surge through 2030 and beyond.

[A5]"*China made that list strategically*", as stated by Mel Sanderson, Director at American Rare Earths.

[A6]These were seven categories of medium and heavy rare earths, including samarium, gadolinium, terbium, dysprosium, lutetium, scandium and yttrium-related items.