

# THE UNITED TARIFFS STATES



How the U.S. Brings the Entire  
World to the Negotiation Table

*by* Dr. Bert Wolfs

**Book title: United Tariffs States. How the USA brings the entire world to the negotiating table.**

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Note: The front page was generated by ChatGPT on April 3, 2025, following my human prompt with four trials. Written in accessible American English, this book serves as a thoughtful introduction and a springboard for meaningful discussion.

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## **Dedication**

This book is dedicated to my life partner, Marijana, for all her eternal love and understanding, and to my son, who does not know the name of the Swiss President but knows very well the name of the current President of the United States of America. He is still a toddler, and do not ask me how he knows! This book is also a sign of appreciation to all my students who have joined my classes in the past 30 years.

Kloten, April 2025.

## Preface

I first got the idea for this book while watching the Rose Garden (part of the White House, Washington, D.C.) announcement on TV on April 2, 2025. I was struck by the tariff imposed on Switzerland. Where does this number come from, and why?

Its boldness, tone, message, and unapologetic framing of global tariffs as a patriotic, almost moral act amazed me. This was not just a policy speech; theater, diplomacy, and economic warfare wrapped into one headline-grabbing moment.

As someone deeply interested in international trade and political strategy, I immediately felt that this moment would mark a turning point for the United States and the entire world economy. Moreover, I was not alone—global reactions were swift and intense. But even amid the noise, there were signs that something deeper was at play. Was this the start of a global unraveling—or a calculated move to force the free-market world back to the negotiating table under new terms?

This was not President Trump's first encounter with tariffs. However, the scope was unprecedented this time: 185 countries were affected, with double- and even triple-digit tariffs imposed on many. China, long a target of American trade frustration, was hit the hardest, facing a 54% tariff. Other nations like Sri Lanka, Bangladesh, and Switzerland suddenly encountered steep trade barriers. Meanwhile, countries such as Vatican City, Russia, Cuba, Belarus, and North Korea were spared, despite maintaining frosty or even adversarial relations with the U.S.

That peculiar mix of economic logic, political messaging, and personal vendetta sparked the questions that became the foundation of this book. What drives such decisions? Are they rooted in economic theory, strategic necessity, or ideology? Who stands to gain when tariffs go global—and who inevitably loses?

In writing this book, I sought to analyze the numbers and headlines and understand the broader narrative. Trade is not just about goods crossing borders — it is about power, influence, identity, and the reshaping of the international order. The inspiration for the title of the book, which I found in India, was during my visits to Delhi, Hyderabad, and Bengaluru. The book's title is a play on words related to "United States" — often used humorously or critically in the context of Indian television subscriptions or DTH (Direct-To-Home) services. "United Tariffs of

"India" is a slogan or nickname used informally and satirically online, especially after the TRAI (Telecom Regulatory Authority of India) introduced new tariff rules for cable and DTH services in 2019. These rules required viewers to pay separately for channels, leading to confusion and increased costs for many. That situation led to the slogan "United Tariffs of India," mocking the complicated pricing structure.

The Liberation Day tariffs marked a pivotal moment in U.S. trade history, characterized by economic conflict, legal controversies, and the impacts of global dynamics. Whether this policy results in long-term industrial revitalization or extended economic harm remains crucial in the evolving dynamics of U.S.–China relations and international trade. If you are curious about what prompted this historic move, its implications for your country or business, or the future we are moving toward, I encourage you to keep reading.

Let us dive in.

## Introduction

It is Wednesday, April 2, 2025 — a day President Donald J. Trump has already declared “Liberation Day.” In a bold move, he has announced sweeping tariffs of at least 10% on imports from 185 countries. The tariffs are even steeper for 60 nations and trading blocs with significant trade deficits with the U.S., including the European Union.

Several countries, including Vatican City, Russia, Cuba, Belarus, and North Korea, are exempt. However, others are facing the full brunt of the new policy. China, America’s second-largest exporter after Mexico, is hit hardest with a staggering 54% tariff. Sri Lanka and Myanmar follow with 44%, Bangladesh 37%, Switzerland 31%, India 26%, South Korea 25%, Japan 24%, and the EU 20%.

President Donald J. Trump framed the policy under the rhetorical guise of “economic liberation,” asserting that foreign nations had unfairly capitalized on America’s open markets while maintaining closed or protectionist economies themselves. Citing national security and industrial sovereignty, he invoked the **International Emergency Economic Powers Act (IEEPA)**, a statute typically reserved for national emergencies, to justify bypassing congressional approval and implementing the tariffs by executive order.

Not surprisingly, markets worldwide reacted swiftly. Major U.S. investment banks, such as JPMorgan Chase & Co., predict a global recession in 2025. Some economists estimate that the new tariffs could cost American households up to \$5,000 yearly and drive even more inflation. Following the White House Rose Garden announcement, stock markets plummeted, wiping billions in value. The U.S. stock market has lost nearly \$10 trillion in value since mid-February and almost \$6 trillion in just two days after Trump’s announcement of global tariffs.<sup>0</sup>

There are some exceptions. Key commodities, including semiconductors, lumber, copper, gold, and pharmaceuticals, are exempt. Energy and rare minerals that are not available domestically are also excluded. Products such as aluminum, steel, and auto components remain subject to the previous Section 232 duties and will not be impacted by the new measures.

So, how did we arrive at this point? What prompted this sudden change in trade policy? Who stands to benefit, and who will suffer? What are the long-term effects?

This book takes you behind the headlines to delve into these questions. For the 47th President of the United States, Mr. Donald J. Trump, it is all about business—something he did not have the time to complete during his first term: "We did not have the time to do the right thing, which we are doing now," he told reporters.

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## Chapter 1: The Art of the (Trade) Deal

This chapter examines how tariffs have transformed from traditional economic tools into powerful political instruments, organized around four main themes: their role in shaping market dynamics and protecting domestic industries; President Donald Trump's shift from multilateralism to bilateral trade negotiations; the historical roots of mercantilism and its contemporary variants like neo-mercantilism; and the broader geopolitical implications of America's changing trade policies in a more multipolar world. Despite often being regarded as a dry or technical subject limited to economists and trade lawyers, tariffs significantly affect everyday life; they impact the price of consumer goods such as smartphones, dictate where cars are manufactured, influence brand viability, and affect job security.<sup>1</sup> Although they target corporations, tariffs ultimately impose burdens on consumers, resulting in higher prices, inflation, and the risk of economic downturns, thereby underscoring trade policy's profound political and personal implications.<sup>2</sup>

Tariffs have a long-standing tradition in U.S. government policy, dating back to the very first Act of Congress (The Tariff Act of 1789). This legislation imposed taxes on various imports to the United States, resulting in higher buyer prices. During that period (in the 1780s and 1790s), the prevailing view was that the new federal government would primarily be financed through such tariffs, with little to no reliance on other forms of revenue taxation.<sup>3</sup>

To contextualize current developments, we must revisit Monday, January 23rd, 2017, when President Trump<sup>4</sup> fulfilled his campaign pledge and formally withdrew from the Trans-Pacific Partnership (TPP), an agreement former President Obama negotiated between 12 countries. He said: "We are going to be negotiating one-on-one, and we will notice if anybody mistreats anybody... and if they do, we will have a deal that we can get out of in 30 days... it will happen fast." His withdrawal was more of a formality since Congress had no intentions of final approval over the past seven years of negotiations. Mr. Trump, who wants to drive manufacturing back in the U.S., communicated that Trade Deals would be negotiated with "all other nations," and quote, "We are going to end the ridiculous trade deals that have taken everybody out of our country and companies out of our country..." the Republican President said as he met with union leaders in the Roosevelt Room at the White House. These quotes all matter in understanding the rest of the happenings.

The rest of the world's reactions to these tariffs were surprising. Corporations and SMEs must understand that politics and economics are interwoven, especially in the U.S., where foreign policy is American Corporate Policy. Secondly, there is a tremendous difference between the Trump I (Jan 2017- Jan 2021) Administration and the Trump II Administration (Jan 2025- Jan 2029). The second Administration is fully prepared and has a plan, which was not the case with the Trump I Administration. The Plan is called “Project 2025”<sup>5</sup> by the Project 2025 movement, closely related to the Heritage Foundation. The Heritage Foundation is a conservative, right-leaning think tank based in Washington, D.C., influential in shaping U.S. public policy and Republican Party platforms. Prominent past members are Brian Tracy and Steve Forbes. Project 2025 (supported by over 100 organizations) aims to abolish the Deep State and return the government to the people through rebuilding executive power!<sup>6</sup> They favor more authority in the hands of the President, restricting immigration and border control, overhauling climate and energy regulations (favoring fossil fuels), and rolling back LGBTQ+ and DEI (Diversity, Equity, Inclusion) Initiatives. They also favor conservative education reform and the strengthening of law-and-order policies. It is related to Trump II since many former officials are drafting the project. The major architect of Project 2025 is Mr. Russell Thurlow Vought (pronounced “vote”). He was Deputy Director and Director of the Office of Management and Budget during Trump I. He was re-nominated for this position in February 2025. Mr. Vought describes himself as a Christian nationalist.<sup>7</sup> The movement has published its policy book, "Mandate for Leadership." Chapter 26 is related to Trade; Dr. Peter Navarro writes one part, and the second part is by Kent Lassman.<sup>8</sup> Interestingly, Navarro refers with citations to Warren Buffett (twice), cites himself at the OTMP, and holds a plaidoyer for the unfair and nonreciprocal trade institutionalized in the WTO (with a seat in Geneva, Switzerland). Secondly, take the necessary measures against “communist China’s economic aggression and the quest for world domination.” The trade system operated by the WTO will no longer have a long life, and the fight for a unipolar or multipolar world will continue.

### **1.1. President Trump's worldview on trade: Bilateralism versus multilateralism**

From the beginning, Trump viewed international trade deals not as partnerships but as contracts meant to be renegotiated, one-on-one, directly, and in America's interest. His perspective sharply conflicted with the multilateral frameworks the U.S. had spent decades

establishing, including the World Trade Organization, the North American Free Trade Agreement (NAFTA), and the Trans-Pacific Partnership (TPP). “I prefer bilateral deals,” Mr. Trump stated (in a personal communication in January 2017), “You can terminate them quickly if someone misbehaves.”<sup>9</sup>

Tariffs have existed throughout history. They have evolved from a revenue tool in ancient times to a protective policy during industrialization, and now to a strategic instrument in modern economic diplomacy or economic warfare. They have been utilized to shape industries, protect economies, and sometimes even start trade wars. Ancient civilizations such as Egypt, Greece, and the Roman Empire primarily used tariffs as a source of revenue. For instance, the Roman Empire imposed customs duties on goods entering or leaving Rome as a city.<sup>10</sup> In Medieval Europe, local lords or city-states imposed tariffs to regulate trade and generate income, particularly along trade routes such as the Silk Road.

Mercantilism dominated economic thought from the 16th to the 18th centuries. Unlike some other economic theories, mercantilism was not invented by anyone.<sup>11</sup> Early influencers associated with the theory include Jean-Baptiste Colbert, from France, who advocated for state intervention, protectionism, and industrial self-sufficiency. Thomas Mun from England authored "England's Treasure by Foreign Trade" (1664), arguing for trade surpluses to enhance national wealth. A third key thinker, Antonio Serra from Italy, posited that manufacturing and trade could generate wealth beyond gold and silver. Later in the 18th century, critics such as Adam Smith, in "The Wealth of Nations" (1776), began to refer to these concepts collectively as “mercantilism” and offered critiques of them. The mercantilist theory emphasizes maximizing exports while minimizing imports. Tariffs were employed to protect domestic industries and to augment national wealth. As nations frequently perceived wealth as finite, they endeavored to maximize exports while minimizing imports. Tariffs were utilized to safeguard domestic industries and foster national wealth, often as components of colonial policies, with notable examples including Spain, the Netherlands, and Portugal. Spain extracted significant amounts of gold and silver from its former colonies, especially from what is now Mexico and Peru. This initially allowed Spain to become extremely wealthy. Over time, Spain realized it had become overly dependent on precious metals from the Americas rather than developing a more balanced and sustainable economy. The Spanish Crown established the Casa de Contratación (House of Trade) in 1503,

based in Seville, to manage and control the flow of wealth from its colonies. This powerful royal institution oversaw and regulated all trade and navigation between Spain and its American colonies during the Age of Exploration. By centralizing these operations, the Casa strengthened the Crown's grip on colonial wealth and helped Spain maintain its dominance over transatlantic trade throughout the 16th and early 17th centuries. However, as corruption and inefficiencies grew, the institution's influence waned, and in 1717, trade control was officially transferred to **Cádiz**.<sup>12</sup> In the 17th century, the Dutch Republic established a formidable merchant empire, primarily through the operations of the **Dutch East India Company (Vereenigde Oostindische Compagnie or VOC)**.<sup>13</sup> Founded in 1602, the VOC was granted a 21-year monopoly by the States General of the Netherlands to conduct trade and colonization activities in Asia. This arrangement exemplified mercantilist principles by ensuring that the economic benefits of overseas trade were concentrated within the state. Although the VOC operated with a capitalist ethos, emphasizing profit and shareholder value, it functioned as a state-backed monopoly. This is what we know today as a corporation. The Dutch government endowed the company with sovereign powers, including the authority to wage war, negotiate treaties, and establish colonies. This fusion of governmental authority and commercial enterprise aligned with mercantilist strategies to strengthen national economic control and maximize profits from international trade. Similarly, Portugal employed mercantilist policies to exploit its colonies, such as Brazil, Angola, and Goa, by controlling vital trade routes, particularly those involving spices and sugar. The **Estado da Índia (Portuguese State of India)**<sup>14</sup> The administrative body was established to oversee Portugal's colonial trade and to maintain naval dominance in the Indian Ocean. This institution managed a network of fortresses and trading posts, facilitating Portugal's monopoly over the lucrative spice trade, ensuring that economic gains were redirected to the Portuguese Crown. Through these mechanisms, Spain, the Dutch Republic, and Portugal exemplified mercantilist practices by integrating state power with commercial enterprises to control trade routes, monopolize valuable commodities, and enhance national wealth.

In the fledgling years of the United States, long before the modern income tax was conceived, **tariffs were the lifeblood of federal finance**. They were not just a fiscal tool, a political statement, and a pillar of national strategy. When Congress passed the **Tariff Act of 1789**, it was not simply enacting a revenue mechanism. It was laying the groundwork for an

independent economic identity. One of the first significant legislative actions under the new Constitution, this act imposed duties on various imported goods. It was designed to raise money for the federal government and protect the nascent American industries struggling to find footing in a global marketplace dominated by European powers. As the 19th century progressed, the United States, like Germany and other rising industrial nations, increasingly embraced protective tariffs as an economic development tool. The rationale was straightforward: shield domestic industries from foreign competition until they were strong enough to compete globally. This protectionist approach became central to what economists call the “infant industry argument,” a principle famously supported by American statesman and economist Alexander Hamilton<sup>15</sup> and later championed by German economist Friedrich List.<sup>16</sup> Tariffs became both an economic instrument and a political lightning rod. They sparked fierce debates between agricultural and industrial interests, the North and South, and free traders and protectionists. Yet, through all the contention, one thing remained constant: **tariffs were vital to American nation-building**. They filled the government’s coffers and provided a form of industrial scaffolding for the emerging factories, ironworks, and textile mills that would later power the United States into the Industrial Age.

The early American tariff story is more than just a tale of trade policy; it is a foundational chapter in creating a national economy. The 20th century was a turbulent chapter in the history of global trade, defined first by economic nationalism and later by an unprecedented pivot toward liberalization. At the center of this transformation stood tariffs, not just economic tools but symbols of a nation’s posture toward the world. In the aftermath of **World War I**, the United States, gripped by isolationist sentiment and economic anxiety, turned inward. That anxiety crystallized in the **Smoot-Hawley Tariff Act<sup>17</sup> of 1930**, a dramatic and controversial legislation that sharply raised tariffs on over 20,000 imported goods. Intended to protect American farmers and manufacturers from global competition, it had the opposite effect. Instead of insulating the U.S. economy, it sparked a wave of retaliatory tariffs from America’s trading partners, helping to cripple global trade just as the world was sliding more profoundly into the Great Depression. Historians and economists<sup>18</sup> have since considered Smoot-Hawley a cautionary tale of economic shortsightedness. It is a classic example of how misapplied protectionism can deepen global downturns rather than alleviate them. Douglas A. Irwin,<sup>19</sup> in his book *Peddling Protectionism*:

*Smoot-Hawley and the Great Depression*, provides a comprehensive examination of the political and economic consequences of the act. He argues that while the tariff was intended to shield domestic industries, it ultimately harmed the U.S. economy by stifling international trade and provoking foreign retaliation. This historical episode underscores the potential pitfalls of protectionist policies, particularly in a globally interconnected economy. The lessons from the Smoot-Hawley Tariff highlight the importance of considering the broader international ramifications of domestic trade policies. In today's context, where supply chains are deeply intertwined across borders, implementing unilateral tariffs can lead to similar retaliatory measures, disrupting trade flows and economic stability. Policymakers are thus reminded of the value of multilateral cooperation and the risks associated with isolationist trade strategies.

A new vision emerged from the ashes of the two World Wars: cooperation and open markets. With the memory of interwar economic fragmentation still fresh, the international community began to chart a new course. In 1947, 23 countries signed the General Agreement on Tariffs and Trade (GATT),<sup>20</sup> marking the start of a decades-long project to systematically reduce tariffs and barriers to trade. GATT was more than a treaty—it was an **economic liberalism philosophy**. Rooted in the belief that economic interdependence could foster peace, it laid the foundation for a post-war global order in which commerce would become a tool for diplomacy and development, not conflict. The city of Geneva (Switzerland) was already a neutral and respected center for diplomacy, hosting organizations like the League of Nations and many United Nations agencies. This liberalization journey culminated in creating the World Trade Organization (WTO),<sup>21</sup> the successor of GATT in 1995. This formal and far-reaching institution transformed GATT's framework into a global rules-based system. With the WTO, trade negotiations became more structured, disputes more regulated, and the push for open markets more ambitious. What began in the early 20th century as an era of tariff-fueled trade wars had, by century's end, evolved into a world striving, though never without friction, for freer, fairer global exchange. As the 21st century unfolded, the dominant global trend was clear: a commitment to low tariffs and open markets. Most nations, guided by decades of trade liberalization and the institutional framework of the World Trade Organization (WTO), embraced free trade as a path to growth, innovation, and interdependence. Once central to economic policy, tariffs had been relegated to a more limited role in most advanced economies.

However, this consensus has not gone unchallenged. While many countries continued to support liberalized trade, the post-2008 global financial crisis and rising concerns over inequality, national security, and geopolitical competition sparked a resurgence of economic nationalism in some quarters. A turning point came in 2018, when the United States, under President Donald Trump, launched what became widely known as the U.S.–China trade war.<sup>22</sup> Frustrated by trade imbalances, allegations of intellectual property theft, and concerns over industrial policy, the U.S. imposed tariffs on hundreds of billions of dollars’ worth of Chinese goods. China swiftly retaliated with tariffs of its own, targeting key American exports. This high-stakes tariff conflict marked a return to protectionist strategies, challenging the long-standing assumption that free trade was always in a nation’s best interest. The ripple effects were felt across global supply chains, markets, and diplomatic relations, forcing companies and policymakers to grapple with a new era of strategic trade policy, where tariffs are once again wielded as tools of leverage and negotiation. In today's complex geopolitical climate, tariffs no longer symbolize protection or revenue. They represent power, politics, and positioning in a multipolar world economy.

**1.2. Is Mercantilism Still Relevant Today?**

Not in its original, 17th-century form. We are no longer in an age where nations obsess over hoarding gold or blocking imports entirely. Nevertheless, the spirit of mercantilism has not vanished; it has evolved. Today, we see echoes of these old ideas in what economists call **neo-mercantilism**<sup>23</sup>. Although the global economy has shifted dramatically since the days of mercantile empires, **many modern trade and economic strategies still carry a mercantilist flavor**. Below are some current practices that reflect this mindset:

<b>Modern Practice</b>	<b>Mercantilist Vibe</b>
<b>Export-led growth strategies</b>	Countries such as <b>China, Germany, and Japan</b> focus on exports to drive GDP.
<b>Trade surpluses = strength</b>	A belief that running trade surpluses is a sign of national economic health, just like the mercantilists believed.
<b>Currency manipulation</b>	Maintaining an undervalued currency to reduce export costs (e.g., China in the 2000s).

Modern Practice	Mercantilist Vibe
<b>Tariffs and protectionism</b>	The <b>U.S.–China trade</b> war involved aggressive tariffs reminiscent of early mercantilist tactics.
<b>Strategic national industries</b>	Governments frequently protect sectors such as <b>defense, technology, and agriculture</b> in the interest of national security.  (Author’s Compilation)

These strategies embody a contemporary interpretation of traditional mercantilist thinking: maximize exports, reduce dependence on foreign goods, and utilize state power to bolster the national economy.

**What is Different Now?**

Despite these similarities, the global landscape has changed significantly. Free trade and global supply chains now dominate the economy, and most products are made with components sourced from various countries. International institutions such as the World Trade Organization (WTO) in Geneva, Switzerland, aim to prevent protectionist spirals and promote fair competition. Contemporary economists agree that sustainable economic growth stems from innovation, productivity, and openness, rather than from restricting imports or stockpiling goods wealth.<sup>24</sup> So, is mercantilism still with us? Not in name, but in practice, yes, in many ways. Neo-mercantilist policies shape how nations compete and cooperate in the global economy. They remind us that while the economic playbook may change, the motivations behind it, power, security, and national advantage, remain remarkably consistent.

**1.3. Bilateralism versus Multilateralism in U.S. Trade History**

Whereas traditional trade policy emphasized stability and predictability through rules-based global systems, Trump favored bilateral agreements directly between two countries, with the U.S. in the lead. This shift was not merely tactical; it was philosophical. "I like to have bilateral deals," Trump said in 2017. "You can terminate them very quickly if somebody misbehaves."<sup>25</sup> To Trump, multilateral agreements diluted American power. They constrained America with

concessions and hindered its ability to retaliate or dominate. Bilateralism gave him what he valued most: control and flexibility within rules-based global systems, favoring bilateral deals.

#### **1.4. How campaign promises shaped the tariff policy**

On the campaign trail in 2016, Trump's message was uncomplicated and emotionally charged: "America First."<sup>26</sup> Trade, he claimed, had become a mechanism through which America was being "taken advantage of." Factories had closed, jobs had disappeared, and global elites and bad trade deals had stabbed the working man in the back. He promised the following: to re-negotiate or exit NAFTA; to punish China for the trade deficits and the intellectual property theft; to impose tariffs to protect American steel, aluminum, and autos; to bring manufacturing jobs back home and to reduce the U.S. trade deficit. In the Oval Office, he delivered immediately and energetically. Tariffs were his first tool of choice. In 2018, he imposed tariffs on steel (25%) and aluminum (10%) for national security.<sup>27</sup> Later, he launched a full-fledged trade war with China, imposing tariffs on hundreds of billions of items. NAFTA was ended and replaced by the USMCA,<sup>28</sup> a more Trump-titled deal. Unlike past politicians, Trump did not fear protectionism. He embraced it. Tariffs were no longer a threat; they had become a policy. The drill will be conducted again in 2025.

#### **1.5. Political motivations behind economic decisions.**

From the start, the Trump I Administration perceived international trade agreements as not cooperation but negotiations to be renegotiated, one-on-one, eyeball-to-eyeball, and in America's favor. His worldview contradicted the multilateral frameworks the U.S. had spent decades building, from the World to Trump. Multilateral agreements diluted U.S. leverage. They tied America up with concessions and restricted its ability to retaliate or overwhelm. Conversely, Bilateralism provided Mr. Trump what he cared most about: flexibility and Control.<sup>29</sup>

#### **From Campaign Trail to Oval Office: Promises Delivered Through Tariffs**

On the campaign trail in 2016, Trump's message was clear and emotionally charged: "America First." Trade, he claimed, had become a tool through which the U.S. was being

“ripped off.” Factories had closed, jobs had disappeared, and global elites and bad trade deals had betrayed the working class. He promised to:

- Rework or withdraw from NAFTA.
- Punish China for trade imbalances and intellectual property theft.
- Impose tariffs to protect American steel, aluminum, and autos.
- Reshore manufacturing jobs and reduce the U.S. trade deficit.

In the Oval Office, he delivered swiftly and boldly. Tariffs became his weapon of choice. Unlike previous politicians, Trump did not shy away from protectionism; he embraced it. Tariffs were no longer seen as a threat; they were policies.

### **Politics First, Economics Second**

To understand Trump’s tariffs, one must know they were as much about **politics** as **economics**.

In traditional economics, tariffs are often viewed with caution. They raise prices, distort markets, and invite retaliation. However, Trump was not trying to appease economists. He spoke directly to Pennsylvania, Michigan, Ohio, and Wisconsin voters—places hollowed out by decades of industrial decline. Tariffs became a political message: *“I am fighting for you. I am standing up to China. I am bringing your jobs back.”*<sup>30</sup> There are five reasons why the current Trump Administration introduced these tariffs: he wants Americans to buy American-made products. Secondly, to increase jobs in U.S. manufacturing. Thirdly, tariffs are taxes, so the Federal government has more revenue to cut taxes. The fourth idea is to strengthen the U.S. dollar. While tariffs may be controversial in political and economic circles, they can significantly influence foreign exchange markets. U.S. tariffs tend to **boost the dollar** in the short term.<sup>31</sup> Here is why. When the U.S. government imposes tariffs on imported goods, those goods become more expensive for American consumers and businesses. This price increase typically reduces the volume of imports as domestic buyers shift their preferences toward local alternatives or reduce consumption. A second way tariffs can lift the dollar is by influencing the U.S. trade balance. Tariffs are designed to **reduce the trade deficit** by discouraging the importation of foreign goods and encouraging domestic production.<sup>32</sup> A shrinking trade deficit means less money flows from the U.S. to pay for foreign products. In theory, this improved trade position

boosts confidence in the U.S. economy and its currency. Foreign investors may view this as a sign of economic resilience, prompting increased investment in U.S. assets, which requires the purchase of U.S. dollars. Take, for example, the U.S. trade relationship with China. If tariffs significantly cut imports from China, fewer dollars are exchanged into the Chinese yuan, reinforcing the USD's strength against the RMB. Thirdly, tariffs can also have indirect monetary effects. As tariffs raise import prices, inflationary pressures may emerge. In response, the Federal Reserve could raise interest rates to curb inflation. Higher interest rates make U.S. assets, from government bonds to money market funds, more attractive to global investors since they offer better returns. This dynamic increases the demand for the dollar, as investors must purchase USD to invest in these assets. At the same time, geopolitical uncertainty caused by trade tensions may drive investors to seek safe-haven assets, and the dollar, as the world's reserve currency, perfectly fits that bill. This surge in demand for the dollar further amplifies its strength. The final reason is that you can use a tariff to pressure other states to obtain better trade conditions. In practice, the tariffs often came with economic costs. The American farmers, hit by Chinese retaliation, required multi-billion-dollar bailouts or subsidies. During President Donald Trump's first term, the U.S. government allocated approximately **\$28 billion** in aid to American farmers adversely affected by the U.S.-China trade war. This financial support was primarily distributed through the **Market Facilitation Program (MFP)**,<sup>33</sup> which provided direct payments to producers of commodities like soybeans, corn, and pork. The MFP aimed to compensate for the significant losses incurred due to China's retaliatory tariffs on U.S. agricultural exports. In 2019 alone, the program disbursed \$14.4 billion across 644,000 farming operations, with an average payment of \$22,312 per operation. In addition to the MFP, the U.S. Department of Agriculture implemented the **Food Purchase and Distribution Program**, which allocated approximately \$2.3 billion to purchase surplus agricultural commodities impacted by trade tariffs. These purchases included pork, dairy, and apples, which were then distributed to food banks and nutrition assistance programs. Furthermore, U.S. manufacturers complained of rising input costs. The supply chains were disrupted, and markets rattled. It is important to note that these direct payments might have violated the "amber box" ruling of the WTO. This says that subsidies that distort products and trade potentially violate WTO rules, although a congressional research paper from Mr. Schnepf<sup>34</sup> says no. However, none of that shook Trump's political base. For them, the pain proved that he was finally acting, even if it required short-term sacrifice. In Washington,

tariffs became a loyalty test. Critics were labeled as globalists or weak negotiators, while supporters were granted airtime and influence.

### **Tariffs are aimed at China First!**

A comprehensive analysis of this issue is beyond the scope of this chapter. The United States has dominated the world since World War II. It is important to note that this book discusses only import tariffs, while export tariffs also exist. Countries impose export tariffs to generate revenue, protect domestic industries from foreign competition, and potentially exert economic leverage or address unfair trade practices. This topic is not covered in this book. China is the main target of the import tariffs for two reasons: the end of U.S. hegemony and the perspective of neoconservatives. The U.S. emerged as one of the two superpowers after the Second World War, alongside the Soviet Union. It expanded its soft power by creating institutions such as the United Nations (UN), the World Bank, the International Monetary Fund (IMF), and NATO. The U.S. dollar became the world's reserve currency. The foreign exchange (forex) market is the largest in the world, with an average trade volume of \$ 7 trillion.<sup>35</sup> The top 10 most traded currencies, which are involved in nearly 90% of all forex transactions, are:

1. The U.S. Dollar (USD) is involved in about 88% of all forex transactions
2. The Euro (EUR) represents approximately 31% of the daily trading volume.
3. The Japanese Yen (JPY) is a major reserve currency, representing 17% of daily volume.
4. The British Pound (GBP, 13%), the Swiss franc (CHF, 5%), and other currencies follow.<sup>36</sup>

From 1991 to 2008, the U.S. enforced its unipolarity. In 1991, the Soviet Union collapsed, and the U.S. became the world's sole superpower. President George H. W. Bush's help to Michael Gorbachev is highly appreciated in Western countries but not in the former Soviet Union. The U.S. continued to promote liberal democracies worldwide (e.g., Gulf War, Kosovo, Afghanistan, Iraq) and globalization. It helped to spread American culture and American companies globally.

We can identify several dimensions of U.S. hegemony. It is evident in the military power of the U.S., which possesses technologically advanced military weapons, a global network of

bases, and acts as a worldwide policeman in both the Middle East and the Asia-Pacific region. Economic influence is exemplified by its status as the world's largest economy (or second, depending on how you measure it). Wall Street and U.S. stock markets dominate global finance, facilitating the funding and expansion of companies like Apple, Microsoft, Alphabet, and Amazon, which significantly shape the digital economy. Another dimension is political and institutional leadership, exemplified by organizations such as the UN, NATO, and the G7 (the Association of the Richest Countries of the World). The final dimension is cultural hegemony. English, which is not my native language, is the global lingua franca. Through media (e.g., CNN, CNBC), entertainment (Hollywood, Netflix), education (Harvard, Stanford, Wharton, Columbia), and lifestyle trends (working from home, wearable tech, veggie burgers), American values are disseminated around the world. Critics argue that U.S. interventions serve the U.S.'s interests under the guise of promoting democracy; they consider it a form of imperialism. This dynamic enables the military-industrial complex to test and sell its weapons while providing young people with their first job in the American military. There are also accusations of hypocrisy in foreign policy (e.g., supporting specific authoritarian regimes, like Chile from 1973-1990 under Pinochet). This results in double standards. Despite increasing tensions between the US and China, Washington and Beijing remain major trading partners.<sup>38</sup>

According to data from the Office of the United States Trade Representative,<sup>39</sup> the total goods trade between the US and China stood at an estimated \$582.4 billion in 2024. US goods exports to China totaled \$143.5bn, and US goods imports from China totaled \$438.9bn. The upshot is that America's trade deficit with China was \$295.4bn last year, marking a 5.8 percent rise (\$16.3bn) over 2023.

China is the U.S.'s third-largest trade partner, after Mexico and Canada. Nevertheless, the US has been slowly weaning itself off Chinese imports. Chinese goods accounted for 13.3 percent of U.S. imports in 2024, down from a peak of 21.6 percent in 2017. Still, China is one of the top suppliers of goods to the US, from washing machines and TV sets to clothing. The US Department of Commerce<sup>40</sup> calculated that mechanical appliances (mainly low to mid-range technology products) made up 46.4 percent of all U.S. imports from China in 2022.

## **1.6. Domestic Fatigue and the Burden of Empire**

For decades, the United States has shouldered the burden of global leadership, projecting its military, economic, and ideological influence across continents. From the prolonged conflicts in Iraq and Afghanistan to its vast network of bases and alliances, the U.S. has consistently aimed to uphold global order. However, this far-reaching role has come at a significant cost—human, economic, and political. The notion of “imperial overstretch,” once theorized by historians,<sup>41</sup> has become a reality for many Americans. While initially driven by a sense of purpose, the wars in the Middle East gradually fostered widespread disillusionment. As casualties increased and strategic victories seemed out of reach, the American public grew tired of the nation's role as a global enforcer. This weariness paved the way for the rise of the “America First” doctrine under President Donald Trump. It reflected a broader populist sentiment to prioritize domestic issues over international commitments. Healthcare, crumbling infrastructure, economic inequality, and the widening divide over cultural values increasingly dominate political discussions. Foreign policy, once a unifying platform, has become yet another battleground in the domestic fight over national identity and priorities.

## **1.7. Economic and Political Shifts in a Multipolar World**

The global landscape has experienced a dramatic shift. No longer the undisputed hegemon of the post-Cold War era, the United States now finds itself navigating a multipolar world. Emerging powers such as China and India, along with assertive middle powers like Turkey and Brazil, as well as a revitalized European Union, challenge America's ability to define the rules of global engagement unilaterally.

While the U.S. once championed free trade and economic liberalization, segments of the American population now view globalization as a source of economic insecurity.<sup>42</sup> Job losses from outsourcing, the decline of manufacturing sectors, and increasing economic inequality have sparked skepticism about the principles the U.S. once promoted. As global economic power becomes more dispersed, America's ability to influence the international order is increasingly limited.

## **1.8. A Crisis of Confidence in Global Institutions**

Compounding this shift is a growing crisis of legitimacy in the international institutions that the U.S. helped create. Organizations such as the United Nations, NATO, and the G7/G20 face persistent gridlock and declining relevance amidst complex global crises. From the UN Security Council's paralysis over Syria and Ukraine to criticisms regarding NATO's unequal burden-sharing, confidence in multilateralism is diminishing. American policymakers often express frustration with the limitations imposed by these institutions, which were ironically designed to reflect and preserve U.S. leadership. Now, many Americans and observers abroad question whether these structures still serve global interests or primarily function to entrench American dominance.

## **1.9. The Contradictions of Hegemony: Hypocrisy and Resistance**

The gap between American rhetoric and action has become a potent source of global backlash and loss of confidence.<sup>43</sup> While the United States frequently frames its foreign policy as a defense of democracy and human rights, its long-standing support for authoritarian regimes undermines these claims. This perceived hypocrisy fuels accusations of imperialism, particularly from countries in the Global South. Critics<sup>44</sup> argue that American foreign policy too often reflects national interest cloaked in moral language. The selective application of democratic values undermines the credibility of U.S. leadership and widens the gap between the West and the rest.

## **1.10. Cultural and Technological Contestation**

Despite its declining political influence, American cultural and technological dominance remains formidable. English remains the lingua franca of business and diplomacy; Hollywood shapes global narratives; Silicon Valley giants like Google and Apple maintain significant influence. However, even this realm of dominance is facing challenges. Chinese platforms like TikTok, regional media networks such as Al Jazeera (based in Qatar), Russia Today (RT) (from Moscow), and China Global TV Network (CGTN) (from Beijing) are establishing alternative spaces. Once viewed as universally desirable, Western educational and ideological models now

encounter resistance and reinterpretation across diverse cultural contexts. A truly multipolar world is emerging, not only in terms of power but also in values and norms narratives.

### **1.11. Strategic Recalibration, Not Retreat**

While some view these developments as signs of American decline, others see them as evidence of strategic recalibration. Instead of completely withdrawing from global affairs, the U.S. takes a more selective and calculated approach to international engagement. Under Presidents Obama, Trump, and Biden, there has been a consistent effort to pivot toward the Indo-Pacific, a region regarded as central to 21st-century geopolitics. Alliances such as the QUAD<sup>45</sup> (with Japan, India, and Australia) and AUKUS<sup>46</sup> (with the UK and Australia) reflect this strategic realignment toward countering China's rise. Moreover, about Europe, we do not consider that anymore since it has been traditionally a continent with much bloodshed. Simultaneously, the U.S. is rebuilding frayed alliances, rejoining multilateral agreements like the Paris Climate Accord,<sup>47</sup> and reaffirming its commitment to NATO. This marks a shift from universal interventionism to pragmatic multilateralism, a strategy designed not to dominate every theater but to preserve influence where it matters most. Overall, America does not want to give everything up. The cost-benefit balance has shifted, and the world has changed as well! General Cavoli, the Commander of U.S. European Command, stated during a U.S. Senate Committee on Armed Services hearing in April 2025: "We want to be in charge, but the Europeans need to pay for NATO."<sup>48</sup>

### **1.12. Trump's Communications Strategy and Trade Diplomacy**

Donald J. Trump, experienced as a TV star, understood that narrative drives politics. Each round of tariffs was framed as a negotiation tactic—the Art of the Deal.<sup>49</sup> He publicly outraged leaders with imposed tariffs. Afterward, he invited them to the table to talk “like friends.” This strategy rattled allies and adversaries alike. Foreign leaders reacted not to policy briefings but to early-morning tweets. Investors learned to read markets through a new lens: “*What did Trump say today?*” While traditionalists feared the erosion of trust in global trade institutions, Trump was unfazed. His calculus differed: If the U.S. is the biggest economy, why not use that power? Control and flexibility are the key priorities of the current Trump

Administration. Tariffs, long a foundational tool of economic nationalism, are often justified to protect domestic producers, generate state revenue, and encourage self-sufficiency. Historically, tariffs have been particularly effective in agricultural or pre-industrial economies where the main goal is to protect local farmers from volatile global commodity prices or dumping by wealthier, technologically advanced nations. In these contexts, tariffs act as a buffer against external shocks, helping to maintain food security and support rural livelihoods. They also serve as a relatively straightforward fiscal tool for states with limited administrative capacity to collect income or corporate taxes, thus providing essential government revenue. However, as economies transition into industrial and subsequently post-industrial forms, the effectiveness of tariffs becomes more complex and arguably diminished. In an industrial economy, where production is more diversified and embedded in global supply chains, tariffs can increase the costs of intermediate goods, disrupt the availability of inputs, and reduce competitiveness. For instance, imposing tariffs on imported steel or semiconductors may protect one domestic industry (e.g., basic manufacturing) while negatively affecting others (e.g., auto or electronics sectors that depend on those inputs). The interconnectedness of industries in a modern economy makes blanket tariff policies blunt instruments poorly equipped to handle the complexities of industrial production ecosystems. The challenges are even more pronounced in a post-industrial economy characterized by a dominant service sector, high levels of financialization, and value creation through intellectual property, innovation, and digital platforms. In this environment, tariffs do little to protect or stimulate the primary drivers of economic growth. Unlike physical goods, services, and digital products, which face fewer border controls and rely more on regulatory standards, data flows, and cross-border interoperability. Attempting to impose tariffs in a post-industrial context often highlights a disconnect between policy tools and economic realities. While the symbolic appeal of tariffs to defend national interests remains strong, their practical effectiveness diminishes as the economy becomes less reliant on physical trade in goods. Additionally, in a globalized economy where multinational corporations distribute production across continents, tariffs can be counterproductive. They may lead firms to relocate supply chains or seek tariff-free zones, resulting in unintended consequences such as capital flight, job losses, or retaliatory actions from trading partners. Industrial and post-industrial economies are typically deeply integrated into multilateral institutions and legal frameworks (like the WTO, regional trade agreements, and bilateral investment treaties), where tariffs risk breaching

commitments and provoking disputes. However, asserting that tariffs hold no value in advanced economies would be overly simplistic. In specific strategic sectors, such as green technologies, critical minerals, or national defense, targeted tariffs may still serve as temporary instruments for industrial policy or geoeconomic leverage. Nonetheless, these must be selective, temporary, and supported by broader strategies: investments in innovation, workforce development, R&D incentives, and strategic partnerships in trade practices.

## **Chapter Conclusion**

President Donald J. Trump did not just modify the U.S. approach to international trade; he fundamentally reoriented it. His presidency departed from decades of multilateral cooperation and liberalization, replacing it with a bold embrace of bilateralism, unilateral tariffs, and economic nationalism. Under Trump, trade was no longer seen as a shared global project but a strategic tool for advancing American power and reshaping international relations. Once viewed as blunt instruments of protectionism or simple revenue generators, tariffs have reemerged as central U.S. foreign and economic policy components. This resurgence is driven by economic factors and political imperatives, addressing voter discontent, reasserting industrial capacity, and confronting perceived adversaries, particularly China. Trump's tariffs reflect a broader shift toward assertive, transactional statecraft, where economic leverage is used to extract concessions and signal strength. The legacy of past policies, especially the Smoot-Hawley Tariff Act of 1930, provides important lessons. Then, as of now, protectionist measures have led to a wave of retaliation, disrupted global trade, and deepened economic hardship. Today's more interconnected world is even more vulnerable to such shocks. The historical record advises caution: isolationist measures may score political points in the short term but often result in long-term economic costs. Looking ahead, the global trade landscape is becoming increasingly multipolar. Emerging powers like China and India assert greater agency in setting the terms of exchange, while middle powers and regional blocs are also gaining influence. In this evolving context, the U.S. cannot dictate trade rules unilaterally without facing resistance. Instead, the trajectory of trade policy will likely involve a complex mix of strategic protectionism, selective cooperation, and geopolitical bargaining. Tariffs will continue to serve as instruments of negotiation, not merely economic policy, reflecting deeper contests over global influence and national sovereignty. During Trump's first trade war with China in 2018, the U.S.-China

Business Council (USCBC)<sup>50</sup> estimated that 245,000 U.S. jobs were lost. What began as a "deal" has now become a doctrine. Trump's tariff-first approach has redefined the terms of engagement in global commerce, ensuring that trade policy remains an economic tool and a political frontline in the battle for 21st-century power. Can the job losses be recuperated with the reindustrialization of the United States?

The next chapter focuses on the *reindustrialization of the United States*—a structural transformation that has reshaped the nation's economic landscape over the past several decades. By examining the decline of domestic manufacturing, shifts in employment patterns, and the socio-political consequences of industrial hollowing, we will explore how these developments have influenced America's economic identity and strategic positioning in the global context order.

## Chapter 2: Reindustrialization of the USA

The reindustrialization of the United States refers to the strategic effort to revive domestic manufacturing capabilities, restore industrial employment, and reduce reliance on foreign supply chains, particularly in critical sectors. This chapter examines this process's various dimensions and contradictions in the current American context. It is organized around key themes that affect the feasibility and outcomes of reindustrialization: high labor costs and automation, demographic and skills-related labor shortages, trends in foreign direct investment, and the disconnect between political rhetoric and economic reality. While policymakers often depict reindustrialization as a remedy for economic dislocation and political dissatisfaction in deindustrialized regions, this chapter contends that structural economic forces, such as global cost competition, technological change, and labor market mismatches, limit the effectiveness of these policies. Consequently, political goals aimed at job creation and industrial revival often clash with the economic constraints that characterize today's manufacturing landscape.

In 1979, nearly 20 million (peak) Americans<sup>1</sup> made their living from manufacturing. Today, that number is closer to 12.5 million.<sup>2</sup> The key question is: How important are these voters? These voters are primarily in manufacturing-heavy regions, such as the Midwestern swing states (e.g., Michigan, Pennsylvania, Wisconsin, and Ohio). Additionally, this issue relates to identity; manufacturing jobs are closely linked to the working-class identity, particularly among white, non-college-educated voters. These voters are crucial for the Republican Party. Moreover, politicians often court these voters with promises to bring back jobs, confront trade imbalances, or safeguard domestic industries (through tariffs or subsidies). Therefore, Mr. Trump is fulfilling his campaign promises to them at the expense of the rest of the world with reindustrialization. However, this approach presents challenges.

### 2.1. High Labor Costs: A Core Challenge to Reindustrialization

One of the most significant structural barriers to reshoring manufacturing production to the United States is the high labor cost compared to low-wage economies. For decades, global production strategies have been shaped by the principle of cost arbitrage, outsourcing labor-intensive production processes to countries with substantially lower wages. This dynamic, often called "global labor arbitrage," has enabled firms to optimize cost structures and maintain competitive pricing in global markets.<sup>4</sup>

According to data from the U.S. Bureau of Labor Statistics,<sup>5</sup> the average hourly compensation cost for U.S. manufacturing workers is approximately \$45, including wages and benefits. In contrast, average hourly compensation is about **\$8.50** in Mexico and **\$6.50** in Vietnam, per estimates from the International Labour Organization<sup>6</sup> and the OECD. Although it is no longer as low-cost as it once was, China still maintains average manufacturing wages of around **\$7.50 per hour**, depending on the region.<sup>7</sup> Wages in Manufacturing in China increased to 103932 CNY/Year in 2023 from 97528 CNY/Year in 2022. Wages in Manufacturing in China averaged 24638.76 CNY/Year from 1978 until 2023, reaching an all-time high of 103932.00 CNY/Year in 2023 and a record low of 597.00 CNY/Year in 1978.<sup>8</sup> These cost differentials are among the key reasons why production has increasingly shifted to Asia and Latin America over the past three decades.

Bringing manufacturing back to the U.S. — a process often referred to as **reshoring**<sup>9</sup> — thus imposes substantial cost pressures on firms unless they can compensate for the wage gap through productivity gains, automation, or government support. In theory, automation offers a potential solution by substituting capital for labor. The deployment of robotics and artificial intelligence (AI) in manufacturing can reduce dependency on human labor, enabling firms to operate cost-competitively despite high-wage environments<sup>10</sup> However, this gives rise to a fundamental paradox. Automation reduces the number of low- and medium-skill jobs available, directly contradicting one of the main political justifications for reindustrialization: creating good-paying jobs for working-class Americans. A landmark study by Acemoglu and Restrepo<sup>11</sup> found that each new industrial robot introduced into the U.S. economy between 1990 and 2007 displaced an average of 3.3 workers per 1,000 employees, with the most significant impacts concentrated in regions heavily reliant on manufacturing. Their findings indicate that while automation can increase overall productivity, it worsens labor market inequalities, leading to regional economic dislocation. The more profound contradiction is that while automation boosts national productivity and can lead to economic gains at the national level, the distribution of these gains is highly unequal. Highly educated workers, urban innovation hubs, and capital owners benefit disproportionately. Low- and middle-skill workers face job loss, stagnant wages, and declining social mobility, particularly in rural or industrial areas. Thus, the paradox is economic and political: the promised benefits of reindustrialization do not materialize for the

demographic they are intended to support; rather than reversing inequality, automation-driven reindustrialization risks worsening existing inequity and division.

Furthermore, the paradox challenges the belief that new opportunities in emerging sectors can fully compensate for all job losses. Many displaced workers struggle to transition smoothly into high-skill roles in robotics maintenance or AI systems design. These new jobs often require different qualifications, necessitate urban relocation, or are simply fewer in number than those they replace. Retraining programs and workforce development initiatives have seen limited success, partly because the speed of technological change exceeds the adaptability of both educational systems and labor markets. The paradox highlights a fundamental policy dilemma: reconciling the technological needs of competitiveness with the social goal of inclusive economic renewal. Without planning, such as robust safety nets, targeted education, regional investment, and labor market protections, reindustrialization could become a politically convenient slogan rather than a truly transformative economic strategy. The takeaway from the automation paradox is that industrial strategy must extend beyond productivity metrics and genuinely address who benefits and suffers in the new industrial era. Additionally, many jobs created by contemporary manufacturing reshoring efforts fundamentally differ from those lost during earlier waves of offshoring. Today's factories are more likely to require specialized programming, systems integration, or mechatronics skills than traditional manual labor. This “skills-biased technological change” (SBTC) has contributed to growing wage polarization, whereby demand for high-skill workers rises while low-skill employment stagnates.<sup>12</sup>

The region mentioned in the Acemoglu and Restrepo study is likely the **Rust Belt**, a term commonly used to describe parts of the northeastern and midwestern United States, including states like **Michigan, Ohio, Pennsylvania, and Wisconsin**. These areas were once centers of heavy industry and manufacturing but have seen significant job losses due to automation, offshoring, and the decline of traditional manufacturing sectors.

In the 2024 U.S. elections, several key regions, particularly those in the Rust Belt<sup>13</sup>, were the critical battlegrounds. Historically, these areas have leaned toward the Republican Party, especially during economic disruptions caused by deindustrialization. However, in the 2020 election, some regions, including Michigan, Wisconsin, and Pennsylvania, played a pivotal role in determining the outcome. Joe Biden (Democrat) won these states after they had previously

supported Donald Trump (Republican) in 2016.<sup>14</sup> Notably, Trump was able to flip Michigan back to the Republican column in 2016, defeating Kamala Harris by 1.4 percentage points.<sup>15</sup> This made Michigan the state closest to the national results for the second consecutive election, with its voting margin just 0.1% to the left of the overall national outcome. In Wisconsin, Trump secured 49.6% of the vote, the highest percentage a Republican candidate has received since Reagan's 1984 landslide. Pennsylvania also went to Trump. According to a survey by AP Vote,<sup>16</sup> the top issue for voters in these states was the economy and jobs, with 39% citing it as their primary concern. The leading donors to the Trump campaign come from these States, e.g., Richard and Elizabeth Uihlein, who co-founded Uline in Wisconsin, donated \$93 million to pro-Trump super PACs<sup>17</sup>, or the founder of ABC Supply, Ms. Diane M. Hendricks, also from Wisconsin.<sup>18</sup> It is imperative to mention that not only did non-college degree holders or wealthy Americans vote for the Republican party, but also the realm of U.S. business. The business community supported Mr. Trump after he pledged to extend the 2017 Tax Cuts and Jobs Act and propose further reductions in corporate tax, aiming to lower the rate to 15%. He also advocated for eliminating taxes on tips, a common practice in the U.S. due to low wages, and on overtime pay, measures designed to appeal to businesses and service industry workers. Mr. Trump promised to roll back environmental regulations and support the growth of fossil fuel industries. He assured his commitment to deregulation. The business community was generally motivated by Trump's dedication to appointing industry-friendly officials and implementing policies that favored business interests. This included efforts to reduce regulatory burdens and promote a business-friendly environment. In recognition of these challenges, some governments introduced targeted subsidies, tax incentives, and infrastructure support to make domestic production more attractive. For instance, the CHIPS and Science Act<sup>20</sup> of 2022 in the U.S. allocated over **\$52 billion** to support domestic semiconductor manufacturing, including workforce development components. However, while such programs can catalyze investment, they are unlikely to fully offset the structural cost disadvantages without accompanying policies on labor upskilling and education. Finally, the geopolitical logic behind reshoring, including concerns over supply chain resilience and national security, adds another layer of complexity. While these arguments have become more prominent since the COVID-19 pandemic and the U.S.–China trade tensions, they do not negate the fundamental economic realities. In many sectors, reshoring remains economically viable only for capital-intensive, high-margin industries, not labor-intensive

production such as textiles or consumer electronics. Overall, automation means fewer jobs, and jobs are often the political goal of reindustrialization.<sup>21</sup>

While the United States has struggled with reshoring and industrial revitalization, other advanced economies have pursued more coordinated and strategic approaches to maintain manufacturing strength. **Germany**, for example, has emphasized its “*Industrie 4.0*” initiative, launched in 2011, which integrates cyber-physical systems, automation, and smart factories with strong vocational training systems to ensure a skilled workforce. This policy is supported by close collaboration between government, industry, and trade unions, contributing to Germany’s position as the world’s third-largest exporter of manufactured goods. **South Korea** has maintained industrial competitiveness through targeted investment in high-tech sectors like semiconductors, shipbuilding, and batteries, backed by public-private partnerships and long-term industrial policy. The Ministry of Trade, Industry, and Energy (MOTIE) oversees comprehensive strategies to align R&D, infrastructure, and workforce development. Meanwhile, **Japan** has focused on advanced manufacturing, robotics, and precision engineering, supported by a deep integration between government agencies like METI (Ministry of Economy, Trade and Industry) and keiretsu-style corporate networks. These countries illustrate that successful reindustrialization depends on market incentives, long-term planning, education policy, and coordinated institutional support.

## **2.2. Labor Shortage and Costs**

The United States faces a significant and growing shortage of skilled and unskilled labor, with a particular emphasis on technical professions.<sup>22</sup> Several key factors have contributed to this labor gap, including demographic changes, shifts in immigration policy, and changing attitudes toward factory work. As of 2023, the U.S. is experiencing labor market challenges, with a sharp decline in the working-age population and a widening skills gap limiting industrial growth and innovation.<sup>23</sup> Another disadvantage is managerial salaries. In general (but depending on several factors), U.S. managers often earn higher base salaries than their European counterparts, especially in the tech, finance, and consulting sectors. Bonuses and stock options in the U.S. are typically more generous, especially at the executive level. U.S. companies often have more layers of management and more emphasis on individual performance, which can drive up costs.<sup>24</sup> Conversely, European firms may be flatter in structure, with more modest pay gaps between

upper and lower management. Another reason for higher U.S. salaries is market power and firm size, both of which increase the firm's profitability.<sup>25</sup> However, we must differentiate manufacturing from services, primarily digital services, out of Silicon Valley, where the U.S. is much better than the European Union (EU).<sup>26</sup>

### **Demographic Trends and Aging Population**

One of the major contributors to this labor shortage is the aging population. According to the U.S. Census Bureau<sup>27</sup>, the median age in the U.S. has increased steadily over the past few decades, with projections suggesting that by 2030, nearly 1 in 5 Americans will be of retirement age. As older workers retire, the available labor pool shrinks, which strains industries that rely heavily on skilled labor, particularly in manufacturing and technical fields.<sup>28</sup> The Federal Reserve<sup>29</sup> notes that this demographic shift and lower birth rates have led to a structural labor shortage in the economy. However, critics argue that demographic trends alone do not fully explain the labor shortage, emphasizing that participation among key age cohorts has declined for structural and policy-related reasons. For instance, the labor force participation rate among prime working-age men (ages 25–54) in the U.S. has dropped from over 96% in the 1950s to around 89% in 2023, according to the U.S. Bureau of Labor Statistics.<sup>29a</sup> This decline is attributed to a combination of factors, including inadequate access to job training, disability, opioid-related health issues, and declining demand for low-skilled labor in certain regions. Moreover, the U.S. has fewer supportive policies to retain older workers than peer countries, such as phased retirement programs, lifelong learning initiatives, or incentives for late-career employment. Some economists also point out that underinvestment in workforce development, particularly in community colleges and technical training programs, has exacerbated the mismatch between available jobs and worker qualifications. Therefore, while aging demographics are critical to the labor shortage, they interact with broader socioeconomic and policy variables that require targeted interventions to sustain a productive industrial workforce.

### **Immigration and Policy Impacts**

Another factor exacerbating the labor shortage is reduced immigration. During the first Trump administration, immigration policies were tightened, which resulted in a sharp decline in the number of immigrants entering the U.S. for work. According to the Migration Policy Institute,<sup>30</sup> the number of immigrant workers in the U.S. dropped significantly due to stricter visa

requirements and the cessation of programs like the Diversity Visa Lottery. Immigrants have historically been a vital component of the U.S. labor force, particularly in agriculture, construction, and manufacturing. The reduction in immigration has compounded the labor shortage, especially in lower-skilled sectors.

### **Skills Gap and Technical Labor Shortage**

A critical aspect of the labor shortage is the mismatch between the skills workers have and the skills employers need. However, NSC's 2023 report,<sup>31</sup> highlights that 92% of jobs analyzed require digital skills, and approximately one-third of workers lack foundational digital skills. This indicates a significant skills gap in the workforce, particularly in technical fields. The Federal Reserve (2021)<sup>32</sup> emphasizes that this skills gap has become a primary barrier to new industries and innovation growth in advanced manufacturing and renewable energy sectors. Moreover, the shift toward automation and digital technologies in manufacturing has intensified the demand for skilled workers in areas such as robotics, data science, and cybersecurity. As automation and artificial intelligence (AI) continue transforming industries, the need for highly trained technicians and engineers has never been greater. However, educational institutions have struggled to keep pace with these developments, leaving industries without a sufficient pipeline of talent.<sup>33</sup> So, the US needs foreign workers to sustain its economic level. However, the Trump administration has exactly stopped that, which is another paradox!

### **Changing Attitudes Toward Factory Work**

In addition to the demographic and policy-driven factors, changing attitudes toward factory work have contributed to the labor shortage. Over the past few decades, the U.S. manufacturing sector has shifted toward more service-oriented and knowledge-based industries, affecting the supply of workers willing to engage in manual labor. Many workers now seek technological, healthcare, and finance opportunities, where wages and working conditions are often more favorable. The COVID-19 pandemic has also accelerated this trend, with many workers reevaluating their career choices and preferring jobs that offer greater flexibility, remote work options, and higher compensation. The challenge of attracting workers to factory settings is further compounded by the physical demands of manufacturing jobs, which many potential employees find unappealing. A 2021 study by the McKinsey Global Institute<sup>34</sup> highlights a

significant gap between the number of jobs in manufacturing and the number of workers willing to take them, especially in sectors like electronics, chemicals, and automotive production.

### 2.3. Structural Changes in the Economy

According to the IMF,<sup>35</sup> total global foreign direct investment (FDI) inflows reached a record of \$41 trillion in 2023, a 4.4% increase from the previous year. Emerging countries like India, Mexico, and Brazil experienced significant growth in FD inflows, each seeing an increase of around \$130 billion. Overall, the U.S. maintained its position as the top FDI destination, with an inflow of \$348.8 billion. While China remained a significant player in global FDI, its inflows in 2023 were lower compared to previous years. Factors contributing to this decline include global economic uncertainties, shifts in supply chain strategies, and domestic regulatory adjustments. So, if the U.S. is the leader in attracting FDI, where is this money going? In 2023, foreign direct investment (FDI) inflows into the United States were predominantly directed toward the manufacturing sector, which accounted for approximately 41.2% of the total FDI position, amounting to \$2.2 trillion<sup>36</sup>. A substantial portion of inbound Foreign Direct Investment (FDI) into the United States continues to target the **manufacturing sector**, which, as of 2023, accounted for **approximately 41.2%** of the nation's total FDI position. This dominance reflects the sector's enduring appeal and strategic significance to foreign investors. Chemicals are particularly prominent in manufacturing sub-sectors, constituting around **34.5%** of manufacturing-related FDI. Notably, investments in **pharmaceuticals and medicines** represent about **75%** of the chemical sector's FDI, underscoring the global demand for advanced biomedical research, development, and production capabilities within the United States.<sup>37</sup>

Another noteworthy sub-sector is **computers and electronic products**, which have seen a remarkable surge in foreign investment over the past decade. FDI in this area grew from **\$47.5 billion in 2014** to **\$194.7 billion in 2023**, reflecting an increased focus on semiconductors, digital infrastructure, and cutting-edge technological innovation.

Beyond manufacturing, several other sectors have drawn significant foreign capital:

- The **finance and insurance sector** accounted for **10.6%** of the total FDI in 2023, amounting to approximately **\$573.8 billion**. This inflow highlights investor confidence in the U.S. financial system and its regulatory environment<sup>1</sup>.

- Similarly, the **wholesale trade sector** attracted a substantial **10.0%** of total FDI, equating to **\$541.2 billion**, pointing to the strategic importance of distribution and supply chain networks within the U.S. economy.

The chemical, pharmaceutical, and medicine manufacturing sectors are highly specialized and regulated industries that depend heavily on an educated and skilled workforce, which is not all voters of the Republican Party. On the other hand, the States of Indiana and Puerto Rico are major contributors to pharmaceutical manufacturing and exports, equaling \$42.6 billion<sup>38</sup>. Additional major contributors are North Carolina, California, Pennsylvania, and Illinois (value: \$37.2 billion). The 2024 Presidential election results show a mixed picture: Kamala Harris won in California and Illinois, whereas Donald J. Trump won in North Carolina and Pennsylvania.<sup>39</sup> So, really, will the reciprocal tariffs benefit these voters? These patterns affirm the United States' position as a magnet for international capital, especially in sectors characterized by high value-added, innovation potential, and global market integration. The United States has undergone significant economic transformation over the past several decades, shifting from an industrial economy to a service-based one. This transition reflects broader global trends, where the technology, finance, and healthcare sectors have become much more profitable and dominant than traditional manufacturing.<sup>40</sup> Companies and investors primarily follow profit maximization rather than any sense of national loyalty, which has shaped the economy's direction and influenced key decisions in the manufacturing sector. Since 1979, U.S. manufacturing productivity has seen significant growth, even as employment in the sector has declined.<sup>41</sup> While precise data from 1979 is limited, available statistics indicate substantial increases in labor productivity (output per hour) in U.S. manufacturing over the past several decades. For instance, between 1987 and 2023, labor productivity rose in 23 of 24 manufacturing and mining industries, with annualized average increases ranging from 0.1% per year in apparel manufacturing to 7.2% in computer and electronic products. This suggests that U.S. manufacturing productivity has doubled since the late 1980s.<sup>42</sup> Despite these productivity gains, manufacturing employment has declined. In June 1979, manufacturing employment peaked at 19.6 million. By June 2019, it had fallen to 12.8 million, a 35% decrease.<sup>43</sup> This decline is primarily attributed to automation and shifts toward service-based industries, rather than a reduction in manufacturing output. U.S. manufacturing output has remained robust. For example, manufacturing output in 2021 was

\$2.497 trillion, up from \$2.330 trillion in 2018.<sup>44</sup> This indicates that manufacturers produce more goods with fewer workers, highlighting significant efficiency improvements.

In summary, since 1979, U.S. manufacturing has achieved notable productivity gains, producing more output with fewer workers, primarily due to technological advancements and automation.<sup>45</sup>

Former President Ronald Reagan (1981-1989)<sup>46</sup> strongly advocated free markets and open trade. He was also pragmatic. He sometimes approved limited protectionist measures to shield specific industries or to negotiate better terms with trade partners. Still, he was not wholly hands-off when protecting U.S. industries, especially politically sensitive ones like textiles.

*"We believe in open markets, free trade, and fair trade. When unfair practices threaten our industries, we will act."*

Source: Ronald Reagan, in a statement about trade policy (1985).

During the 1980s, the U.S. textile industry (located mainly in the Southern States of the U.S.) became increasingly strained due to a surge of low-cost imports, particularly from Asian nations. In response to mounting domestic concerns, the Reagan administration implemented a series of voluntary export restraints (VERs) and bilateral textile agreements with key exporting countries, including China, South Korea, Taiwan, and Hong Kong. These agreements did not take the form of traditional tariffs but instead imposed quantitative limits on the volume of textiles and apparel that could be shipped to the United States. Though not formally classified as protectionist measures, these restrictions functioned similarly, aiming to safeguard American jobs and industries from foreign competition. By 1985, the United States had established agreements with over 40 countries, effectively regulating approximately 80 percent of all textile and apparel imports. These policies were implemented under the "Multi-Fibre Arrangement (MFA),"<sup>47</sup> a global system from 1974 to 2004 that allowed developed nations to negotiate import quotas with developing countries. The Reagan administration thoroughly used the MFA's mechanisms, crafting bilateral deals that tailored restrictions to the U.S.'s economic and political needs. This careful calibration of ideology and realpolitik reveals the nuance in Reagan's trade policy, offering a textbook case of how American presidents often navigate the tensions between economic theory and electoral accountability.

## Factory Closures and Industry Shifts

Widespread factory closures have accompanied the shift away from manufacturing. From **2001 to 2010**, the U.S. lost more than **63,000 manufacturing facilities**, according to the U.S. Department of Commerce.<sup>48</sup> These closures reflect broader trends of offshoring, in which U.S. companies moved production to countries with lower labor costs, often in Asia and Latin America. The rise of global supply chains and trade agreements facilitated this process, leading to a hollowing out of U.S. manufacturing capacity, particularly in labor-intensive industries. Interesting parallels exist between the Ronald Reagan Administration and the current Trump Administration. The synergy between Ronald Reagan and The Heritage Foundation was instrumental in advancing a conservative agenda that reshaped American politics and governance in the late 20th century. Reagan considered it his favorite think tank, and the organization's ideas closely aligned with his vision for limited government, free markets, and a strong national defense. The *Reagan Doctrine*<sup>49</sup> advocated for U.S. support of anti-communist resistance movements worldwide. In addition, the Heritage Foundation backed the Strategic Defense Initiative—Reagan's ambitious missile defense program, which became a top national defense priority in 1983.<sup>50</sup>

Another issue the current Trump Administration seems to have forgotten is the role of intermediary goods,<sup>51</sup> also called intermediate goods, which are products used as inputs in producing final goods or services. These are neither raw materials nor final products; they are partially processed materials or components that are further used in manufacturing. Some key examples of types of intermediary goods are components and parts (e.g., semiconductors, auto parts, smartphone screens), processed materials (e.g. steel sheets, aluminum rods, plastic pellets), subassemblies (e.g., assembled circuit boards for electronic devices), or even energy inputs (e.g. processed fuels or electricity used during manufacturing). China is a dominant exporter of intermediate goods, supplying vital components to the US Aerospace, Automotive, Electronics, and Machinery Industries. In 2023, the U.S. automotive industry contributed over 11.2 % (\$809 billion) of the total U.S. manufacturing output. \$35.11 billion were parts and accessories for motor vehicles.<sup>52</sup> During the same year, the U.S. imported approximately \$126.68 billion of electrical and electronic equipment from China. Consumer electronics alone accounted for \$ 96 billion, representing 41% of U.S. imports in this sector.

## **2.4. The "China Shock" and Trade Policy**

A pivotal moment in the decline of U.S. manufacturing came when China joined the World Trade Organization (WTO)<sup>53</sup> in 2001. This move opened the Chinese market and significantly increased imports of Chinese-manufactured goods into the U.S. economy. The transition to low-cost Chinese imports and the outsourcing of production to China contributed to the decline of domestic manufacturing jobs. A landmark study by Autor, Dorn, and Hanson<sup>54</sup> estimated that the so-called "China Shock" led to the loss of 2.0 to 2.4 million U.S. jobs, primarily in manufacturing sectors such as textiles, electronics, and machinery. The study also noted that regions in the U.S. with higher exposure to Chinese imports experienced more significant job losses, contributing to the growing economic inequality and regional disparities.

### **The Role of Offshoring and Automation**

While trade and offshoring have been significant factors in the decline of U.S. manufacturing jobs, another key driver has been the rise of automation. According to McKinsey & Company (2017)<sup>55</sup>, over 80% of job losses in manufacturing since 2000 are attributable to automation, with the remaining losses due to offshoring. A case study from the Indiana Business Research Center focusing on Indiana's durable goods manufacturing sector revealed that offshoring significantly impacted job losses more than automation. The study highlighted that, even during periods of economic growth, manufacturing employment continued to decline, indicating that offshoring played a crucial role. Advances in robotics, artificial intelligence, and manufacturing technologies have enabled companies to replace human workers with machines, reducing the need for large factory workforces. This trend of automation is expected to persist, potentially accelerating the displacement of low-skill jobs in manufacturing, even as the demand for high-skill labor rises.

Despite the significant role of automation, public perception often emphasizes the effects of trade agreements and globalization due to the heightened visibility and political tension surrounding offshoring. However, studies indicate that the economic forces propelling automation, such as increasing labor costs and technological advancements, will continue to reshape U.S. manufacturing in the future decades.<sup>57</sup>

## **2.5. Political Rhetoric vs. Economic Reality**

During the first Trump Administration, the President repeated promises to bring back manufacturing jobs to the United States and reindustrialize the American economy, which has been a central theme of his economic rhetoric. "Reindustrialization"<sup>58</sup> was portrayed to revive the U.S. economy, particularly in regions struck by factory closures and job losses in the manufacturing sector. Trump's symbolic acts, such as visiting new factories and touting "Made in America" products, were designed to project an image of industrial revival. However, while the political rhetoric was compelling for many of his supporters, the reality is far more complex, and the economic forces at play, such as labor costs, global supply chains, automation, and technological change, have proven to be much more influential than government policy alone.

### **The Limits of Policy in Reviving Manufacturing**

Reindustrialization is a challenging goal, particularly when confronted with the challenges of globalization, technological change, and market forces. Although tariffs and trade policies—such as those implemented during the Trump administration—were designed to protect American industries, especially steel and aluminum, their effects in the broader manufacturing sector have been limited. Bown<sup>59</sup> noted that although tariffs can temporarily relieve domestic industries, they often raise consumer costs and disrupt global supply chains, which may hurt the economy in the long term. The idea that tariffs can bring back U.S. manufacturing to its former strength overlooks that structural economic changes, including transitioning to a service-based economy and the growing reliance on automation, have already significantly transformed the industrial landscape.

### **The Role of Labor Costs in Industrial Decisions**

One of the core issues behind the decline in U.S. manufacturing is the growing disparity in labor costs between the U.S. and low-wage countries, such as China, Vietnam, and Mexico. While Trump's rhetoric often emphasized the need to "bring jobs back" to America, the economic reality is that labor costs in the U.S. are significantly higher than in many emerging markets. According to a study by Harrison,<sup>60</sup> labor costs in the U.S. are nearly 10 times higher than in China, making it economically unfeasible for many companies to return production to the U.S. without substantial investments in automation. This cost disparity drives companies to seek

out low-cost labor markets in Asia and Latin America, where manufacturing wages are lower, which has led to the ongoing trend of offshoring production. Moreover, automation and robotics are increasingly replacing low-skilled manufacturing jobs, further complicating the notion of bringing factory work back to America. According to a report by Brynjolfsson and McAfee,<sup>61</sup> the rise of the "second machine age" has already started transforming manufacturing into a sector that demands higher-skilled rather than unskilled labor. This shift has created a paradox in reindustrialization efforts. While there may be opportunities for high-tech industries in the U.S., the traditional manufacturing jobs Trump promised to bring back may no longer exist as they once did.

### **Supply Chain Disruptions and Globalization**

Another critical factor limiting the feasibility of reindustrialization is the complex nature of global supply chains. Over the past few decades, manufacturing has become increasingly globalized, with raw materials, intermediate goods, and finished products crossing borders multiple times before reaching consumers. The benefits of these global supply chains include undeniably lower production costs, greater efficiency, and access to a broader market. However, Trump's efforts to dismantle or restrict these supply chains, primarily through tariffs on Chinese imports, have disrupted established global networks and, in many cases, increased costs for U.S. manufacturers and consumers. The International Monetary Fund<sup>62</sup> observed that the trade war between the U.S. and China, underpinned by Trump's protectionist policies, increased costs for businesses across the U.S., particularly in sectors like technology, retail, and electronics, which rely heavily on Chinese imports. Furthermore, the disruption caused by the COVID-19 pandemic highlighted the vulnerabilities of global supply chains, as factories in China and elsewhere were forced to shut down. This global supply chain disruption<sup>63</sup> made it clear that reindustrialization in the U.S. would require more than trade protectionism; it would require a fundamental shift in how supply chains are structured.

### **Technological Innovation and Industry 4.0**

The role of technology in reshaping manufacturing should not be underestimated. Industry 4.0,<sup>64</sup> which integrates digital technologies such as artificial intelligence, machine learning, the Internet of Things (IoT), and robotics into manufacturing processes, is fundamentally changing the nature of industrial production. While automation and robotics can

create opportunities for high-skilled jobs, they also contribute to job displacement, particularly for lower-skilled workers who are being replaced by machines.

As Chui, Manyika, and Miremadi<sup>65</sup> explain, automation technologies drive "smart manufacturing," which improves productivity but reduces the number of workers required. This further complicates the notion that traditional manufacturing jobs can be "brought back" to the U.S. without significant investments in new technologies and retraining programs for workers. The adoption of smart manufacturing technologies has already made it possible for some companies to maintain production in the U.S., but with far fewer workers.<sup>65</sup> Therefore, the political rhetoric surrounding manufacturing revitalization does not fully acknowledge the technological shifts that have already reshaped the landscape.

## **2.6. The Economic Reality of Reindustrialization**

In conclusion, while Trump's promise of reindustrialization resonated with many Americans, particularly in regions heavy with manufacturing, the economic reality is much more complex. Policy decisions, such as tariffs, can temporarily relieve specific sectors. However, they cannot reverse the deeply rooted structural changes in the global economy that have transformed manufacturing in the U.S. These changes include rising labor costs, technological advancements, globalization of supply chains, and shifts in consumer preferences and demand. As Porter<sup>66</sup> argued, industrial competitiveness is driven not by short-term political intervention but by long-term investment in innovation, skills, and infrastructure. Certain products, like smartphones or rare-earth-dependent technologies, would be expensive to produce domestically due to high labor expenses and limited resources. Reindustrialization necessitates substantial investments in infrastructure, training, and time; new facilities such as steel mills take years to establish.

## **Chapter Conclusion**

The reindustrialization of the United States is a politically compelling idea but presents an economically complex challenge. This chapter illustrates that while calls to restore manufacturing jobs resonate strongly with voters, particularly in swing states like the Midwest, such promises face significant structural hurdles. Labor costs in the U.S. remain considerably higher than in key manufacturing centers such as China, Vietnam, and Mexico. Concurrently,

automation and digitalization are diminishing the number of low- and medium-skill jobs available, even as productivity and output in U.S. manufacturing continue to rise. The paradox is apparent: political leaders promise job creation, yet technological and economic trends reduce the labor intensity of modern manufacturing. Policy responses, such as tariffs and reshoring incentives, have produced mixed results. Initiatives like the CHIPS and Science Act demonstrate that targeted public investment can enhance strategic sectors. However, policy interventions aimed at revitalizing domestic manufacturing and addressing the adverse effects of globalization, like tariffs and reshoring incentives, have produced mixed and, at times, contradictory outcomes. While measures such as the CHIPS and Science Act exemplify how targeted public investment can successfully bolster strategically important sectors, their impact remains uneven across the broader economy. These initiatives tend to concentrate resources in high-tech, capital-intensive industries that typically require advanced technical skills and higher education levels. This sectoral focus inadvertently sidelines large segments of the labor force, especially those displaced from low-skill manufacturing jobs, which such policies are ill-equipped to address and restore.

Crucially, the structural cost disadvantages faced by U.S. manufacturers, driven by higher labor, regulatory, and input costs, are unlikely to be resolved solely through industrial policy. Without addressing these underlying economic frictions, the sustainability of reshoring efforts remains questionable. Furthermore, while policymakers often highlight the importance of workforce development and immigration reform to alleviate labor shortages and close skills gaps, implementing such solutions has lagged behind rhetorical commitments. Existing training programs are frequently fragmented, underfunded, or poorly aligned with industry needs, while immigration policies remain entangled in political gridlock. Thus, despite ambitious policy declarations, a disconnect exists between strategic intent and practical execution—one that threatens to undermine the effectiveness of America's economic reindustrialization agenda.

A more realistic vision of reindustrialization would focus on developing regional clusters of advanced manufacturing, particularly in areas where the U.S. has a competitive advantage, such as semiconductors, pharmaceuticals, aerospace, and clean energy technologies. These clusters can generate localized growth, stimulate innovation, and provide high-value employment, albeit on a smaller and more specialized scale than the mass manufacturing of the

20th century. Policymakers should adopt an integrated strategy to achieve meaningful outcomes beyond symbolic politics. First, they should expand and modernize vocational and technical education, especially in fields aligned with Industry 4.0. Second, tax incentives for reshoring and workforce development linked to local labor markets should be provided. Third, streamline immigration pathways for high-demand technical talent, addressing the skilled labor gap without compromising wages. Finally, invest in regional innovation hubs that connect universities, local governments, and private industry to foster sustainable growth ecosystems.<sup>68</sup> Lastly, ensure that future subsidy programs include domestic job creation and skills training requirements, not only capital investment. Together, these steps create a practical roadmap for a reindustrialization policy that is both economically viable and politically sustainable.

The next chapter, *The Neocons, Peter Navarro, and the OTMP*, delves into the ideological crosscurrents that have shaped recent U.S. foreign and trade policy. To fully grasp the evolving strategic posture of the United States, it is essential to explore the friction between the interventionist, liberal internationalism of neoconservatism and the economic nationalism that defined the Trump administration. By tracing the intellectual lineage of neoconservatism—from its origins in the 1960s to its ascendancy during the post-9/11 era—we can better contextualize its tension with the protectionist and unilateralist ethos championed by figures like Peter Navarro and institutions such as the Office of Trade and Manufacturing Policy (OTMP). This chapter aims to illuminate how these competing frameworks have influenced America's global role, reshaped its trade priorities, and contributed to an increasingly fragmented policy consensus.

### **Chapter 3: The Neocons, Peter Navarro, and the OTMP**

The evolving nature of U.S. foreign and trade policy cannot be understood without examining the ideological tensions between neoconservatism and the populist nationalism of the Trump era. Neoconservatism, which emerged in the 1960s and gained traction in U.S. policy circles during the late Cold War and post-9/11 periods, advocates for a robust global leadership role, military intervention, and promoting democratic values abroad. In contrast, the foreign and economic agenda advanced by Donald Trump—epitomized by the "America First" doctrine—marks a clear shift toward protectionism, bilateralism, and economic nationalism. One of the most influential figures in implementing this new paradigm is Dr. Peter Navarro, who directed the Office of Trade and Manufacturing Policy (OTMP) and developed many of the administration's most controversial trade measures, particularly against China. This chapter explores four key dimensions: the ideological roots and evolution of neoconservatism; Trump's strategic and rhetorical departure from it; Navarro's role and the institutional significance of the OTMP; and the broader clash between competing visions of American trade, one grounded in multilateral liberalism, the other in unilateral economic assertion.

#### **3.1. Origins of Neoconservatism in the 1960s**

Neoconservatism<sup>1</sup> emerged in the United States during the 1960s as a reaction to the social upheavals and radical political movements of the time. Initially, many of its early proponents were disillusioned liberals who had grown frustrated with the perceived failures of the left-wing agenda, particularly regarding foreign policy and national security.

The movement's roots can be traced back to intellectuals who once embraced liberal ideals but became increasingly skeptical of the left's direction. Key figures like Irving Kristol<sup>2</sup>, Norman Podhoretz, and Daniel Patrick Moynihan were among the first to articulate what would become the neoconservative perspective. They were concerned about the rise of isolationism, the spread of Soviet influence during the Cold War, and the undermining of American values by what they saw as a permissive, relativistic culture.

By the 1970s, the neoconservative intellectual community began to coalesce, advocating for a firm, interventionist foreign policy, a robust national defense, and a renewed commitment

to promoting American values and democracy abroad. These principles would later become the foundation of the broader neoconservative political movement.<sup>3</sup>

### 3.2. Neoconservatism Defined

At its core, neoconservatism is a political ideology emphasizing a proactive, interventionist approach to foreign policy. Key tenets include:

- **Promoting Democracy and American Values Abroad:** Neoconservatives believe that the United States has a moral obligation to spread democracy, individual liberty, and human rights worldwide. This vision of American exceptionalism holds that the U.S. is uniquely qualified to lead the world and should actively work to advance its ideals.<sup>4</sup>
- **Strong, Interventionist Foreign Policy:** Neoconservatives argue for a robust military presence and frequent intervention in global conflicts to secure American interests, prevent the spread of authoritarianism, and combat perceived threats. One of the most notable examples of this policy was the support for the Iraq War in 2003, which was justified as a means of removing Saddam Hussein and spreading democracy in the Middle East.<sup>5</sup>
- **Close Ties with Military Alliances:** Neoconservatives advocate for maintaining and strengthening military alliances, particularly NATO, to ensure the U.S. remains a global leader in promoting stability and countering adversaries like Russia and China.<sup>6</sup>
- **Global Leadership Role for the U.S.:** Neoconservatism asserts that the U.S. must play a central role in shaping the international order. This view is grounded in the belief that a strong and engaged U.S. leadership is necessary to maintain global peace and security.<sup>7</sup>

In the current Trump administration, several officials are associated with neoconservative, or "neocon," foreign policy positions. These individuals are notable for their advocacy of interventionist policies and a strong military presence abroad. One prominent figure is **Marco Rubio**<sup>8</sup>, who serves as Secretary of State. Rubio has a long history of supporting interventionist foreign policies, particularly regarding China and Latin America. His stance aligns with traditional neoconservative values that prioritize U.S. influence globally. Another key figure is **Michael Waltz**<sup>9</sup>, who was appointed National

Security Adviser. Waltz has voiced aggressive positions on Iran and has past ties to former Vice President Dick Cheney, further aligning him with neoconservative ideologies that emphasize military interventionism and a robust global presence for the United States. Mr. Waltz left the office by the beginning of May, following the “Signal gate” scandal. **Pete Hegseth**<sup>10</sup>, the Defense Secretary, has described himself as a "recovering neocon." He acknowledges his prior support for the Iraq War and has since shifted his perspective, though he still maintains some neoconservative leanings in his approach to defense and military policy. As Deputy Chief of Staff for Policy and Homeland Security Advisor, **Stephen Miller**<sup>11</sup> has significantly shaped the administration's domestic and foreign policies. Miller is often considered to hold far-right views, influencing the administration's approach to national security. Finally, **Sebastian Gorka**,<sup>12</sup> as Deputy Assistant to the President and Senior Director for Counterterrorism, has been linked to neoconservative circles. Known for his aggressive stance on counterterrorism, Gorka has advocated for military action in response to perceived threats, consistent with neoconservative ideals. These individuals reflect the ongoing presence of neoconservative influence within the Trump administration, particularly in national security and foreign policy matters.

### **3.3. Trump's Views: A Departure from Neoconservatism**

In stark contrast to the neoconservative approach, Donald Trump's foreign policy has been defined by an "America First" ideology that prioritizes national self-interest over internationalism.<sup>13</sup> Trump's approach to global affairs reflects several key differences from traditional neoconservatism:

- **"America First" Foreign Policy:** Trump has consistently advocated for putting American interests above those of other nations. His policies have emphasized economic nationalism, protectionism, and skepticism of international commitments. Unlike neoconservatives, Trump does not view the U.S. as having a responsibility to promote democracy and intervene in foreign conflicts to the same extent.<sup>14</sup>
- **Anti-Interventionist Rhetoric:** Trump was highly critical of the Iraq War, calling it a mistake and arguing that the U.S. should have avoided involvement in Middle Eastern conflicts. He voiced similar skepticism about U.S. regime-change efforts, particularly in

countries like Libya and Syria. His "America First" stance often aligns with non-interventionist rhetoric, advocating for a more restrained U.S. role in global conflicts.<sup>15</sup>

- **Skepticism Toward NATO and Globalism:** Trump questioned the value of NATO, frequently calling on U.S. allies to contribute more to their defense and threatening to reduce American commitments. He has also been critical of international trade agreements and organizations, viewing them as detrimental to American sovereignty.<sup>16</sup>
- **Trade Protectionism:** Trump's economic policies have focused on trade protectionism, particularly toward China. He introduced tariffs on Chinese goods, citing concerns over unfair trade practices and currency manipulation. This protectionist stance is grounded in the belief that the U.S. needs to safeguard its economic interests and reduce dependence on foreign nations, a position that contrasts with the neoconservative emphasis on global economic integration and liberal trade policies.<sup>17</sup>

### **Trump and Neoconservatism: A Complex Relationship**

Despite his divergence from traditional neoconservative principles, Trump has at times worked with and appointed figures who align with neoconservative views. John Bolton,<sup>18</sup> who served as Trump's National Security Advisor, is a well-known neoconservative and a strong advocate for interventionist policies. Additionally, figures like Marco Rubio and Mike Waltz, who have supported military intervention and the promotion of American values abroad, have maintained close ties with the Trump administration.

This alignment with neoconservative figures can be seen as a political strategy to balance competing interests within the Republican Party and maintain influence in foreign policy. However, it is essential to recognize that Trump himself is more of a nationalist-populist than a true neoconservative. His foreign policy stance is motivated by a desire to protect U.S. interests, often at the cost of global engagement and interventionist strategies.<sup>19</sup>

### **The China Factor: Currency Manipulation and Tariffs**

One of the defining features of Trump's economic nationalism is his approach to China. He has long accused China of engaging in unfair trade practices, particularly regarding currency manipulation, which he believes gives China an unfair advantage in global markets. Trump's

administration imposed tariffs on Chinese goods to address these imbalances and reduce the U.S.'s trade deficit<sup>20</sup> with China. So far (April), it is \$52.9 billion; in 2024, it was \$295.4 billion.

The United States and China are the two largest economies globally in terms of both nominal and Purchasing Power Parity (PPP) methods.<sup>21</sup> The US is at the top in nominal terms, whereas China has been at the top in PPP since 2016 after overtaking the US. As of 2024, both countries share 43.1% and 34.04% of the world's GDP in nominal and PPP terms, respectively. The GDP of both countries is higher than that of the 3rd-ranked countries, Japan (nominal) and India (PPP), by a considerable margin. Therefore, only these two compete to become first.<sup>22</sup>

As per projections by the IMF<sup>23</sup> for 2024, with \$29,167 billion, the United States is leading by \$10,894 billion, or 1.6 times that of China (\$18,273 billion) on an exchange rate basis. As of 2024, China's economy, measured in purchasing power parity (PPP), is estimated at approximately \$37.07 trillion, surpassing the United States' \$29.17 trillion by about \$7.9 trillion, or 1.27 times. According to World Bank estimates, China's GDP was roughly 11% of the U.S.'s GDP in 1960, but by 2023, it had risen to approximately 65%.<sup>24</sup> The decision to levy tariffs was driven by a belief that China's economic policies harmed U.S. industries and jobs. Trump argued that the Chinese government had artificially devalued its currency to make its exports cheaper and more competitive, thus undermining American manufacturers. The tariffs were seen to force China to address these issues and level the playing field for American businesses.<sup>25</sup> It is important to mention that these tariffs are not against the people of these nations or their trade ministers.

While these tariffs were part of a broader economic strategy, they reflect the nationalist-populist sentiment underlying Trump's foreign policy approach. Instead of focusing on spreading democracy and maintaining global alliances, Trump's policies seek to assert U.S. economic power and challenge China's dominance in the global marketplace.<sup>26</sup>

**Dr. Peter Navarro Peter Kent Navarro**<sup>27</sup> (born July 15, 1949)

He is an American economist and a prominent figure in U.S. trade policy, known for his staunchly protectionist views. He served as a senior trade advisor to President Donald Trump, initially as the Director of the White House National Trade Council and later as the Director of the Office of Trade and Manufacturing Policy (OTMP).<sup>28</sup> Navarro played a key role in shaping

the trade policies of the Trump administration, which focused on reducing the U.S. trade deficit, bringing manufacturing jobs back to America, and countering what he viewed as unfair trade practices by foreign nations, particularly China. "The mission of the OTMP is to defend and serve American workers and domestic manufacturers while advising the President on policies to increase economic growth, decrease the trade deficit, and strengthen the United States' manufacturing and defense industrial bases."<sup>29</sup> Navarro's views on trade are controversial. He believes that trade deficits are inherently harmful to the U.S. economy, seeing them as a sign of economic weakness, job losses, and the result of unfair trade practices.<sup>30</sup> This view contrasts sharply with mainstream economic thinking, which holds that trade deficits are not necessarily detrimental to a country's economy<sup>31</sup>. Many economists<sup>32</sup> argue that trade deficits reflect underlying economic factors like investment flows and savings patterns, and that consumers often benefit from cheaper goods from international trade. Additionally, the concept of trade as a "zero-sum game,"<sup>33</sup> which Navarro often espouses, has been widely rejected by economists who view trade as a mutually beneficial "positive-sum game" where both parties gain from trade by specializing in what they do best.<sup>34</sup>

A significant aspect of Navarro's trade theories focuses on China's role in the global economy. He describes China's trade practices as "predatory" and "manipulative," arguing that the U.S. should take a more aggressive stance against China by imposing tariffs to protect American manufacturing and jobs<sup>35</sup>. Navarro advocates for the use of tariffs as a tool to reshape global trade dynamics, reduce reliance on global supply chains, and promote the "reshoring" of manufacturing to the U.S. In his view, free trade agreements often benefit elites at the expense of ordinary workers, and the U.S. needs to implement stronger policies to protect domestic industries.<sup>36</sup> Navarro has also written extensively on his views, publishing books such as *"Death by China"* (2011),<sup>37</sup> arguing that China's rise threatens American economic and national security. He also penned *"The Coming China Wars"* (2006),<sup>38</sup> a book warning about China's economic practices and their impact on global trade. Through his writings and public statements, Navarro has built a reputation as one of the most vocal critics of China and its role in international trade. During his tenure, Navarro advocated for implementing policies outlined in Executive Order 13788, *Buy American and Hire American*,<sup>39</sup> which sought to bolster domestic manufacturing and reduce reliance on foreign products. His policies were seen as part of a broader "America First"

<sup>40</sup>agenda aimed at protecting U.S. workers and industries from what he perceived as the adverse effects of globalization and unfair trade competition.

Although the Biden administration initially allowed the OTMP to remain inactive,<sup>41</sup> reports indicate that it may be reinstated under a potential second Trump administration, with Navarro possibly resuming his role as its director.

Navarro's views and policies remain divisive. He has strong support among those who favor protectionist measures but significant criticism from economists and international trade experts who argue that his approach could disrupt global trade systems and ultimately harm consumers. Peter Navarro often views international trade through the lens of a zero-sum game, where one country's gain is inherently another country's loss. This perspective suggests that if one country, like Country A, has a trade surplus, Country B must be worse off with a trade deficit. Navarro's approach assumes that trade is a win-lose situation, with each side fighting for dominance in a fixed economic system. However, most economists widely reject this view and see trade as a mutually beneficial, positive-sum game, where both parties gain from the exchange through specialization, efficiency, and access to broader markets.<sup>42</sup>

A zero-sum game, a concept from game theory, is a situation where one person's gain equals another person's loss. In other words, the total value in the system remains constant—if one person wins, the other must lose by the same amount. For example, if two people divide \$100, and one gets \$60, the other must receive \$40. The total is still \$100, with any gain for one person being a loss for the other.

In economics<sup>43</sup>, most experts argue that trade is not a zero-sum game. Instead, it is often seen as a positive-sum game where both countries benefit. Here is an example of how this works in practice:

- **Country A** is great at growing apples but not as efficient at making clothes.
- **Country B** excels at making clothes but struggles to grow apples.

If they engage in trade:

- **Country A** exports apples to **Country B**, and **Country B** exports clothes to **Country A**.
- As a result, both countries get more of what they want at a lower cost, with less effort.

- Each country focuses on what it does best, leveraging its comparative advantage.

In this scenario, both countries are better off than if they tried to produce everything themselves. This is why trade is typically viewed as a positive-sum game; it creates value rather than simply redistributing it.<sup>44</sup>

In contrast, a negative-sum game is when everyone ends up worse off. The total value shrinks, and even the "winner" loses something. A prime example of a negative-sum game in trade is a trade war. Consider the following:

- **Country A** imposes tariffs on goods from **Country B**.
- **Country B** retaliates with its tariffs.

The consequences are:

- Prices increase for consumers in both countries.
- Exporters in both countries lose access to markets.
- Some businesses shrink or close down.
- Tensions rise, and global supply chains are disrupted.

As a result, global economic output decreases. Even if one country believes it is "winning" politically, both economies suffer, and the total wealth or efficiency in the system declines. This illustrates how trade wars are classic examples of negative-sum games where no one truly wins.

Peter Navarro's views on trade are strongly influenced by a simplistic interpretation of mercantilism<sup>45</sup>, an economic theory emphasizing the importance of accumulating wealth through a positive trade balance, where a country exports more than it imports. Navarro's perspective often aligns with this traditional mercantilist approach, in which trade surpluses are seen as beneficial, while trade deficits are viewed as harmful to a nation's economic strength. He argues that trade deficits reflect lost jobs, economic weakness, and a dependency on foreign countries, particularly China.<sup>46</sup>

Navarro's good point is the investment in apprenticeships, a unique opportunity for Switzerland<sup>47</sup>. In 2020, in the document "The Buy American, Hire American President" from Mr. Trump,<sup>48</sup> issued by OTMP, it was written that this effort would help create more than 16 million

new education and training opportunities for American students and workers.<sup>49</sup> Navarro's position on mercantilism led him to advocate for aggressive trade policies, such as imposing tariffs and reducing imports, to ensure the U.S. maintains a favorable trade balance. He views tariffs as a necessary tool to protect domestic manufacturing and pressure other countries into renegotiating trade agreements that disadvantage American workers. In this framework, the idea is that if a country can achieve a trade surplus, it will boost its domestic economy by retaining wealth and creating jobs while weakening its trade partners. This simplistic mercantilist perspective, however, is widely critiqued by modern economists, who argue that trade surpluses and deficits are not inherently good or bad. Trade is often seen today as a positive-sum game, where countries specialize in what they do best and benefit from exchanging goods and services. Economists believe trade deficits are not necessarily signs of economic decline but reflect factors such as investment flows and consumer demand for foreign goods.<sup>50</sup> Furthermore, the modern view of international trade emphasizes that both countries involved in trade can gain from the transaction, challenging Navarro's zero-sum outlook where one country's gain is another's loss. Navarro's adherence to this outdated form of mercantilism shapes his policy proposals and rhetoric, particularly regarding the U.S. relationship with China. His view that China's trade practices are "predatory" and should be countered with tariffs reflects his belief that trade with China has created an unfair imbalance, resulting in the U.S. suffering.<sup>51</sup> This approach, while rooted in traditional mercantilist thought, has been widely debated, with many arguing that it overlooks the complexities of modern global trade dynamics.

Navarro is the sole architect of the current tariffs. According to insiders, he did not coordinate the reciprocal tariffs with the Treasury Department or the Ministry of Commerce. Mr James Surowiecki first released the formula for calculating the tariffs.<sup>52</sup> Moreover, it is simple: the country's trade deficit is divided by its exports to the United States times  $\frac{1}{2}$ . Later, the Office of the US Trade Representative came up with this formula:<sup>53</sup>

### **The Basic Approach**

Consider an environment in which the U.S. levies a tariff rate  $\tau_i$  on country  $i$  and  $\Delta\tau_i$  reflects the change in the tariff rate. Let  $\epsilon < 0$  represent the elasticity of imports concerning import prices, let  $\phi > 0$  represent the passthrough from tariffs to import prices, let  $m_i > 0$  represent total

imports from country  $i$ , and let  $x_i > 0$  represent total exports. Then, the decrease in imports due to a change in tariffs equals  $\Delta\tau_i * \varepsilon * \varphi * m_i < 0$ . Assuming that offsetting exchange rate and general equilibrium effects are small enough to be ignored, the reciprocal tariff that results in a bilateral trade balance of zero satisfies:

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$

### **(Reciprocal Tariff Calculations | United States Trade Representative)**

#### **Parameter Selection**

To calculate reciprocal tariffs, import and export data from the U.S. Census Bureau for 2024. Parameter values for  $\varepsilon$  and  $\varphi$  were selected. The price elasticity of import demand,  $\varepsilon$ , was set at 4.<sup>54</sup>

So, concretely, the US buys more goods from China than it sells to them - a goods deficit of \$295.4bn. The total amount of goods it buys from China is \$439.9bn.<sup>55</sup>

Dividing 295 by 440 gives you 67%, which you divide by two and round up. This means that China's trade surplus with the U.S. was 67% of its exports, a value the Trump administration labeled as "tariff charged to the U.S." Therefore, the tariff imposed on China is 34% (it is the number divided by 2).

Similarly, the White House's formula resulted in a 20% tariff when applied to the EU. The next question is whether these tariffs are reciprocal.

After the announcement of the tariffs, on April 8, 2025, Dr. Navarro got much criticism,<sup>56</sup> but defended his views in an article in the Financial Times with the main argument of fairness in trading.

## Chapter Conclusion

The differing worldviews of neoconservatism and Trump-era economic nationalism reflect more than just partisan disagreements; they highlight a fundamental reevaluation of America's global economic role. For decades, neoconservatism has shaped U.S. foreign and trade policy by emphasizing moral leadership, multilateral cooperation, and the belief that free markets and liberal democracy support one another. This approach guided bipartisan efforts to deepen global integration, expand international trade agreements, and wield American power as a stabilizing force. Its underlying assumptions—that global leadership is a responsibility, international institutions provide a net benefit, and that trade liberalization promotes peace—have underpinned U.S. policy since World War II. Donald Trump's "America First" doctrine directly challenged this established orthodoxy. Rejecting the notion that U.S. leadership should promote global norms, Trump reframed international trade not as a cooperative venture but as a competitive struggle for national advantage. His rhetoric and policies positioned globalism as a threat to American sovereignty and jobs. Instead of multilateral diplomacy, he favored bilateralism and economic coercion. In this context, Peter Navarro emerged as a key architect of a radical shift in trade policy that reintroduced tariffs as central tools of national strategy and redefined trade deficits as indicators of exploitation rather than signs of economic complexity. Navarro's influence, particularly through the Office of Trade and Manufacturing Policy (OTMP), marked a clear break from neoconservative and conventional economic thought. His framing of trade as a zero-sum game revived mercantilist ideas that had long been considered outdated in academic and policy discussions. Navarro redirected U.S. trade policy toward protectionism and unilateralism by promoting aggressive tariffs, advocating for reshoring, and minimizing the role of global institutions like the World Trade Organization. His views dismissed the economic consensus that trade deficits are neither inherently good nor bad and that consumer welfare benefits from open markets. Moreover, OTMP's role as a policymaking hub quickly translated these ideas into executive actions without the usual interagency scrutiny. These ideological shifts had concrete consequences. Sudden tariff impositions alienated allies, disrupted global supply chains, and retaliatory measures sparked trade wars with long-term economic effects. However, politically, these actions resonated with constituencies left behind by globalization, particularly in the industrial Midwest. Tariffs became not just tools of economic policy but also symbols of

political identity and resistance against the perceived elite consensus. The legacy of this period remains mixed and instructive. While Navarro's policies illuminated legitimate concerns about supply chain resilience, unfair trade practices, and domestic industrial decline, their implementation suffered from a lack of coordination and often overlooked economic realities. The U.S. remains entangled in a complex global economy that cannot be easily unwound. Replacing multilateralism with bilateral brinkmanship risks economic stability and international credibility. This chapter offers several takeaways for future administrations. First, ideological rifts within the executive branch between nationalist-populist, neoliberal, and neoconservative currents will continue to shape policy unpredictably. Second, institutional innovation like the OTMP shows how quickly the policy process can be reoriented when ideology is paired with executive power. Third, the durability of trade nationalism suggests that Navarro's controversial ideas have altered the baseline for debate. Even critics must now contend with a political landscape where tariffs and reshoring are no longer fringe proposals but mainstream positions. In a multipolar world where economic statecraft is increasingly a battleground, America's internal contest between liberal internationalism and protectionist nationalism<sup>57</sup> will shape its trade policy and global standing. As the next generation of policymakers revisit these debates, they must balance economic competitiveness, democratic values, and strategic alliances, without retreating into isolation or relying on outdated paradigms.<sup>58</sup> In the following chapter, we will examine the interplay between *neo-mercantilism* and *neo-liberalism*, exploring how these contrasting economic ideologies shape U.S. trade policy, global financial influence, and strategic decision-making in an increasingly multipolar world.

## Chapter 4: Neo-Mercantilism and Neo-Imperialism

In the 21st century, U.S. foreign and economic policy increasingly draws from two powerful, state-centric ideologies: neo-mercantilism and neo-imperialism. Neo-mercantilism refers to an economic nationalist strategy in which the state intervenes to protect domestic industries, achieve trade surpluses, and enhance national competitiveness through tariffs, subsidies, and reshoring initiatives. Conversely, neo-imperialism describes the projection of power abroad, not through colonial expansion but through military presence, economic leverage, and control over multilateral institutions. Although distinct in focus, these doctrines intersect in practice: a nation seeking to dominate global markets (neo-mercantilism) often relies on military and institutional power (neo-imperialism) to secure its advantage. This chapter explores how these frameworks have resurfaced in contemporary U.S. policymaking, particularly under the Trump administration, and how they manifest in trade practices, alliance structures, and geopolitical strategy. The following sections will first define and historicize neo-mercantilism, then examine neo-imperialism mechanisms, and then discuss “America First” nationalism before analyzing how both ideologies converge to reshape the U.S. global role.

### 4.1. Introduction

The United States of America is a military-industrial complex. President Dwight Eisenhower famously introduced the term “military-industrial complex” (MIC) to the American public in 1961 in his farewell address.<sup>1</sup> The former general, aware of the growing military industry, warned his fellow countrymen of the tremendous influence such an institution could have in a highly militarized society. During the Cold War, the MIC constituted a significant locus of power; today, its might is perhaps even more significant.<sup>2</sup> At a descriptive level, the MIC refers to military agencies and firms that produce military goods. This Chapter is about the desire of the neocons for an imperial presidency where the retake of control and flexibility is key. The United States, as a global superpower, continues to shape international trade, economics, and politics in ways that reflect the evolution of state-centered strategies in a globalized world. As the global order becomes increasingly multipolar and as challenges from emerging powers like China and Russia intensify, the U.S. has re-embraced elements of economic nationalism and imperialism in its foreign and domestic policy.<sup>3</sup> These re-emerging ideologies, neo-mercantilism and neo-imperialism, reshape the contours of American power. While neo-mercantilism focuses

on state-directed trade policies to protect and enhance national economic strength, neo-imperialism is concerned with projecting economic and military power to ensure dominance over strategic global regions. This chapter explores these two frameworks within the context of contemporary U.S. policies and discusses their theoretical foundations, empirical implications, and critiques.

#### **4.2. Neo-Mercantilism: Resurrecting Protectionism for National Gain**

**Neo-mercantilism**, a modern adaptation of classical mercantilism, promotes a model of economic nationalism where the state intervenes in the economy to achieve favorable trade balances and enhance national economic power. Rooted in the work of political economists like Alexander Hamilton<sup>4</sup> and Friedrich List,<sup>5</sup> who advocated for tariffs and the state support of industries to protect nascent economies, neo-mercantilism is fundamentally opposed to the liberal free-trade system. In a globalized world dominated by multinational corporations and complex supply chains, neo-mercantilism calls for strategic economic management to preserve and enhance national sovereignty and economic independence.<sup>6</sup>

In the United States, neo-mercantilist policies have resurfaced in response to both economic stagnation and growing fears of Chinese economic dominance. Under the Trump I Administration, the "America First" approach<sup>7</sup> markedly shifted from decades of liberal economic orthodoxy to protectionism. The administration implemented tariffs on steel, aluminum, and various Chinese goods to reduce the U.S. trade deficit and stem the outsourcing of manufacturing jobs.<sup>8</sup> These tariffs were justified on national security and economic resilience, particularly within the industrial sector, which was considered integral to maintaining military and technological superiority.<sup>9</sup>

The Biden administration has continued to engage in protectionist trade practices, albeit with a more diplomatic tone. Emphasis has been placed on "reshoring" critical industries like semiconductor production, especially as supply chain disruptions during the COVID-19 pandemic underscored the vulnerability of relying on foreign suppliers.<sup>10</sup> Neo-mercantilist strategies also find expression in using "Buy American" provisions, which mandate that federal contracts prioritize U.S.-made goods, ensuring that government procurement stimulates domestic industries.<sup>11</sup> Furthermore, the continued subsidization of high-tech industries, particularly semiconductors and clean energy, is another key element of neo-mercantilist policy. These

industries are seen not only as engines of economic growth but as vital to the U.S.'s global competitive edge, especially in the face of China's technological rise.<sup>12</sup> Scholars like Jeffrey Sachs have highlighted the strategic importance of fostering technological sovereignty through industrial policy that involves government-backed innovation and investment.<sup>13</sup> This approach echoes the historical practices of mercantilism, where the state actively steers the economy toward sectors deemed critical for national security and global power. However, the embrace of neo-mercantilism is not without criticism. Economists such as Douglas Irwin argue that protectionist policies frequently result in inefficiencies, diminished competition, and increased costs for consumers, which undermine the principles of wealth creation that have driven global progress and prosperity.<sup>14</sup> Moreover, emphasizing trade imbalances and domestic self-sufficiency, neo-mercantilism risks provoking trade wars and retaliatory measures from other countries, which could destabilize the international trade system.<sup>15</sup>

#### **4.3. Neo-Imperialism: The Military and Economic Projection of Power**

While neo-mercantilism centers on state intervention in the economy, neo-imperialism refers to a state's projection of power and control over other regions through economic dominance, military intervention, and the strategic use of international institutions. Unlike traditional imperialism, which focused on territorial conquest, neo-imperialism relies on a network of alliances, military bases, economic dependencies, and soft power mechanisms to shape global outcomes, favoring the hegemonic state. The U.S. has long utilized a military-industrial complex and a global network of bases to maintain its geopolitical dominance. This imperial strategy became particularly evident in the post-Cold War era when the U.S. sought to uphold its unipolar position through military interventions and strategic alliances. The wars in Iraq and Afghanistan, although framed as humanitarian or anti-terrorist efforts, were also driven by strategic interests, such as securing energy resources, controlling crucial trade routes, and countering adversarial powers like Iran.<sup>17</sup> The ongoing discussion about Greenland fits into this context of securing raw materials.

Neo-imperialism, however, is not confined to military power alone. The U.S. has effectively leveraged international financial institutions like the World Bank and the International Monetary Fund (IMF) to impose economic conditions on developing nations. These institutions have promoted neoliberal reforms, such as market liberalization, privatization, and deregulation,

often aligning with U.S. corporate interests. Scholars like Joseph Stiglitz have criticized these practices, arguing that they impose significant social costs on recipient nations, especially in Africa and Latin America, where privatizing state-owned assets frequently leads to economic inequality and social unrest.<sup>18</sup>

In Latin America, the U.S. has consistently employed economic sanctions, diplomatic pressure, and military support for proxy governments to prevent the rise of left-wing movements that could threaten American economic interests. The legacy of neoliberal economic reforms imposed on countries such as Chile, Mexico, and Argentina during the 1980s and 1990s remains a key aspect of U.S. neo-imperialism influence.<sup>19</sup> These reforms, often presented as essential for economic stability, have been criticized for worsening inequality and concentrating wealth in the hands of multinational corporations.<sup>20</sup>

The U.S. wields considerable soft power through its leadership in international institutions such as the United Nations, the World Trade Organization (WTO), and the North Atlantic Treaty Organization (NATO). It uses these platforms to shape global economic rules and security arrangements that reflect American interests.<sup>21</sup> For instance, the U.S. has consistently exercised its veto power in the United Nations Security Council to block resolutions it perceives as contrary to its interests, particularly in the Middle East.<sup>22</sup>

Donald Trump's perspective on international institutions like the United Nations (UN), the World Trade Organization (WTO), and NATO, along with his broader approach to soft power, can be understood through his "America First" ideology,<sup>23</sup> which aimed to challenge the established international order that he believed disproportionately benefited other countries at the expense of the U.S. Trump viewed many international institutions and agreements as obstacles to American sovereignty, limiting the U.S.'s ability to act independently while prioritizing its interests. His policies and rhetoric often portrayed soft power as a double-edged sword. While he acknowledged its utility, he tended to undermine and reform these institutions to better align them with his vision of American exceptionalism and global context dominance.

#### **4.4. America First and National Sovereignty**

Trump's overarching foreign policy vision—"America First"—was rooted in the belief that the U.S. should no longer be limited by international agreements and organizations, which

he claimed hampered American decision-making. He perceived the dominance of the U.S. dollar, along with the UN, the WTO, and even NATO, as systems that favored multilateralism and the interests of other countries over those of the U.S. From this viewpoint, the U.S. often found itself at a disadvantage in international institutions where consensus-driven decisions were made, potentially compromising American interests in favor of global cooperation or the needs of smaller nations.<sup>24</sup>

Trump was especially critical of the UN and WTO for advancing international norms and policies undermining U.S. sovereignty. For instance, he publicly opposed the UN's multilateral approach to climate change (e.g., the Paris Agreement),<sup>25</sup> advocating instead for nations to engage in bilateral negotiations that would better serve American interests.

#### **4.5. Trump's Discontent with Soft Power**

Despite recognizing the strategic value of soft power, Trump's approach often leaned towards hard power, prioritizing economic and military strength over diplomatic influence. In Trump's view, soft power, represented by institutions like NATO, was considered a burden on the U.S. rather than a means of global influence. He contended that NATO, established on collective defense, was unfair, as the U.S. shouldered most military expenditures. Concurrently, many European nations have not met the required defense spending targets (NATO members are supposed to spend 2% of their GDP on defense, but many European countries have not reached that benchmark).

His criticism of NATO remained consistent throughout his presidency. He questioned the necessity of the alliance, suggesting that the U.S. should reevaluate its commitments unless other NATO members increased their defense spending. Trump viewed NATO as an outdated institution that no longer reflected the geostrategic realities of the post-Cold War world, in which global threats (such as China and terrorism) required more targeted, bilateral engagements instead of collective defense arrangements. By questioning NATO's relevance, Trump aimed to reduce U.S. military commitments and assert U.S. dominance in global defense matters.<sup>26</sup>

#### **4.6. The United Nations and U.S. Interests**

Regarding the United Nations, Trump's administration often aimed to weaken the UN's authority when it conflicted with U.S. interests. For instance, Trump's decision to withdraw from

the Paris Climate Agreement in 2017 reflected his belief that the U.S. should not be bound by international agreements that could jeopardize its economic or industrial competitiveness. He also favored bilateral negotiations over multilateral ones in trade and diplomacy, arguing that such deals would enable the U.S. to secure better terms than possible through broad, multilateral agreements.<sup>27</sup> Furthermore, Trump's use of the U.S. veto power in the UN Security Council, especially regarding Middle Eastern conflicts, was often employed to block resolutions he considered harmful to U.S. interests or to Israel. For instance, in 2017, the U.S. vetoed a UN Security Council resolution condemning its decision to recognize Jerusalem as Israel's capital. This move ignited significant international criticism but aligned with his policy priorities. Trump's veto application highlighted his administration's focus on protecting American geopolitical interests and challenging global consensus when it contradicted U.S. objectives and priorities.<sup>28</sup>

#### **4.7. Trade and Economic Nationalism: WTO and Tariffs**

Trump's stance on the World Trade Organization (WTO) stemmed from his skepticism toward multilateralism and trade agreements that he believed did not benefit U.S. interests. He contended that global trade rules established by institutions like the WTO were biased against the U.S. and preferential to other nations, especially China. His administration condemned China's trade practices, accusing it of unfair trading and stealing intellectual property. This ultimately resulted in the U.S.-China trade war in 2018, marked by imposing aggressive tariffs on billions of dollars' worth of goods. Trump sought to diminish the WTO's ability to resolve disputes that undermined American economic interests. His administration obstructed appointments to the Appellate Body, the WTO's dispute resolution mechanism, greatly paralyzing the organization's functionality.<sup>29</sup> In his view, the WTO has become a vehicle for globalist interests that, in his opinion, are harming American workers and industries.

#### **4.8. The Contradiction: Soft Power as a Double-Edged Sword**

Trump's rejection of these multilateral institutions and his criticism of NATO, the UN, and the WTO were, in some respects, efforts to reclaim power for the U.S. by diminishing the influence of international institutions that constrained it. However, in doing so, he also weakened the very soft power that historically enabled the U.S. to shape the international order in ways that aligned with its interests. By withdrawing from these platforms, Trump risked isolating the U.S.

from global discussions on security, trade, climate change, and other issues necessitating multilateral cooperation. Nevertheless, Trump's position could also be considered part of a broader reassertion of hard power and a desire to establish the U.S. as the leading player in global affairs. This marked a departure from the post-World War II liberal order, which emphasized multilateralism and global cooperation, moving towards a more transactional, power-based diplomacy.

#### **4.9. A Tactical Retreat from Soft Power**

Trump's approach to international institutions and pursuit of an America First agenda can be viewed as a tactical retreat from soft power in favor of more direct, hard-power strategies. By undermining the U.S.'s role in organizations like the UN, NATO, and the WTO, he aimed to recalibrate global power dynamics to ensure that U.S. interests were prioritized and that other countries contributed more fairly to global security and economic systems. Although this strategy allowed for greater unilateral action, it also incurred significant costs, eroding the U.S.'s ability to shape global norms through diplomatic channels and international cooperation.

Trump's policies reflected a desire to reclaim control over international processes. However, they ultimately highlighted the limitations of hard power in a globally interconnected world, where effective leadership often requires both hard and soft power. In the long term, this approach may have weakened the U.S.'s global influence, undermining its soft power and leaving gaps in multilateral cooperation that rivals like China have been eager to exploit.<sup>30</sup>

#### **5.0. The Interplay of Neo-Mercantilism and Neo-Imperialism**

The relationship between neo-mercantilism and neo-imperialism is reciprocal, reinforcing one another. On one hand, the military and political control exerted through neo-imperialism ensures that the U.S. can secure favorable trade terms and protect its strategic interests abroad. On the other hand, the economic practices of neo-mercantilism help finance and maintain the global network of American influence. The U.S.-China trade war, for example, involved both economic protectionism through tariffs and broader geopolitical aims aimed at curbing China's rise as a global power.<sup>31</sup> In this regard, neo-imperialism and neo-mercantilism represent two sides of the same coin, aimed at preserving and expanding U.S. hegemony in the international system. Furthermore, the military-industrial complex and the U.S. defense sector play a

significant role in neo-mercantilist strategies by ensuring the U.S. maintains global leadership in defense technologies. The sale of military equipment to allied nations, establishing foreign military bases, and projecting force in strategic regions enhance the U.S.'s economic and geopolitical influence leverage.<sup>32</sup>

### The Future of U.S. Neo-Mercantilism and Neo-Imperialism

As the U.S. navigates an increasingly multipolar world order, the future of neo-mercantilism and neo-imperialism will rely on its capacity to adapt to shifting global dynamics. The rise of China, the resurgence of Russia, and the challenges posed by regional powers will compel the U.S. to enhance its strategies. While the U.S. may continue to pursue economic sovereignty and military superiority, it is likely to face growing resistance to its imperial practices, especially as new powers arise on the global stage.<sup>33</sup>

Moreover, domestic political factors such as rising populism, inequality, and calls for economic reform will shape the future of U.S. economic policy. The ongoing debate over the government's role in regulating trade and investment will likely determine whether neo-mercantilism becomes a permanent feature of American economic policy or if the U.S. will return to a more cooperative and open trading system.<sup>34</sup>

### Chapter Conclusion

In conclusion, neo-mercantilism and neo-imperialism are not isolated strategies but mutually reinforcing pillars of a broader U.S. agenda to maintain economic and geopolitical supremacy in a changing global order. Neo-mercantilist trade policies, such as tariffs, industrial subsidies, and domestic procurement mandates, are often supported by neo-imperialist tools, including military alliances, strategic sanctions, and institutional dominance. Together, they create a feedback loop in which economic leverage bolsters geopolitical influence and vice versa. However, this approach poses significant challenges for multilateralism, as it undermines international norms of cooperation and heightens zero-sum competition. As emerging powers like China, India, and Russia assert their regional and global influence, the U.S. risks isolating itself by relying too heavily on coercive measures and withdrawing from its once-led multilateral institutions. Future administrations will encounter a critical inflection point: whether to double down on nationalist strategies or re-engage with global institutions in ways that adapt to

multipolar realities while preserving U.S. influence through diplomacy, innovation, and shared leadership. An important instrument in sustaining U.S. global leadership is the dominance of the U.S. dollar. The next chapter, *The Future of the American Dollar; the Greenback*, examines the central role of the U.S. dollar in shaping the geopolitical and economic power of the United States. As the world's dominant reserve currency and preferred medium for global transactions, the dollar facilitates international trade and underpins Washington's capacity to project influence without relying solely on military force. This chapter will explore the historical foundations of the dollar's supremacy, assess current challenges from rival currencies and digital alternatives, and evaluate the sustainability of dollar hegemony in an increasingly multipolar financial system.

## Chapter 5: The future of the American Dollar, the Greenback

The global dominance of the U.S. dollar is crucial to understanding America's ability to exert influence through its economic and foreign policy strategies. As the world's primary reserve currency and medium of international trade, the dollar is a financial instrument and a potent geopolitical tool. This chapter examines the dollar's dual role in facilitating neo-mercantilist and neo-imperialist strategies: neo-mercantilism through its reinforcement of trade imbalances and domestic economic advantages, and neo-imperialism through its employment in enforcing sanctions, shaping global institutions, and sustaining financial hegemony. This chapter contends that the global dominance of the U.S. dollar allows the United States to pursue neo-mercantilist trade advantages and project neo-imperialist power without resorting to traditional coercion. The following sections will explore the historical and structural foundations of dollar supremacy, analyze how it supports U.S. trade policy and international sanctions, and assess current challenges to its hegemony in an increasingly multipolar world.

### 5.1. The U.S. Dollar and Neo-Mercantilism: Economic Control and Trade Surpluses

The role of the U.S. dollar in both **neo-mercantilism** and **neo-imperialism** is crucial, serving not only as the global reserve currency but also as a key tool for exercising economic power and sustaining American hegemony in the international system.<sup>1</sup> The dollar's dominance in global finance enables the United States to leverage economic and geopolitical influence to reinforce its neo-imperialist and neo-mercantilist strategies.<sup>2</sup> Let us explore how the U.S. dollar fits into these frameworks, examining its influence on trade policy, global finance, and international diplomacy. To understand the geopolitical power of the U.S. dollar today, it is crucial to examine the historical developments that secured its global dominance. The foundation was laid with the Bretton Woods Agreement in 1944, establishing the U.S. dollar as the world's primary reserve currency, pegged to gold at \$35 per ounce. This system stabilized postwar global finance and made the dollar the benchmark for international trade and settlements. However, by the late 1960s, increasing U.S. deficits and declining gold reserves made the system unsustainable. In response, former President Richard Nixon unilaterally ended the dollar's convertibility into gold in 1971, a move known as the "Nixon Shock." This effectively dismantled the Bretton Woods system and ushered in the era of fiat currencies. The dollar's primacy, however, was reinforced through the creation of the petrodollar system in the 1970s,

when the U.S. reached an agreement with Saudi Arabia and other OPEC nations to price oil exclusively in dollars. This ensured sustained global demand for the dollar, as countries needed it to purchase energy. These historical milestones cemented the dollar's centrality in global finance and trade, allowing the U.S. to maintain influence without relying on formal empire—a key condition for neo-mercantilist and neo-imperialist strategies. The U.S. dollar has maintained its dominance in global financial markets since the end of World War II. Nearly 60 percent of global foreign exchange reserves are held in U.S. dollars, with the euro trailing at approximately 20 percent. Furthermore, the dollar is used in about 90 percent of all foreign exchange transactions and is the invoicing currency for nearly half of global trade. This widespread usage is supported by the dollar's reputation as a safe-haven currency during times of crisis. For example, during the 2008 global financial crisis and the market turmoil induced by COVID-19 in 2020, investors turned to the U.S. dollar, trusting it to preserve value amid economic uncertainty.

### **5.1. The U.S. Dollar and Neo-Mercantilism: Economic Control and Trade Surpluses**

In neo-mercantilism, the main goal is to accumulate national wealth, typically framed as maintaining favorable trade balances and increasing foreign reserves.<sup>3</sup> The U.S. dollar is key in achieving these objectives in several ways:

#### **5.1.1. The Dollar as a Global Reserve Currency**

The U.S. dollar is the world's leading reserve currency,<sup>4</sup> held by foreign governments, central banks, and private investors as a store of value and a means of conducting international trade. Consequently, countries around the globe often need to hold substantial amounts of dollar-denominated assets, such as U.S. Treasury securities, within their foreign exchange reserves.<sup>5</sup> This creates a continuous demand for the dollar, strengthening U.S. economic power by keeping interest rates relatively low and allowing the U.S. to handle trade deficits without significant consequences. The U.S. benefits from this position by financing its budget and trade deficits by borrowing in its currency. This gives the U.S. government greater fiscal flexibility compared to other nations relying on foreign currencies and external debt. For instance, the U.S. can launch large-scale fiscal stimulus programs without the same degree of concern about inflation or debt sustainability that other countries experience, whose currencies are not in global demand.<sup>6</sup>

### **5.1.2. The Role of the Dollar in Trade Policy**

The U.S. dollar's role in global trade also reinforces neo-mercantilist practices, especially in managing trade imbalances. As the primary currency for international transactions, global trade settlements, particularly in energy markets like oil and gas and commodities, are generally conducted in dollars.<sup>7</sup> This creates a scenario where the U.S. exerts significant influence over global trade flows and can adjust its currency value to sway its trade balance. For instance, the U.S. can decrease the dollar's value by manipulating the exchange rate or employing quantitative easing (observed during the 2008 financial crisis), making American exports cheaper and imports more expensive.<sup>8</sup> This strategy encourages domestic production and enhances the trade balance. This approach is fundamental to neo-mercantilist policies, strengthening domestic manufacturing and reducing trade deficits by strategically influencing currency values.<sup>9</sup>

### **5.1.3. Dollarization and Its Impact on Trade Sovereignty**

In some cases, the U.S. has extended the reach of its dollar-centric system through dollarization. This happens when countries adopt the U.S. dollar as their official currency, either fully or partially, which diminishes their sovereignty over monetary policy and connects them to the U.S. economic system.<sup>10</sup> Dollarization can act as a tool of neo-imperial influence, as it creates an economic environment where countries are tied to U.S. economic conditions, making them more vulnerable to American policy changes and global financial fluctuations controlled by U.S. institutions.

## **5.2. The U.S. Dollar and Neo-Imperialism: The Instrument of Global Economic Power**

In the context of neo-imperialism, the U.S. dollar plays a significantly deeper role in shaping global power dynamics.<sup>11</sup> Using it in international finance and trade, the U.S. has exercised considerable control over other nations, leveraging the dollar to enforce compliance with its geopolitical interests. This is achieved through financial sanctions, currency manipulation, and the dollar's exclusivity in global trade.

### **5.2.1. Sanctions and Financial Warfare**

One of the most potent tools of neo-imperialism enabled by the U.S. dollar is financial sanctions. Since the U.S. dollar is the dominant currency in global finance, the U.S. can impose

sanctions on foreign entities by cutting them off from the U.S.-led global financial system. The Office of Foreign Assets Control (OFAC),<sup>12</sup> a U.S. Department of the Treasury division, has broad authority to impose sanctions on foreign governments, companies, and individuals by freezing assets held in U.S. banks and limiting access to U.S. dollars. For instance, U.S. sanctions against countries such as Iran, North Korea, and Russia are often enforced by restricting access to the global dollar-based financial system. These actions can result in significant economic repercussions, disrupting trade, access to capital, and international transactions, forcing these countries to comply with U.S. geopolitical demands or face economic isolation.<sup>13</sup> By using the dollar as a means of coercion, the U.S. can project its imperial power across borders without resorting to military intervention, illustrating how the currency bolsters neo-imperial strategies of influence and control.

### **5.2.2. The Dollar as a Tool of Economic Diplomacy**

Beyond its role in sanctions, the U.S. dollar is a tool for economic diplomacy. Given that the U.S. holds a pivotal position in global financial institutions such as the World Bank, International Monetary Fund (IMF), and World Trade Organization (WTO), it can utilize the dollar to influence the global economic landscape. Institutions led by the U.S. adopt policies that often favor American interests, promoting free-market capitalism, privatization, and liberal trade practices, which generally align with the goals of American multinational corporations.<sup>14</sup> These institutions also strengthen U.S. influence by maintaining the dollar's status as the standard for international loans, development aid, and trade. For example, the IMF's lending policies require borrowing countries to accept specific structural adjustment programs, often opening markets for U.S. businesses, thereby ensuring that American companies benefit from the liberalization of foreign market economies.<sup>15</sup> By managing access to dollar-denominated capital, the U.S. gains the leverage to shape political and economic reforms globally, advancing its imperial interests.

### **5.2.3. Global Dollar Hegemony and Geopolitical Strategy**

The dollar's hegemony is essential for understanding U.S. neo-imperialism. The Bretton Woods system, established after World War II, created a framework in which the U.S. dollar became the anchor currency of the global monetary system. Its convertibility to gold and status as the global reserve currency allowed the U.S. to leverage its financial position to influence international economic affairs policies.<sup>16</sup>

Even after the end of the gold standard, the U.S. continues to exert control over global liquidity by playing a central role in international finance. Many countries, especially in the Global South, rely on the U.S. dollar for trade and investment. This dollar-based system reinforces the U.S.'s strategic objectives, allowing it to maintain its financial dominance, influence energy markets, and establish a structure prioritizing its economic interests worldwide.<sup>17</sup> A deeper engagement with critical monetary theory, particularly the influential work of Benjamin Cohen,<sup>17a</sup> on currency hierarchies, offers valuable insight into the structural underpinnings of global financial power. Cohen's theory challenges the assumption that all national currencies operate on a level playing field within the international system. Instead, he introduces the concept of a hierarchical structure among currencies, where only a few, such as the U.S. dollar, the euro, and, to a lesser extent, the Japanese yen, occupy the top tier. These elite currencies enjoy wide acceptance in international trade, serve as benchmarks for pricing global commodities, and are held in significant quantities by central banks as reserve assets. Their dominance is not solely due to economic size or trade volume; it also stems from institutional credibility, political stability, and deep financial markets—factors that foster global trust and encourage cross-border usage. In contrast, most of the world's currencies are relegated to a subordinate tier. They lack international recognition, are rarely utilized outside domestic jurisdictions, and depend heavily on top-tier currencies for trade, borrowing, and financial stability. This stratification leads to asymmetrical interdependence, where weaker currency regimes are vulnerable to external shocks and policy decisions by dominant currency issuers like the United States. For example, a U.S. Federal Reserve interest rate hike can trigger capital outflows, inflation, or debt crises in lower-tier economies—events they cannot control but must endure. The international monetary system is not a neutral platform for equal exchange; rather, it is a structure that reinforces global power dynamics through the very architecture of money itself. This perspective becomes even more instructive when considered alongside Modern Monetary Theory (MMT).<sup>17b</sup> MMT argues that sovereign states that issue and control their fiat currency, such as the United States, are not financially constrained like households or businesses. These governments cannot involuntarily default on debt issued in their own currency because they can always create more currency to meet obligations. According to MMT, the fundamental constraint is not the size of the deficit but the risk of inflation. If inflation is controlled, expansive fiscal policies such as public investment, social spending, and large-scale military outlays can be pursued without triggering a solvency

crisis. This explains why the United States, unlike many developing nations, can accumulate substantial debt while maintaining investor confidence and low borrowing costs. When combined, Cohen's and MMT's frameworks help elucidate both the enduring supremacy of the dollar and the extraordinary fiscal latitude the U.S. government enjoys. The privileged position of the U.S. dollar in the global hierarchy grants structural power over other nations, while domestic sovereignty regarding dollar issuance provides functional independence in fiscal matters. This dual advantage ensures that the United States can continue to shape global economic norms and project power across borders through financial means. Importantly, these theories go beyond purely economic explanations, revealing how monetary order is embedded in power hierarchies, institutional design, and ideological assumptions about whose money matters. Incorporating such perspectives would deepen our understanding of the monetary foundations of American geopolitical dominance and highlight why even emerging alternatives like the Chinese yuan or digital currencies face immense structural hurdles in displacing the dollar's central role.

#### **5.2.4. Challenges to Dollar Dominance**

However, the dominance of the dollar presents challenges. Countries like China, Russia, and Iran have sought alternatives to the U.S. dollar by promoting bilateral trade agreements in their currencies, digital currencies, and alternative financial infrastructures, such as the Chinese Yuan (Renminbi) and the Russian currency Ruble.<sup>18</sup> While these efforts have not yet posed a direct threat to the dollar's hegemony, they suggest potential shifts in the global financial landscape that could undermine U.S. control over global finance in the long term. Although the U.S. dollar remains the dominant currency in international finance, its supremacy is increasingly challenged by traditional fiat alternatives like the euro and yuan and emerging digital currencies. The euro, introduced in 1999, has gained global significance and accounts for about 20% of global foreign exchange reserves. However, its influence is limited by political fragmentation within the European Union and the lack of unified fiscal policies. The Chinese yuan (or renminbi) has seen gradual internationalization, particularly through China's Belt and Road Initiative and the establishment of offshore yuan clearing centers. Still, capital controls and limited convertibility have hindered their broader adoption. These constraints emphasize the enduring appeal of the dollar's liquidity, trust, and institutional backing.

Nevertheless, the monetary landscape is evolving rapidly with the emergence of Central Bank Digital Currencies (CBDCs). China has launched the e-CNY, the world's most advanced primary sovereign digital currency pilot, to reduce reliance on the dollar in cross-border trade and enhance domestic surveillance capabilities. In contrast, the U.S. has adopted a more cautious approach to a digital dollar, citing concerns about privacy, cybersecurity, and the banking system's stability. Nevertheless, the rise of CBDCs represents a critical inflection point. A well-designed digital dollar could reinforce U.S. financial hegemony by maintaining its central role in a digital economy. However, delays in adoption risk conceding strategic ground to more agile competitors like China. Thus, the future of the dollar's dominance may depend on macroeconomic fundamentals and the U.S.'s ability to innovate within this new digital financial framework.

### **5.3. Conclusion: The Dollar's Role in Neo-Mercantilism and Neo-Imperialism**

This chapter argues that the global dominance of the U.S. dollar enables the United States to pursue neo-mercantilist economic advantages and exert neo-imperialist influence without relying on traditional coercive methods. As the global reserve currency, the dollar allows the U.S. to finance trade deficits, impose sanctions, and shape international norms through multilateral financial institutions.<sup>19</sup> While competitors like the euro and yuan offer partial alternatives, and the rise of Central Bank Digital Currencies (CBDCs) signals a potential reshaping of global finance, no rival currency has yet matched the dollar's distinct blend of liquidity, credibility, and institutional support. However, this dominance is not bulletproof. Structural shifts in the global landscape, including the growing push for de-dollarization, the geopolitical fragmentation of financial systems, and digital monetary innovation, suggest that the dollar's centrality may encounter greater challenges in the coming decades. The resilience of U.S. financial supremacy will depend on its capacity to adapt to these transformations while managing domestic economic pressures and strategic competition abroad. In the next chapter, we will examine the broader context in which these monetary shifts are occurring: the unraveling of globalization. We will investigate how rising protectionism, geopolitical rivalry, and fragmented supply chains undermine the economic integration that characterized the post-Cold War era, and what this means for the future of American power in a multipolar world.

## Chapter Conclusion

This chapter has examined the multifaceted role of the U.S. dollar as a linchpin of America's global economic influence, emphasizing how it enables the United States to pursue both neo-mercantilist and neo-imperialist strategies with unprecedented effectiveness. As the world's dominant reserve currency and primary medium for international transactions, the dollar has supported U.S. hegemony in the post-Bretton Woods era not through territorial expansion or conventional imperialism, but by utilizing financial infrastructure, institutional design, and monetary dominance. The dollar's global supremacy enables the United States to maintain persistent trade and budget deficits without triggering the economic instability that such imbalances typically cause in other countries. This capability is founded on a deeply entrenched **"exorbitant privilege,"** where global demand for dollar-denominated assets ensures the dollar's liquidity, enhances its perception as a safe haven, and keeps U.S. interest rates relatively low. The ability to borrow in one's own currency and issue debt eagerly purchased by foreign governments, institutions, and investors illustrates a unique position of structural power—a form of invisible leverage embedded in global finance. From **a neo-mercantilist perspective,** the dollar empowers the United States to manipulate trade balances in its favor. By employing monetary tools such as quantitative easing or currency depreciation, the U.S. can adjust the relative competitiveness of its exports while protecting domestic industries. The dollar's role in energy pricing, primarily through the petrodollar system, further connects international trade to U.S. monetary policy, reinforcing American economic primacy. Additionally, dollarization and semi-dollarized economies heighten dependency on U.S. macroeconomic conditions, blurring the lines between voluntary participation and financial subordination. In terms of neo-imperialist strategy, the dollar serves as a powerful tool. Through institutions like the Treasury Department's Office of Foreign Assets Control (OFAC), the U.S. can impose unilateral sanctions with global ramifications, leveraging access to the dollar-based financial system as a means of compliance and coercion. Countries that resist U.S. foreign policy objectives, such as Iran, North Korea, or Russia, face not only political isolation but also functional exclusion from the financial channels of global trade. Furthermore, U.S. dominance in multilateral institutions such as the IMF and World Bank ensures that the rules governing international development finance and macroeconomic stabilization often reflect American preferences, expanding influence under the guise of economic governance. However, the chapter also acknowledges that **challenges to**

**dollar hegemony are intensifying.** Though constrained by internal fragmentation, the euro offers a viable, limited alternative. The Chinese yuan is gradually internationalizing, buoyed by China's global trade reach and institutional experiments like the Belt and Road Initiative. Even more transformative are the developments in **Central Bank Digital Currencies (CBDCs)**, particularly China's e-CNY, which seek to bypass dollar-denominated systems in cross-border payments. In this context, the U.S.'s hesitancy in advancing a digital dollar could become a strategic liability, exposing vulnerabilities in a digitized global economy where speed, sovereignty, and surveillance capacities redefine monetary power. While these emerging trends signal potential cracks in dollar supremacy, they have yet to displace the deep institutional entrenchment of the dollar. Trust in the U.S. legal system, capital markets, and regulatory infrastructure lends the dollar the credibility its competitors have yet to replicate. Nevertheless, structural shifts, multipolar geopolitics, digital disruption, and strategic decoupling suggest that the foundations of American financial dominance will require continuous adaptation. Benjamin Cohen's work reveals that not all currencies enjoy equal global standing; some act as "top-tier" vehicles for international reserves and trade, while others remain unclassified. This hierarchy illuminates the mechanisms by which dominant currencies facilitate global exchange and impose discipline and asymmetry on less powerful monetary regimes, and similarly, insights from **Modern Monetary Theory (MMT)**. MMT scholars argue that sovereign currency issuers like the United States face no inherent financial constraint on public spending, so long as inflation is kept in check. This perspective helps clarify how the U.S. can implement expansive fiscal programs without triggering debt crises that affect states dependent on foreign-denominated liabilities. In conclusion, the U.S. dollar is not just a currency but a strategic global power infrastructure. It bolsters America's capacity to project economic and political influence far beyond its borders, often without deploying a single soldier. However, this system, while strong, is not immune to challenges. The coming decade will test whether U.S. monetary supremacy can adapt to meet the demands of a more fragmented, digitized, and contested global order. The following chapter, *The End of Globalization*, interrogates the widely debated notion that we are witnessing the final chapter of the globalized era. While the title evokes a sense of finality, the analysis presents a more nuanced perspective: globalization is not disappearing, but evolving in response to profound geopolitical realignments, technological disruptions, and mounting environmental challenges. This chapter explores how the structures and flows that once defined

global integration are being reconfigured, marked by regionalization, supply chain resilience, digital trade, and strategic decoupling. Understanding this transformation is essential to anticipating the contours of the post-globalization world.

## Chapter 6: The end of globalization

Although the chapter's title, *The End of Globalization*, suggests a definitive and dramatic conclusion, the content reveals a more nuanced reality: globalization is not ending but undergoing a complex transformation. Rather than collapsing, globalization is adapting to shifting geopolitical, technological, and environmental pressures. The evidence presented, ranging from the resilience of global services trade to the rise of digital platforms and South-South economic integration, demonstrates that we are witnessing a reconfiguration rather than a retreat. Therefore, the chapter's thesis should be reframed to reflect this evolution. A more precise and accurate thesis would assert that globalization is transitioning into a more fragmented, digitally mediated, and sustainability-driven system shaped by regional blocs, emerging economies, and technological infrastructure. To provide readers with a coherent framework, the introduction should also be revised to serve as a roadmap for the chapter. After defining globalization and acknowledging its role in shaping the modern world, the revised introduction should briefly outline the chapter's structure: it will first examine the historical foundations of globalization, beginning with Bretton Woods, followed by a discussion of its beneficiaries, such as China, transnational corporations, and consumers, as well as those left behind, including blue-collar workers, SMEs, and even democratic institutions. The chapter then analyzes pivotal shocks like the 2008 financial crisis and the COVID-19 pandemic, which exposed globalization's vulnerabilities, before concluding with emerging trends such as digital globalization, environmental imperatives, and a new policy agenda to build a more inclusive and resilient global order. This approach enhances clarity, coherence, and provides a refined analytical lens through which readers can interpret the evolving nature of globalization.

### 6.1. Introduction

Globalization, the increasing interdependence of economies, cultures, and populations, has been one of the most transformative forces of the modern era.<sup>1</sup> It has reshaped global production networks, redefined trade relationships, and recalibrated political and cultural dynamics across continents. Enabled by advancements in technology, transportation, and liberalized trade policies, globalization has expanded international commerce, deepened financial integration, and facilitated the rise of multinational corporations. These developments have opened new markets, fostered innovation, and lifted millions from poverty. However, the benefits

have not been evenly distributed. Structural inequalities, labor dislocation, and environmental strain have created winners and losers across different regions and social classes. Contrary to alarmist claims of its demise, globalization is not ending but evolving. Recent data from the United Nations Conference on Trade and Development (UNCTAD)<sup>2</sup> reveals that 2024 global trade reached a record \$33 trillion, representing a 3.7% increase from the previous year. However, this growth is uneven: services trade surged by 9%, adding \$700 billion, while goods trade only rose by 2%, indicating a slowdown in traditional manufacturing flows. South-South trade also increased by 5%, emphasizing the diversification of trade relationships beyond the Global North. These figures suggest not a retreat but a recalibration of globalization, marked by slower, more regionally fragmented, and digitally intensified integration. This chapter analyzes this ongoing transformation by first tracing the historical rise of globalization, then examining its key beneficiaries—including China, transnational corporations, and global consumers—and its casualties, from blue-collar workers in developed economies to struggling SMEs and weakened democratic structures. It concludes by evaluating recent disruptions, such as the 2008 financial crisis and the COVID-19 pandemic. It explores emerging patterns like digital globalization and sustainability-led trade, offering insights into the contours of a more inclusive global economy in development.

### **6.1.1. Post-War Foundations: Bretton Woods and Beyond**

Two key immigrant figures profoundly shaped the U.S. and global financial order in the 20th century: Paul Moritz Warburg<sup>3</sup> and Harry Dexter White.<sup>4</sup> Warburg, a German-born banker from a prominent Jewish banking dynasty, immigrated to the United States in the early 1900s. Drawing on his extensive expertise in European central banking, particularly at the German Reichsbank, he became a leading advocate for banking reform in the U.S., especially after the Panic of 1907 exposed the perils of America's fragmented financial system. Although initially met with resistance, Warburg's influential essays and behind-the-scenes work with the National Monetary Commission laid the intellectual groundwork for the **Federal Reserve Act of 1913**.<sup>5</sup> Despite political pushbacks, many ideas in the Aldrich Plan were eventually incorporated into this legislation. As a founding member of the Federal Reserve Board (1914–1918), Warburg helped establish the centralized banking system that still supports U.S. monetary policy today. His European background did not limit his influence; it enhanced it, providing a systemic,

globally attuned vision that addressed America's increasing financial complexity. Similarly transformative was Harry Dexter White, the son of Lithuanian Jewish immigrants, who rose to prominence as a senior U.S. Treasury official during World War II. At the 1944 Bretton Woods Conference, Mr. White was the chief U.S. negotiator, going head-to-head with Britain's John Maynard Keynes to define the postwar global economic order. White envisioned a dollar-centric international system in which the U.S. dollar, backed by gold and fixed exchange rates, would become the cornerstone of global finance. Under his leadership, two major institutions were created: the International Monetary Fund (IMF),<sup>6</sup> which provides financial stability and short-term liquidity, and the World Bank,<sup>7</sup> which drives reconstruction and development. Rather than relying on colonial influence, White focused on entrenching U.S. leadership through economic diplomacy and institutional power. Together, Warburg and White, an immigrant or son of immigrants, demonstrated how monetary architecture could serve as a tool of national resilience and international dominance.

The modern era of globalization began in 1944 with the **Bretton Woods Agreement**,<sup>8</sup> which established the International Monetary Fund (IMF) and the World Bank. These institutions laid the groundwork for rebuilding war-torn economies and promoting trade cooperation. Fixed exchange rates under the gold-dollar standard stabilized currencies and facilitated cross-border investments. The Bretton Woods Conference of 1944 marked a watershed moment in global financial history, laying the foundations for the modern international economic order. Convened in the aftermath of World War II and attended by representatives from 44 allied nations, the conference sought to prevent economic instability and protectionist policies that had contributed to the Great Depression and the rise of global conflict. Its financial importance cannot be overstated: it established a framework for fixed exchange rates where currencies were pegged to the U.S. dollar, which was convertible to gold at \$35 per ounce. This arrangement stabilized currency markets and institutionalized the U.S. dollar as the world's reserve currency—a position it still holds today. The Bretton Woods system introduced multilateral oversight mechanisms by creating the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (now part of the World Bank), designed to support currency stability, economic development, and international trade. By anchoring global finance in the credibility and strength of the U.S. economy, the Bretton Woods Agreement created a predictable and cooperative monetary environment that facilitated unprecedented postwar growth, reconstruction

in Europe and Japan, and the rapid expansion of global trade. It also began a new era in which financial diplomacy and institutional governance would serve as instruments of international influence and economic interdependence. This period also saw the birth of the **General Agreement on Tariffs and Trade (GATT)** in 1947, which evolved into the **World Trade Organization (WTO)** in 1995. GATT helped reduce average global tariffs from 22% in 1947 to less than 5% by the 1990s, fueling an explosion in international trade.

### 6.1.2. The 1990s and Hyperglobalization

After the **fall of the Soviet Union in 1991**, the world entered a unipolar era dominated by liberal democratic capitalism.<sup>9</sup> Countries in Eastern Europe, Latin America, and Asia liberalized their markets. The rise of the internet and advances in container shipping and logistics gave birth to “hyperglobalization”—a term coined by economist Dani Rodrik<sup>10</sup> to describe the rapid deepening of trade and capital flows between 1990 and 2008.

During this phase, trade as a percentage of global GDP jumped from 39% in 1990 to over 61% by 2008,<sup>11</sup> while foreign direct investment (FDI) exploded, particularly into China and Southeast Asia.<sup>12</sup>

## 6.2. The Winners of Globalization

### 6.2.1. China: The Breakout Star

No country epitomizes the upside of globalization more than China. Following market-oriented reforms initiated by Deng Xiaoping in 1978, China emerged as the “world’s factory.” From 1980 to 2022, China’s share of global GDP increased nearly tenfold. The World Bank reported that China’s GDP reached \$17.96 trillion in 2022, making it the second-largest global economy.<sup>13</sup>

China’s economic rise was driven by:

- **Integration into Global Trade:** China’s accession to the World Trade Organization (WTO) in 2001 opened doors to global markets.
- **Export-Oriented Industrialization:** Strategic investments in ports, logistics, and manufacturing infrastructure positioned China as an export powerhouse.

- **Poverty Reduction:** Between 1981 and 2015, more than 850 million Chinese people were lifted from extreme poverty.<sup>14</sup>

These outcomes were not accidental; they were part of a calculated strategy to leverage global supply chains, attract foreign direct investment, and harness the benefits of scale.

### 6.2.2. Transnational Corporations (TNCs)

**Transnational corporations (TNCs)** are large business enterprises that operate in multiple countries beyond their home nation.<sup>15</sup> Unlike purely multinational corporations, which often have a clear central hub and foreign subsidiaries, transnational corporations (TNCs) tend to integrate operations across borders more smoothly. They often decentralize decision-making and adapt their strategies to local contexts while maintaining a unified global brand and core objectives. TNCs are typically involved in various industries, including energy, manufacturing, finance, technology, retail, and pharmaceuticals. Examples include Nestlé, Toyota, Unilever, and Apple. Structurally, transnational corporations are characterized by complex supply chains, cross-border investments, and the ability to shift resources—capital, labor, and technology—across countries to optimize efficiency and profitability. Their production processes may span several countries; for instance, raw materials might be sourced in one region, manufacturing might occur in another, and sales and marketing could occur elsewhere. This geographic dispersion gives TNCs significant economic leverage and flexibility, enabling them to benefit from lower labor costs, favorable regulatory environments, or tax incentives offered by host countries. The economic and political influence of TNCs is substantial. They often generate revenues exceeding some smaller nations' GDP, and their decisions can impact employment levels, labor standards, and environmental practices across multiple regions. This influence has sparked both praise and criticism. On one hand, TNCs are credited with driving global economic growth, technology transfer, and job creation. On the other hand, they face criticism for contributing to labor exploitation, environmental degradation, and tax avoidance through offshore practices and undermining local businesses and governments' regulatory sovereignty. TNCs have been central to globalization, promoting and benefiting from liberalized trade regimes, open capital markets, and global communication networks. Their power positions them as key stakeholders in international economic governance, often engaging with institutions such as the World Trade Organization (WTO), the International Monetary Fund (IMF), the World

Bank, and national governments. Understanding TNCs is essential for analyzing contemporary international trade, development, inequality, and corporate accountability issues.

Transnational corporations such as Apple, Samsung, Nike, and Nestlé symbolize the economic scope of globalization. These companies operate and market internationally, optimizing their cost structures and tapping into diverse labor markets.

Key advantages for TNCs include:

- **Global Value Chains:** Parts of a single product can be sourced from over a dozen countries before the final assembly.
- **Economies of Scale:** Larger production volumes, lower per-unit costs, boosting profitability.
- **Regulatory Arbitrage:** Corporations can choose jurisdictions with favorable tax or labor laws.

For example, Apple designs its products in California, manufactures components in Japan, South Korea, and Taiwan, assembles them in China, and distributes them globally. This flexibility enhances profit margins and makes advanced products more affordable for consumers worldwide. Following Trump's Tariffs Day announcements, Apple Inc. revealed plans to shift more of its assembly and production to Vietnam and India.

### 6.2.3. Consumers: The Everyday Beneficiaries

Consumers are among globalization's most consistent winners.<sup>16</sup> Benefits include:

- **Wider Choice:** Supermarkets now carry seasonal fruits from multiple continents, and e-commerce platforms offer products from across the globe.
- **Lower Prices:** Offshoring and competition have driven down prices for electronics, clothing, and household items.
- **Increased Quality:** Innovation and competition improve product design, performance, and durability.

Consider the automobile industry: once dominated by domestic players, markets such as the U.S. and Europe are now populated by Japanese, Korean, and increasingly Chinese manufacturers.<sup>17</sup> Increased competition has forced companies to offer more features at better prices.

#### **6.2.4. Global Institutions**

International bodies such as the WTO, IMF, and World Bank have seen their influence grow in a globalized world. Their impact includes:

- **Trade Liberalization:** The WTO has helped reduce tariffs and facilitate smoother trade relations.
- **Crisis Management:** The IMF provides emergency funding to countries facing financial instability.
- **Development Projects:** The World Bank funds infrastructure and health projects in developing countries, accelerating growth.

These institutions have facilitated global integration while promoting norms around transparency and legal frameworks.

#### **6.2.5. Financial Markets and Global Cities**

Cities like New York, London, Singapore, and Shanghai have emerged as financial command centers. Globalization has enhanced:

- **Foreign Investment:** Trillions of dollars flow across borders searching for returns from stocks, bonds, and startups.
- **Talent Magnetism:** Financial hubs attract top-tier professionals, boosting economic output and innovation.
- **Real Estate and Services:** Finance drives growth in related sectors, including consulting, real estate, and education.

As of 2023, over 55% of the world's assets under management were concentrated in just 10 global financial centers.<sup>18</sup>

### 6.2.6. The Expert Class

A new elite of global advisors—economists, consultants, and public intellectuals—has emerged. Forums like the World Economic Forum in Davos, the G20, and the IMF summits amplify their voices. These experts guide:

- **Regulatory Frameworks:** These advisors influence establishing global standards concerning data privacy, financial oversight, labor mobility, and trade regulations, aiming to balance economic growth with social responsibility.
- **Technological Transition Policies:** From digitalization and AI integration to industrial policy for the Fourth Industrial Revolution, their contributions shape the pace, scope, and fairness of technological adaptation across economies.
- **Climate Change Strategies:** In the context of global sustainability, these experts advocate for market-based solutions, carbon pricing mechanisms, and international coordination, framing climate action not only as an environmental imperative but also as an economic and geopolitical necessity.

Their growing influence shapes global discourse, though it has also drawn criticism for being out of touch with everyday challenges. Their growing influence shapes global discourse, yet it has also drawn criticism for being disconnected from everyday challenges. For instance, the World Economic Forum (WEF) has faced scrutiny for its perceived elitism and detachment from the realities of ordinary citizens. Critics argue that the WEF's focus on high-level discussions often overlooks pressing social issues, leading to questions about its relevance and impact on broader society. Similarly, former UK Prime Minister Tony Blair's recent comments on climate policy have sparked controversy. In a report by the Tony Blair Institute for Global Change, Blair suggested that current net-zero strategies are unrealistic and likely to fail, advocating for a greater emphasis on technological solutions like carbon capture. This stance was criticized by climate experts and politicians, who argued that it undermines the urgency of immediate action and could hinder progress towards emission reduction goals.<sup>18b</sup> These examples highlight the tension between global advisory elites and the public, emphasizing the need for effective policies attuned to diverse populations' experiences.

## 6.3. The Losers of Globalization

### 6.3.1. Blue-Collar Workers in Developed Economies

Globalization's most evident victims are blue-collar workers in developed economies, particularly in the U.S., the UK, and parts of Europe. From 1979 to 2019, employment in U.S. manufacturing fell from 19.6 million to 12.8 million.<sup>19</sup> Outsourcing, automation, and trade liberalization have contributed to this steep decline.

- Impacts include:
  - **Deindustrialization:** Once-thriving factory towns like Flint (Michigan) and Sheffield (UK) are facing economic decline.
  - **Wage Stagnation:** Real wages for non-college-educated workers have experienced minimal growth since the 1970s.
  - **Mental Health and Mortality:** A rise in “deaths of despair”—including drug overdoses, suicides, and alcoholism—has been observed in these communities.<sup>20</sup>

### 6.3.2. Japan and Europe: From Economic Giants to Stagnation

Japan's GDP fell from \$5.45 trillion in 1995 to \$4.2 trillion in 2023. Europe's share of global GDP declined from 25.7% in 1990 to under 15% by 2023.<sup>21</sup> Despite strong institutions and infrastructure, these regions face:

- **Aging Populations:** Fewer workers and higher pension costs.
- **Innovation Lags:** Inability to keep pace with digital transformation.
- **Political Fragmentation:** Brexit and EU austerity measures have strained unity and growth.

### 6.3.3. Consumers: Loss of Agency and Ethics

Although consumers enjoy more choices, they also face unintended consequences:

- **Low Transparency:** It is difficult to trace how or where products are made.

- **Ethical Compromises:** Many goods are produced under exploitative conditions. For example, Bangladesh's garment industry, a cornerstone of fast fashion, has experienced numerous factory disasters, including the 2013 Rana Plaza collapse, which resulted in the deaths of over 1,100 people workers.<sup>22</sup>
- **Environmental Toll:** Mass production and long-distance shipping have escalated carbon emissions and plastic waste.

#### 6.3.4. Small and Medium-Sized Enterprises (SMEs)

Globalization has often been unfavorable to SMEs:

- **Undercut by Multinationals:** Large firms can offer lower prices due to scale advantages.
- **E-Commerce Displacement:** Online giants like Amazon have squeezed traditional retailers.
- **Regulatory Burden:** SMEs struggle with the legal and financial resources to navigate complex global trade rules and regulations.

According to the OECD, SMEs account for over 95% of businesses worldwide but receive a disproportionately small share of global trade resources.<sup>23</sup>

#### 6.3.5. Democracy: A Quiet Casualty

Perhaps the most insidious casualty of globalization is public trust in democracy. Voters feel that unelected global institutions or corporate interests increasingly influence decisions. According to the Economist Intelligence Unit's 2024 Democracy Index, global democracy is at its lowest level since records began in 2006, with most of the world now living under hybrid or authoritarian regimes.<sup>24</sup>

- Indicators include:
  - **Erosion of Sovereignty:** Trade agreements often limit local legislative authority.
  - **Rise of Populism:** Politicians like Trump, Bolsonaro, and Le Pen have gained support by opposing globalization.

- **Civic Disengagement:** Disillusionment with elites has resulted in declining voter turnout and trust in institutions.

#### 6.4. The Turning Point: The 2008 Crisis and Its Aftermath

The 2008 global financial crisis shattered faith in globalization’s promise of shared prosperity. Key aftershocks include:

- **Public Bailouts, Private Profits:** While banks were rescued, ordinary people lost homes and jobs.
- **Rise of Protectionism:** Trade wars between the U.S. and China signaled a shift from liberalism to strategic nationalism.
- **Reshoring and Deglobalization:** COVID-19 and geopolitical tensions have accelerated efforts to relocate production closer to home.

The Financial Times dubbed this period “slowbalization”—a retreat from the hyper-globalization of the 1990s and 2000s.<sup>25</sup>

#### 6.5. The end of globalization?

Despite ongoing geopolitical tensions, supply chain realignments, and rising protectionist sentiments, recent data from the United Nations Conference on Trade and Development (UNCTAD) indicates that globalization remains strong. In 2024, global trade reached a record \$33 trillion, reflecting a 3.7% increase from the previous year. This growth was primarily driven by a 9% surge in services trade, which contributed \$700 billion, while goods trade grew by 2%, adding \$500 billion.<sup>26</sup> Developing economies played a significant role in this expansion, with their imports and exports rising by 4% in 2024, especially in East and South Asia. South-South trade also saw a 5% annual increase, emphasizing the strengthening of trade relationships among developing nations.<sup>27</sup> Although the fourth quarter of 2024 experienced a slowdown, with goods trade growth below 0.5% and services at 1%, the overarching trend suggests that globalization is adapting rather than fading. The resilience of services trade and the active engagement of developing economies underscore the ongoing interconnectedness of the global economy.<sup>28</sup>

In summary, the latest UNCTAD figures show that globalization is not ending but is evolving, with trade in services and developing economies leading this transformation.

## 6.6. Emerging Trends in Globalization

As we look forward, several transformative forces are reshaping globalization itself.

### 6.6.1. Digital Globalization

A new era of globalization is emerging—not based on goods, but on data and services. According to a McKinsey Global Institute report:<sup>29</sup>

- Cross-border data flows grew by 45 times between 2005 and 2019.
- Digital platforms now facilitate e-commerce, remote work, online education, and AI-driven collaboration.

Digital trade advantages tech-savvy countries and companies while disadvantaging those without adequate digital infrastructure. Developing nations risk being left behind without investing in broadband, education, and cybersecurity.

### 6.6.2. Green Globalization and Sustainability

The climate crisis has introduced a new dimension to globalization. There is increasing pressure for:

- **Sustainable Supply Chains:** Companies must monitor emissions, waste, and water use throughout their value chains.
- **Circular Economy Models:** Businesses are reexamining product life cycles; recycling, reuse, and remanufacturing are becoming more prevalent.
- **Carbon Border Adjustments:** In 2026, the European Union plans to impose a carbon tariff on imports from countries with lower environmental standards, the so-called CBAM agreement.<sup>30</sup> CBAM aims to ensure fair competition and support the EU's climate goals by aligning import carbon pricing with the EU's Emissions Trading System.

Investors are also adapting, as Environmental, Social, and Governance (ESG) funds reached \$2.5 trillion globally in 2023, indicating a paradigm shift in capital allocation.<sup>31</sup>

## Chapter Conclusion

In conclusion, globalization has profoundly reshaped the world, creating opportunities for economic growth, technological innovation, and cultural exchange. However, as the past few decades have demonstrated, these benefits have not been distributed evenly, exacerbating social inequalities, straining national industries, and jeopardizing democratic institutions. Despite ongoing shocks, including the 2008 financial crisis, the COVID-19 pandemic, and rising geopolitical tensions, globalization is slower and more fragmented. The latest UNCTAD data underscores this resilience: global trade reached a record \$33 trillion in 2024, propelled by a 9% increase in services and a rise in South-South trade, suggesting a shift toward diversified and digital global connections. Instead of signaling the end of globalization, we are witnessing its evolution. Looking forward, three potential scenarios may shape the next phase of globalization. First, managed multilateralism could emerge, where global institutions are reformed to reflect a multipolar world and foster fairer trade, environmental sustainability, and social protection. Second, techno-fragmentation might take hold, with data governance, digital currencies, and national tech standards dividing the global economy into competing digital ecosystems. Third, regional bloc dominance could increase as nations move toward localized supply chains and regional trade agreements, prioritizing resilience over efficiency. These scenarios are not mutually exclusive; each element is already in progress. What is certain is that globalization is no longer a one-size-fits-all phenomenon, but a complex, evolving system shaped by power, policy, and technology. To understand how the United States fits into this shifting landscape—both as a driver of global integration and a beneficiary of structural privilege—the next chapter examines the American trade deficit. It explores how deficits, instead of signs of weakness, are closely tied to U.S. monetary dominance and the global demand for the dollar. By unpacking the trade deficit's economic logic and geopolitical implications, we evaluate how America's power and privilege are maintained in an interconnected yet increasingly contested world order. As historian Niall Ferguson<sup>32</sup> once noted, “The enemies of globalization are not just protectionists but also those who pretend globalization benefits everyone equally.” With careful management, globalization can continue to be a positive force, enhancing lives, enriching societies, and addressing challenges too significant for any nation to tackle alone.

The next chapter, *America's Trade Deficit: A Symptom of Power, Not Weakness*, challenges the conventional narrative that persistent trade imbalances signify economic vulnerability. While the chapter opens with President Donald Trump's April 2, 2025

announcement of sweeping tariffs on imports from key trading partners, it moves beyond the headlines to interrogate the deeper meaning of the U.S. trade deficit. Far from being a sign of national decline, the deficit can be understood as a structural feature of the dollar's global role and America's unique position within the international financial system. This chapter explores how trade imbalances reflect the strength of U.S. consumption, investment attractiveness, and the dollar's reserve status, revealing how power, not weakness, often lies beneath the surface of economic asymmetry.

## **CHAPTER 7: America's Trade Deficit: A Symptom of Power, Not Weakness**

### **7.1. Introduction**

On April 2, 2025, President Donald Trump announced sweeping new tariffs on hundreds of billions of dollars' worth of imports from China, Mexico, and the European Union. Justifying the action, the administration declared a "national emergency" triggered by the United States' long-standing trade deficit, where the country consistently imports more goods and services than it exports.<sup>1</sup> This move quickly weakened global markets and led to debates over the meaning and consequences of America's trade imbalance. While trade deficits are often portrayed as symptoms of economic decline, this interpretation oversimplifies a far more complex reality.<sup>2</sup> For economists versed in international finance, America's trade deficit is less a sign of vulnerability than a reflection of its global financial strength, institutional credibility, and the unique privilege of issuing the world's primary reserve currency.<sup>3</sup> This chapter aims to demystify and situate the U.S. trade deficit within the broader global capital flows and American geopolitical power framework. It unfolds in five parts: first, by defining the trade deficit and explaining its structural drivers; second, by exploring how capital inflows and the dollar's global dominance sustain it; third, by assessing the limited effectiveness of protectionist policies like tariffs; fourth, by comparing the U.S. with other economies that cannot afford similar imbalances; and fifth, by outlining policy options for achieving more productive economic rebalancing.

### **7.2. Understanding the Trade Deficit**

#### **What Is a Trade Deficit?**

A trade deficit occurs when a country imports more goods and services than it exports. In 2024, the U.S. trade deficit in goods stood at roughly \$1.1 trillion, continuing a trend of deficits stretching back to the mid-1970s.<sup>4</sup>

While the term "deficit" evokes images of imbalance or overspending, it is crucial to distinguish between trade and budget deficits.<sup>5</sup> The former relates to the flow of goods and services, while the latter involves fiscal revenues and expenditure. A trade deficit indicates that Americans consume more foreign goods than foreigners consume American products.

## The Flip Side: Investment Surplus

The crucial insight, often overlooked in political rhetoric, is that a trade deficit is the mirror image of a capital account surplus. This means that foreigners invest more in the U.S. than Americans invest abroad. The equation is based on basic balance of payments accounting:

$$\text{Current Account} + \text{Capital Account} = 0$$

Therefore, if the U.S. has a current account deficit (more imports than exports), it must have a capital account surplus, which indicates that it attracts more foreign capital than it sends abroad.

<sup>6</sup> In essence, America runs a trade deficit because the rest of the world wants to invest in the U.S., buying Treasury bonds, corporate debt, stocks, real estate, and starting businesses.

## The Dollar's Dominance and Global Demand

One of the core reasons foreign capital floods into the U.S. is the U.S. dollar's global dominance. According to the International Monetary Fund (IMF), as of late 2024, approximately **58.4% of global foreign exchange reserves** were held in U.S. dollars.<sup>7</sup>

Why does the dollar have such power?

- **Stability and Trust:** The U.S. possesses deep, liquid capital markets and an independent judiciary. Investors have confidence in American institutions.
- **Global Usage:** Dollars are used in international trade, debt contracts, and savings worldwide—from oil sales in the Gulf to consumer credit in Southeast Asia.
- **Low Risk, High Liquidity:** U.S. Treasury securities are considered the safest assets worldwide. During uncertain times, capital tends to flow into U.S. bonds—ironically increasing the trade deficit further.

Foreigners who accumulate dollars through trade or finance need to invest them. Often, they reinvest in dollar-denominated assets, reinforcing the U.S. capital account surplus and, by necessity, the trade deficit.<sup>8</sup>

### 7.3. Tariffs and the Trump Doctrine

Trump's 2025 tariffs echo his earlier trade war from 2018-2019. However, as before, they are unlikely to reduce the trade deficit. Why?

**1. Tariffs Do not Decrease Capital Inflows:** The trade deficit will persist unless foreigners stop investing in U.S. assets. Tariffs may lower imports of certain goods, but the dollar will appreciate in response, making U.S. exports less competitive and restoring the deficit through other means.

**2. Substitution, Not Reduction:** If Chinese goods become costly, importers may turn to Vietnam, Mexico, or India—shifting trade rather than eliminating it.

**3. Retaliation and Uncertainty:** Tariffs invite countermeasures, disrupt supply chains, and create uncertainty, which dampens investment. The Peterson Institute for International Economics found that Trump's 2018 tariffs reduced U.S. manufacturing employment and increased input costs without improving the trade balance.<sup>9</sup>

### 7.4. The Tech Magnet: Why Capital Comes to America

Beyond currency, another significant draw for foreign capital is U.S. innovation. From Silicon Valley to biotech clusters in Boston, America remains a hub of technological entrepreneurship. Foreign investors are eager to invest in American startups, IPOs, and venture funds.

According to PitchBook,<sup>10</sup> over 25% of U.S. venture capital in 2023 came from foreign investors. These capital inflows further elevate the capital account and trade deficit.

When a French pension fund invests in a Palo Alto startup, it must first purchase dollars. This increases dollar demand, strengthens the dollar, and makes imports cheaper, increasing the trade deficit. This pattern reveals a paradox: the more successful the U.S. attracts capital and launches companies, the larger its trade deficit becomes.

### 7.5. Comparative Perspective: Other Countries Cannot Imitate the U.S.

Unlike most nations, the U.S. can sustain persistent trade deficits without depreciating its currency. Emerging markets that run deficits often face capital flight, currency crashes, and inflation.

Here are two examples:

- **Argentina:** Continuous trade deficits resulted in capital outflows and a 211% inflation rate in 2024.<sup>11</sup>
- **Turkey:** A chronically weak lira makes foreign borrowing costly and fuels trade volatility.<sup>12</sup>

These countries lack the institutional strength, currency credibility, and financial markets that support the U.S. system. They must stabilize trade to avoid crises. In contrast, America benefits from what former French president Valéry Giscard d'Estaing referred to as an “exorbitant privilege.”<sup>13</sup>

## 7.6. Food, Fuel, and the Tariff Ripple Effects

Trump’s April 2025 tariffs targeted manufactured goods, agricultural imports, and consumer goods. The consequences are already materializing:

- **Produce Inflation:** Mexico supplies nearly 90% of America’s avocado imports and half of its fruit and nuts. According to the USDA's April 2025 report, tariffs on Mexican produce have led to a 14% price increase.<sup>14</sup>
- **Retail Sector Shock:** Big-box retailers and auto manufacturers dependent on Asian imports are experiencing squeezed margins, leading to layoffs and warnings of rising prices through the summer.<sup>15</sup>
- **Supply Chain Disruption:** Just-in-time logistics firms report container delays, rerouting costs, and supplier confusion.<sup>16</sup>

The question is: What Would Fix the Trade Deficit? A trade deficit occurs when a nation consistently imports more goods and services than it exports, resulting in a negative trade balance. While often seen as a sign of economic vulnerability, a trade deficit is not inherently bad. However, persistently high deficits can indicate structural imbalances that lead to an economy becoming overly reliant on foreign production and capital. Addressing a trade deficit does not mean eliminating imports or artificially maximizing exports; rather, it necessitates a deliberate shift toward a more balanced, competitive, and resilient economic model. This requires a series of structural reforms that tackle the fundamental causes of the imbalance, promoting what economists call productive rebalancing. In this situation, a country's trade

position improves not due to economic contraction, but because of a stronger, more efficient domestic economy. One key strategy is enhancing export competitiveness.<sup>17</sup> This involves investing in innovation, technology, and research and development to boost the quality and productivity of domestic industries. High-value sectors like advanced manufacturing (e.g., electric vehicles, semiconductors, green energy technologies) and service industries such as software, finance, education, and consulting offer significant export potential. Facilitating access to foreign markets through comprehensive and fair trade agreements can aid domestic firms in scaling globally and diversifying export destinations. Increased exports generate foreign revenue while supporting job creation and driving investment in high-growth sectors. Another avenue is the substitution of imports, which emphasizes producing more essential goods domestically, particularly in strategic sectors like pharmaceuticals, medical devices, and electronics. This does not imply isolationism, but rather a targeted self-sufficiency in areas vital to economic security. By reshoring supply chains and supporting local alternatives when feasible, countries can diminish their exposure to global disruptions and enhance their resilience. Import substitution also fosters local investment, manufacturing, and employment. A realignment of exchange rates can also play a role.<sup>18</sup> A moderately weaker national currency makes exports more competitive in global markets by lowering their prices in foreign currencies, while simultaneously making imports more expensive, which can encourage domestic consumption of local products. However, exchange rate adjustments must be approached cautiously; they can trigger inflation, erode purchasing power, and disturb capital markets if not backed by credible fiscal and monetary policy. Trade imbalances often indicate broader macroeconomic issues, particularly the relationship between national savings and investment. Countries with low domestic savings and high consumption—often fueled by fiscal deficits or household debt—tend to finance these gaps through foreign borrowing, which supports higher import levels and widens the trade deficit. Tackling this requires increasing national savings by reducing budget deficits, incentivizing private savings (through tax-advantaged accounts), and promoting sustainable economic models that depend less on debt-financed consumption. A shift from consumption-driven growth to investment-led development reduces reliance on foreign capital and mitigates trade deficits.<sup>19</sup> Strategic trade policy and industrial development also provide tools for long-term rebalancing. Governments can assist emerging industries through intelligent, targeted policies, such as tax credits for clean energy, research and development grants, or advanced manufacturing subsidies.

Investing in education, vocational training, and digital infrastructure ensures the workforce is prepared for the demands of high-value export sectors. While tariffs may offer temporary relief for struggling industries, they are often a blunt instrument and should not replace a comprehensive industrial strategy.<sup>20</sup> The long-term health of trade relies more on competitiveness than protectionism.

It is also crucial to understand that not all reductions in trade deficits signify improvement.<sup>21</sup> In fact, during economic recessions, trade deficits often shrink temporarily, not because exports rise or imports fall due to strategic shifts, but because overall economic activity declines. Households spend less, businesses scale back, and imports naturally decrease as demand contracts. This phenomenon, known as recessionary contraction, is not a solution but a warning sign. The economy may appear to be "fixing" the trade deficit, but it does so through weakness, not strength. Actual progress occurs through productive rebalancing: when domestic industries become globally competitive, when consumers and businesses rely more on high-quality local production, and when the country exports more because it produces better, more innovative products. If conventional tools like tariffs prove ineffective or counterproductive, alternative approaches must come into play. These include reducing the budget deficit to increase national savings and free up capital for private investment; encouraging private savings through policy reforms that promote financial security and long-term planning; investing in export-oriented service sectors where the country has comparative advantages; and upgrading infrastructure: such as ports, highways, digital connectivity, and energy systems, to reduce logistical costs and enhance long-term productivity. Fixing a trade deficit is not about reducing trade but about reengineering the economy to compete more effectively.<sup>22</sup> It is about building a resilient, high-performance economic base that supports sustainable growth, domestic employment, and healthy integration with the global economy. A more balanced trade position will follow when this foundation is in place, not through decline but through deliberate and lasting progress.

## Chapter Conclusion

The U.S. trade deficit remains one of the global economy's most misunderstood yet strategically significant aspects. While political rhetoric often portrays the deficit as a sign of national decline, suggesting the loss of manufacturing jobs, weakened sovereignty, or unfair competition, the underlying reality is much more complex. As explored throughout this chapter, the trade deficit is not simply a result of imbalanced trade flows but a structural byproduct of America's long-standing economic privilege. It reflects a robust capital account surplus, where the rest of the world actively invests in the United States due to its deep financial markets, technological innovation, stable institutions, and, crucially, the unmatched status of the U.S. dollar as the global reserve currency. Foreign entities such as governments, corporations, and individuals purchase U.S. assets not out of coercion, but because American markets offer security, liquidity, and reliable returns. This global demand for U.S. assets drives up the dollar's value, subsequently making imports cheaper and exports more expensive, perpetuating the trade imbalance. However, this privilege is not without its costs or risks. While sustainable under current conditions, persistent trade deficits expose structural weaknesses in the domestic economy, most notably, a chronic shortfall in national savings and an overreliance on debt-financed consumption. If not managed carefully, this dynamic can erode long-term competitiveness, particularly in high-value manufacturing and export sectors. The Trump administration's return to protectionist tools, such as sweeping tariffs, may provide temporary political relief, but these measures fail to address the underlying issues. Tariffs disrupt global supply chains, strain alliances, and raise costs for American consumers and businesses without delivering sustainable improvements in the trade balance. As demonstrated, capital inflows and a strong dollar often negate any benefits from import restrictions, while retaliation from trade partners only adds to economic uncertainty. Comparative case studies reinforce this point: countries like Argentina and Turkey, which lack the dollar's status and U.S.-style institutions, face devastating consequences when trade deficits are coupled with capital flight. In contrast, the U.S. enjoys what French President Valéry Giscard d'Estaing once termed an "exorbitant privilege"—the ability to run persistent deficits without sacrificing monetary or geopolitical stability. However, this status is not guaranteed indefinitely; it depends on sustained global confidence in U.S. governance, economic vitality, and institutional integrity. If domestic policy veers into populism, fiscal recklessness, or technological stagnation, the conditions that support

dollar hegemony, and by extension, the trade deficit, could start to unravel. Therefore, rather than fixating on the size of the trade deficit, policymakers should prioritize strengthening the pillars that sustain it. This includes boosting national savings through fiscal discipline and private incentives, enhancing export competitiveness through investment in innovation and workforce development, and modernizing infrastructure to support globally integrated industries. In this context, trade deficits are not issues to be tackled with blunt instruments like tariffs; rather, they are indicators of broader economic dynamics that must be understood and managed. Notably, not all reductions in trade deficits are beneficial. As mentioned, recessions can temporarily shrink deficits through economic contraction, not productive transformation. The objective must be rebalancing through strength, not contraction through weakness. In closing, the U.S. trade deficit should be seen less as an emergency and more as a strategic mirror that reflects the strengths and vulnerabilities of the American economic model. The real issue is not merely the existence of a deficit, but the quality and sustainability of the economic activity that underpins it. Suppose the U.S. can continue to inspire global confidence through its democratic institutions, rule of law, innovation ecosystems, and macroeconomic stability. In that case, it can maintain the conditions that make this deficit viable and beneficial. The deeper question is whether this economic privilege is a permanent aspect of the international system or a fleeting advantage that could diminish under rising geopolitical pressure and internal fragmentation. The next chapter addresses this challenge directly, exploring how trade imbalances intersect with broader questions of national power, global trust, and the fragile architecture of 21st-century economic leadership. The next chapter, *The Future of Prosperity*, investigates the deeper forces shaping U.S. economic strategy, probing whether tariff-driven policies are truly the product of voter discontent in the Rust Belt or whether powerful corporate, ideological, and geopolitical interests are influencing the direction of American foreign and trade policy behind the scenes.

## Chapter 8: The future of prosperity

American foreign policy has long been intertwined with corporate interests. However, recent trade developments, particularly **the resurgence of tariffs and economic nationalism**, demand a closer examination of the forces driving these changes. Instead of attributing policy shifts solely to ideological advisors or electoral constituencies, this chapter argues that a complex array of stakeholders shapes the future of American prosperity. From tech billionaires facing regulatory challenges in Europe to foreign trade rivals like China and the European Union adjusting their strategies in response to U.S. tariffs, economic decisions are becoming increasingly integrated into a competitive global landscape. This chapter explores how prosperity is being redefined amid escalating geopolitical tensions, digital disruption, and protectionist trends. We begin by examining the influence of U.S. tech billionaires and their conflicts with European regulators. Next, we analyze China's strategic response to American tariffs, evaluate Europe's economic resilience and trade diplomacy, and explore how Asia and Africa reposition themselves in the global economy. The chapter concludes with vital lessons for future leaders and businesses operating in an era where economic power and political influence are inseparably linked.

### 8.1 Tech Billionaires

In a disruptive world, what do tech billionaires have against Europe, and why do they want to complicate life for Europeans? It feels like revenge for the EU's taxes. The notion that tech billionaires have something "against Europe" reflects a larger tension between big tech (primarily based in the U.S.) and European regulators.<sup>1</sup> Here is a breakdown of what is happening—not necessarily a personal "revenge" plot, but rather a mix of conflicting philosophies, money, and power:

#### 8.1.1. The Tax Angle: A Trigger

Europe has long pushed for **digital taxation**<sup>2</sup> targeting companies like Apple, Google, Amazon, and Meta — many have cleverly avoided paying significant taxes by routing profits through places like Ireland or Luxembourg. The EU's attempt to close those loopholes has sparked frustration among tech giants. Think of France's **Digital Services Tax (DST)**,<sup>3</sup> it hit a nerve. Tech billionaires (and their companies) feel they are being unfairly targeted, especially

since they argue they bring innovation and jobs. Europe counters: "You make billions from our citizens, pay your fair share." Finally, are not we all slaves of the Tech industry? If not, we are at least prosumers. We produce content, consume content, and leave our data for free. Is that healthy?

### 8.1.2. Regulation vs. Innovation: Two Different Mindsets

It is catchy because it captures a kernel of truth and considerable oversimplification. However, that is why it is repeated in boardrooms, think tanks, and Twitter/X. Here is the unspoken vibe behind each part:

- **"The U.S. invents"** → Silicon Valley, venture capital, unicorn culture, and the “move fast” mindset.
- **"Europe regulates"** → GDPR, Digital Markets Act, sustainability, digital sovereignty — basically, the EU is the world's watchdog.
- **"China copies"** → A swipe at China's past reputation for imitation... though these days, that is outdated. China's *also* innovating (look at TikTok, WeChat, or AI surveillance tech).<sup>4</sup>

But here is the twist:

China is innovating, Europe wants to lead ethically, and the U.S. is wrestling with how to rein in its giants. The triangle is shifting. The EU is pushing hard on GDPR, AI Act, DMA (Digital Markets Act),<sup>5</sup> and DSA (Digital Services Act)<sup>6</sup> to protect users and limit tech monopolies. Tech leaders often view this as an overreach that hinders creativity and growth. Therefore, when Elon Musk or Peter Thiel complain about Europe, it typically concerns bureaucracy and red tape, rather than taxes.

### 8.1.3. Power and Ego

Some tech billionaires (e.g., Musk, Thiel, Bezos, Zuckerberg) dislike being told what to do, particularly by unelected bureaucrats in Brussels. They view Europe as slow, risk-averse, and excessively controlling, while they consider themselves visionaries shaping the future. Thus, when the EU pushes back, they may respond with sarcasm or passive-aggressive tech decisions (such as “X” limiting access in the EU).<sup>7</sup>

#### **8.1.4. Cultural Clash**

- There is also a deeper philosophical difference:
- • The U.S. tech culture reveres disruption, speed, and wealth creation.
- • The EU ethos often prioritizes public welfare, sustainability, and ethical standards over mere profit.

When a European regulator says, “You cannot do that,” the American tech entrepreneur often hears something very different: “We hate progress.” What is intended as a call for accountability is interpreted as an attack on ambition. What is meant to uphold ethical standards feels, from across the Atlantic, like a rejection of dynamism. This misalignment of intention and perception fuels tension. Silicon Valley views Europe as risk-averse and anti-growth, while Brussels sees Silicon Valley as reckless, irresponsible, and unaccountable.<sup>8</sup> Both believe they are defending the future. And both are, in a way, just different versions of it.

### **8.2 And the other stakeholders?**

#### **8.2.1. The People’s Republic of China**

The United States imposed 125% tariffs on Chinese goods (April 9, 2025),<sup>9</sup> marking a dramatic and aggressive escalation, not just a trade policy but a form of economic weaponization with significant geopolitical implications. China, the U.S.'s primary target and largest trading partner in many sectors, must respond strategically, systematically, and with long-term foresight. Familiar with trade tensions, China reacted on April 8, 2025, with a response.<sup>10</sup> It has managed previous provocations with a measured approach, never overplaying its hand while consistently making its points. With a tariff as high as 145%, Beijing’s initial response would involve reciprocal action, targeting key sectors of the U.S. economy. Focus would shift to high-impact American exports, particularly those with political significance. Midwestern soybeans, agricultural products, liquefied natural gas, and petroleum would be among the first to feel the effects. China may also respond by imposing tariffs on key U.S. export sectors, including automobiles, aerospace components, and culturally significant goods such as whiskey, cosmetics, and luxury items. The strategic objective behind such measures would be to exert economic

pressure on American businesses and generate political consequences for U.S. policymakers responsible for the tariffs while carefully avoiding an uncontrollable escalation of tensions.

The United States has historically been among China's most lucrative export markets. However, imposing tariffs on this scale would likely accelerate a strategic decoupling already underway. The concept of “**dual circulation**,” which has gained prominence in Chinese policy discourse, would become increasingly central to Beijing’s economic strategy. Under this framework, China is expected to intensify efforts in three key areas:

- **Diversifying export markets** by expanding trade with emerging economies in Asia, Africa, Latin America, and the Middle East.
- **Stimulating domestic consumption** to cultivate a more robust internal market driven by a growing middle class.
- **Reducing reliance on the U.S. dollar** by promoting the international use of the renminbi (RMB) and strengthening alternative payment systems such as the Cross-Border Interbank Payment System (CIPS), thereby insulating financial transactions from American monetary influence.

Publicly, this strategic realignment would be presented not as a retreat, but as a proactive shift—an assertive reorientation toward economic self-reliance and regional leadership within a multipolar global order.

Beyond retaliatory tariffs, China holds considerable latent leverage due to its control over several critical nodes in global supply chains. A more comprehensive response could include non-tariff measures such as export restrictions, quotas, or licensing requirements, with a focus on:

- **Rare earth elements are indispensable for producing** advanced electronics, electric vehicles, and defense technologies. Rare metals, scarce earth elements, are essential to the United States due to their critical role in producing advanced technologies, including smartphones, electric vehicles, wind turbines, and a wide array of defense systems such as guided missiles, radar equipment, and satellite communications. These materials underpin both the green energy transition and national security infrastructure, making

secure and diversified supply chains a strategic priority for the U.S. Greenland has emerged as a significant point of interest in this context, as its vast, largely untapped reserves of rare earth minerals offer a potential alternative to China's near monopoly over global supply. With geopolitical tensions rising and the push for economic resilience intensifying, access to Greenland's mineral resources presents an opportunity for the U.S. to reduce dependence on foreign sources, foster transatlantic partnerships, and reinforce its industrial base in critical sectors.

- **Battery-grade materials** are essential for the ongoing transition to renewable energy and green technologies.
- **Active pharmaceutical ingredients (APIs)**, a domain in which China remains a vital supplier, particularly to the United States and other advanced economies.

Through these levers, China could assert significant influence while maintaining the appearance of a measured and strategic policy posture.

Rather than outright bans, these measures would be applied under national security, maintaining plausible deniability while **disrupting U.S. manufacturing capacity** in key industries.

With the American door slamming shut, China would push open others, expanding its role in non-Western alliances and trade systems. It would likely:

- Strengthen BRICS+, turning to Brazil, Russia, India, South Africa, and others for coordination and solidarity.<sup>11</sup>
- Expand the Belt and Road Initiative by offering infrastructure, credit, and partnerships to developing countries hungry for growth.<sup>12</sup>
- Champion multilateral frameworks like RCEP and seek a louder voice in the World Trade Organization, especially to challenge U.S. trade practices.
- Position itself as the voice of the Global South, drawing a stark contrast between China's cooperative trade narrative and America's punitive tariffs.<sup>13</sup>

This diplomatic offensive would have a clear subtext: “The U.S. may wall itself off, but the rest of the world remains open.”

More than any single policy, the heart of China’s long-term response would lie in technological self-sufficiency. Beijing would view the tariff shock not just as an attack, but as a call to arms. The state would flood research parks and tech zones with capital, accelerating progress in:

- Semiconductors to break reliance on Western chipmakers (see Huawei).
- Artificial intelligence and quantum computing will leapfrog ahead in future critical technologies.
- Clean energy, including solar, hydrogen, and battery storage.
- “Little giants”—specialized high-tech SMEs capable of replacing foreign suppliers.
- BYD (EV vehicles) is challenging Tesla Inc.

The goal would be clear: strengthening China's industrial backbone and ensuring no external power can slow its development.<sup>14</sup>

Alongside its economic response, China would launch a global messaging campaign, framing the U.S. tariffs as unjust, unilateral, and dangerous to global stability. Through state media channels, diplomatic platforms, and social media outreach, China would:

- Underscore its commitment to rules-based trade.
- Emphasize the collateral damage to American consumers and manufacturers.
- Portray the U.S. as retreating from global leadership while positioning itself as a responsible steward of economic cooperation.

The aim would be to rally domestic support and win hearts abroad, especially among neutral or non-aligned nations.

Conclusion: Adversity as a Strategy

A 145% tariff is not the beginning of the end for China; it would mark a new chapter in its global ascent. Beijing would respond not with impulsive fury but with measured force, guided by a long

view of history and power. China's response would unfold over the years, not just in news cycles. It would not be a defensive reaction but a strategic repositioning economically, diplomatically, and technologically. In the geopolitical game of the 21st century, while tariffs may spark a fire, a strategic vision will shape the future outcome.<sup>15</sup>

### **8.2.2. Europe: Quo Vadis?**

Europe, as a continent, shares many values with the U.S. The transatlantic partnership has been vital for the development of both regions. However, Europe faces economic challenges, particularly among the 27 European Union (EU) member states. The United Kingdom formally exited the EU on January 31, 2020, in a process known as Brexit. The EU's engine relies on a strong understanding between the French President and the German Chancellor. In recent months, both countries have encountered political instability. While the EU is not technically in a recession, the region grapples with persistent economic difficulties characterized by stagnating growth, varied national performances, and lingering post-pandemic pressures. The economic outlook remains fragile, and structural challenges impede recovery momentum. Although figures may suggest growth, the pace is sluggish and uneven, revealing a deeper, more complex set of challenges that many across the region still face. One of the most visible symptoms is low growth.<sup>15</sup> With GDP advancing at an annual rate of only 0.4% to 1.0%, the EU economy is growing too slowly to affect unemployment figures or household income significantly. For many European citizens, the so-called recovery feels more like a plateau. Compounding the issue is the divergence of economies within the Union. Some member states, like Ireland, Denmark, and Portugal, have relatively strong economic performance. In contrast, key players such as Germany and Austria have experienced slight contractions or near-zero growth. This widening gap between faster and slower economies has led analysts to describe a "two-speed Europe," a condition that challenges the effectiveness of common EU policy tools and sparks debate over solidarity and strategic direction.<sup>16</sup> Simultaneously, inflation and energy costs remain persistent threats to economic stability. Although inflation rates have eased from the spikes seen in 2022 and 2023, businesses and consumers continue to feel the strain from elevated energy prices, rising wages, and higher interest rates. These pressures have a chilling effect on investment and spending, further contributing to the overall slowdown. Another layer of difficulty lies in public debt and budget constraints. Several member states are burdened by high debt levels, which

restrict their ability to implement robust fiscal stimulus programs or invest in long-term growth initiatives. The result is a patchwork of national responses, some of which fall short of what is necessary to advance the economy. Lastly, geopolitical uncertainty looms large over Europe's economic prospects. The ongoing war in Ukraine, rising tensions in the Middle East, and shifting global trade dynamics keep investors and policymakers on edge.<sup>17</sup> These external risks and internal fragmentation dampen confidence in the EU's economic trajectory. In the expansive landscape of international trade, few relationships are as enduring and economically influential as that between the European Union and the United States. As of 2024, this transatlantic partnership remains robust, with total trade in goods between the two economic giants hitting an impressive €865 billion. The European Union exported €531.6 billion worth of goods to the U.S. while importing €333.4 billion. This resulted in a trade surplus of nearly €200 billion for the EU, a favorable testament to the strength and scale of its export-driven sectors. At the core of these exchanges were medical and pharmaceutical products, which led the list of goods flowing from Europe to America. In return, the EU imported substantial quantities of petroleum and related products from the U.S., highlighting the energy dynamics that underlie modern trade. The EU faced a 20% tariff imposed by the Trump II Administration.

However, while the U.S. occupies a significant position in the EU's trade portfolio, it is not the sole major player. The EU has established a broad and diverse network of trading partners, showcasing its global reach and economic resilience.

Among these, China remains a crucial force. Despite political complexities, the EU and China participate in strong trade, covering everything from electronics to machinery and rare earth materials.

Another key partner is the United Kingdom. Since leaving the EU, the UK has remained a significant economic counterpart, particularly in services, automobiles, and food products.<sup>19</sup> While Brexit has created new bureaucratic hurdles, the fundamental interdependence between the two markets has maintained active trade channels.

Switzerland plays a unique role. Long admired for its precision industries and financial services, Switzerland maintains a strong trade relationship with the EU, particularly in high-value sectors such as pharmaceuticals and machinery. Switzerland faces a 31% tariff, 11% higher

than its EU counterparts.<sup>20</sup> Is this a sign from the U.S. Trump II Administration that joining the EU has become necessary and that independence and neutrality are relics of the past?

Meanwhile, Turkey remains a vital link between Europe and Asia. The country's trade with the EU emphasizes automotive parts, textiles, and agricultural products, and it plays a critical role in supply chains across different industries.

These trading relationships form the backbone of the EU's external economic engagement. They are not just about numbers and contracts but also shared interests, interconnected industries, and the mutual benefits of cross-border collaboration. In an era of global uncertainty, the EU's ability to maintain and diversify its trade partnerships is one of its most vital strategic assets strengths.

In global commerce, even long-standing allies can find themselves at odds. Such was the case when the United States, under the second Trump administration, imposed a sweeping 20% tariff on European Union exports. This bold and unilateral move tested the resilience of one of the world's most formidable economic partnerships.<sup>21</sup>

For the European Union, imposing such tariffs represented more than a mere trade dispute—it signaled a challenge to its economic sovereignty, principles of multilateralism, and the foundation of transatlantic cooperation. The real question was not whether to respond, but how. Examining one of the most significant trade conflicts in recent history, the Airbus-Boeing dispute, helps us understand how the EU may react to such a challenge.

This transatlantic conflict lasted over 15 years and centered on government subsidies provided to Airbus (EU) and Boeing (US). Both sides accused each other of unfairly favoring their respective aerospace giants, resulting in a series of cases filed with the World Trade Organization (WTO). After years of legal disputes, the WTO ruled that both parties were at fault and permitted each side to impose retaliatory tariffs. In 2019 the U.S. imposed tariffs on \$7.5 billion of EU goods, including aircraft, wine, cheese, and olives. The EU retaliated in 2020 with tariffs on \$4 billion in U.S. exports, including aircraft and agricultural products.<sup>22</sup> Remarkably, however, the story concluded with both sides agreeing to suspend all retaliatory tariffs and work towards a long-term settlement in June 2021.<sup>23</sup> The resolution was not merely a triumph for diplomacy; it served as a model of measured retaliation followed by reconciliation, driven by strategic patience and

political maturity. This case illustrates how the EU can be firm and assertive in defending its economic interests without resorting to protectionism or abandoning multilateral channels. It showcases the value of engaging adversaries with a clear framework of rules while remaining open to cooperation once tensions ease. The scenario of 20% U.S. tariffs presents both a challenge and an opportunity for reflection for the EU.

What role does Europe want to play in the global economy? Is it a passive participant in worldwide trends or an active shaper of trade rules and standards? Can it develop a trade strategy that is not only reactive but also proactively aligned with its environmental goals, digital ambitions, and social values? In recent years, the EU has begun making progress in this direction. It has started linking trade agreements to climate commitments, labor standards, and ethics of digital initiatives. Although stalled, the Comprehensive Agreement on Investment (CAI)<sup>24</sup> with China and the EU's carbon border adjustment mechanism (CBAM)<sup>25</sup> exemplify how Europe incorporates normative goals into economic policy. In this broader context, responding to protectionist measures from the U.S., China, or any other partner goes beyond tariffs and balance sheets. It involves safeguarding the foundation of an open, rule-based international order and asserting Europe's importance. In summary, while the EU may not be in the depths of a recession, it is navigating a period of economic hardship and stagnation marked by complexity, uneven progress, and an urgent need for strategic clarity. If the EU aims to preserve its prosperity, it is time to establish deeper trade relationships with the rest of the world!

### **8.2.3. ASIA**

One challenge facing Asia is its diversity. Unlike the European Union, there is no unified Asian trade bloc with a single voice. China, Japan, India, ASEAN, and smaller states often have competing interests. Any coordinated response would require skilled diplomacy and economic solidarity, potentially through ASEAN-led forums, BRICS, or new coalitions of middle powers. However, if Asia can identify a common cause, U.S. tariffs may encourage deeper regional integration, long-overdue reforms, and renewed investment in self-reliance and technological leadership. How Asia responds could demonstrate economic strength and strategic posture maturity.<sup>26</sup> By selecting resilience over retaliation, innovation over isolation, and collaboration over provocation, Asia can turn a moment of crisis into a blueprint for a more autonomous and integrated future. Asia is no stranger to trade disputes. Countries such as Japan, South Korea, and

India have previously brought cases before the World Trade Organization (WTO). If U.S. tariffs are seen as violating WTO rules, several Asian governments may file formal disputes, which would strengthen global support for rules-based trade. Meanwhile, nations could leverage G20, APEC, or UNCTAD platforms to build coalitions that oppose unilateral trade measures and advocate for reforms in dispute resolution systems. One of Asia's notable advantages is its leadership in digital transformation. Countries such as Singapore, South Korea, and India are investing significantly in digital public infrastructure, e-commerce, and AI innovation. In response to tariffs, Asia might:

- Advocate for digital trade agreements that circumvent traditional tariff models.
- Innovate in fintech, telemedicine, and cross-border digital services, creating new economic channels less vulnerable to tariff barriers.

#### **8.2.4. AFRICA**

Tariffs could significantly impact commodity-dependent economies, but they might also expedite industrialization. Meanwhile, many African nations currently benefit from duty-free access to the U.S. market under the **African Growth and Opportunity Act (AGOA)**. A sudden implementation of tariffs could undermine that agreement's spirit, if not the letter. Africa's initial response would likely be diplomatic, aiming to maintain or renegotiate preferential access. Lobbying efforts in Washington by African ambassadors, trade representatives, and diaspora networks could urge Congress to reassess such tariffs' geopolitical and humanitarian implications. The most effective long-term response to external trade shocks resides within the continent itself: the African Continental Free Trade Area (AfCFTA).<sup>28</sup> Comprising 54 countries and 1.4 billion people, the AfCFTA is Africa's most ambitious economic initiative, aiming to create a single market that reduces tariffs, harmonizes standards, and promotes intra-African trade. If U.S. tariffs isolate Africa, it can turn inward, not as a retreat, but as a renewal. By investing in infrastructure, modernizing customs, and developing value-added industries, African economies can reduce their reliance on distant markets and build regional value chains. Imagine cocoa processed in Ghana, transformed into chocolate in Côte d'Ivoire, packaged in Nigeria, and exported to Egypt—all within tariff-free borders. That is the vision of the AfCFTA. However, the AGOA program will expire in 2025 unless it is renewed. If the U.S. opts for protectionism over partnership, Africa may instead pivot toward consolidating its own trade space.

Africa and Asia are actively reshaping their roles in the global trade landscape through strategic regional initiatives and digital advancements. In Africa, the African Continental Free Trade Area (AfCFTA) represents a transformative effort to create the world's largest free trade area by the number of participating countries. The World Bank projects that full implementation of AfCFTA could lift 30 million people out of extreme poverty and improve the incomes of nearly 68 million others living on less than \$5.50 per day by 2035.<sup>28a</sup> Intra-African trade has experienced significant growth, with the African Trade Report 2023 noting an 18.6% increase, reaching \$193.17 billion in 2022. However, challenges remain, especially for small and medium-sized enterprises (SMEs). Surveys indicate that while programs such as the African Growth and Opportunity Act (AGOA)<sup>28b</sup> have provided duty-free access to U.S. markets, African SMEs still face funding challenges that hinder their growth and ability to take advantage of such trade opportunities. In Asia, the development of digital infrastructure varies across countries, reflecting diverse approaches to modernization. Japan has made significant progress, with its fiber optic network reaching a 99.3% development rate and broadband subscribers totaling 43.8 million, including 36.6 million Fiber-to-the-Home (FTTH) users. In contrast, India has focused on establishing a comprehensive digital identity system through Aadhaar, assigning unique 12-digit identification numbers to over 1.4 billion residents. This platform facilitates access to various services, including banking, healthcare, and welfare programs, and has been praised for its role in streamlining government services and enhancing financial inclusion. Asia's commitment to economic integration is regionally evident through frameworks such as the Asia-Pacific Economic Cooperation (APEC) and the Regional Comprehensive Economic Partnership (RCEP). APEC's 21 member economies accounted for 61% of global GDP in 2023, highlighting its significant role in the global economy.<sup>28c</sup> RCEP, now in effect for all 15 member countries, aims to lower tariffs and create standardized trade rules, facilitating smoother and more efficient trade routes across the Asia-Pacific region. These developments underscore the proactive efforts of both continents to enhance economic resilience and extend their influence in an increasingly interconnected world.

### **8.3. What are the Lessons for Future Global Leaders and Businesses**

The global experience with Trump-era tariffs offers several critical lessons for future leaders and businesses operating in an interconnected world.

## **1. Trade Policy as a Tool of Power Politics**

First, trade policy has re-emerged as a vital tool of geopolitical strategy. Tariffs and trade restrictions serve as economic instruments for achieving political goals. Therefore, global leaders must view trade policy as a dynamic field influenced by nationalism, security interests, and power rivalries, particularly between the U.S. and China.<sup>29</sup>

## **2. Strategic Supply Chain Management**

Businesses have recognized the strategic importance of diversifying their supply chains. Companies that were overly reliant on a single country, particularly China, experienced significant disruptions during the trade war. Many multinational corporations started to explore “China+1” strategies or nearshoring alternatives to mitigate risks.<sup>30</sup> The emphasis has shifted from lowest cost to strategic resilience.

## **3. Rise of “Geo-Economics”**

The Trump administration’s approach reflects the growing prominence of geo-economics, employing economic tools to achieve geopolitical objectives. Future leaders must understand the relationship between economic and strategic factors and develop policies that balance openness with national interests. The rise of export controls on advanced technologies, sanctions, and investment screening mechanisms forms part of this new landscape.<sup>31</sup>

## **4. Need for Multilateral Reform**

While bilateralism has increased, the long-term stability of the global system requires that multilateral institutions evolve. The WTO must reform to stay relevant, particularly in dispute resolution, transparency, and addressing non-market economies. Scholars and policymakers concur that the rules-based system risks further erosion without reform.<sup>32</sup>

## **5. Corporate Diplomacy and Policy Engagement**

Companies can no longer afford to be passive observers of trade policy. Instead, they must engage in corporate diplomacy by proactively building relationships with governments and shaping trade discussions. Strategic lobbying, participation in trade advisory groups, and scenario planning are becoming essential corporate practices in this era of trade volatility.<sup>33</sup>

## Chapter Conclusion

### "The U.S. invents, Europe regulates, China copies."

It is catchy because it captures a grain of truth *and* much oversimplification. However, that is why it is repeated in boardrooms, think tanks, and Twitter/X. Here is the unspoken vibe behind each part:

- **"The U.S. invents"** → Silicon Valley, venture capital, unicorn culture, and the “move fast” mindset.
- **"Europe regulates"** → GDPR, Digital Markets Act, sustainability, digital sovereignty — basically, the EU as the world's watchdog.
- **"China copies"** → A swipe at China's past reputation for imitation... though these days, that is outdated. China's *also* innovating (look at TikTok, WeChat, or AI surveillance tech).

But here is the twist:

Now, **China innovates, Europe wants to lead ethically, and the U.S. is wrestling with how to rein in its giants.** The triangle is shifting.

During the first Trump Administration (2017–2021), the United States significantly increased its tariff revenues. According to the Congressional Budget Office, customs duties rose from \$34.6 billion in 2017 to \$70.8 billion in 2019, primarily due to tariffs imposed on imports from China and other countries. Tariffs have generated considerable revenue, echoing their historical role as the sole source of federal income in earlier eras. They provide funds that could establish a sovereign wealth fund, potentially invested in gold or cryptocurrencies, to strengthen U.S. economic autonomy, counter inflation, or leverage digital advancements. Strategically, this enhances national security by reducing dependence on nations that Washington deems adversarial, such as Russia and China, protecting against disruptions in vital supplies like rare earths or energy. The federal government should have created a Sovereign Wealth Fund (SWF) with this money. The fund could support industrial policy, preserve national assets for future generations, and strengthen economic resilience. However, political division, concerns about government influence in private enterprises, and the growing national debt of over \$34 trillion

hinder that, although some U.S. states operate such funds instruments.<sup>34</sup> In today's fragmented global landscape, American prosperity cannot be secured through tariffs and reactive protectionism alone. As this chapter has shown, U.S. economic policy is not crafted in a vacuum; a complex network of stakeholders influences it: tech billionaires facing regulatory challenges from Europe, geopolitical competitors like China implementing long-term strategies of self-reliance, and regions such as Africa and Asia reorienting themselves through innovation and regional integration. These actors collectively shape the strategic choices of the U.S. presidency, often pulling it in conflicting directions. What emerges is a contest not merely over trade balances, but over competing visions of economic power, technological sovereignty, and global governance. Tariffs may serve short-term political objectives, but rarely address structural imbalances or promote sustainable growth. Suppose the U.S. is to maintain leadership in an increasingly multipolar world. In that case, it must adopt a more innovative, coherent strategy that blends industrial policy, multilateral engagement, and long-term investment in competitiveness. The way forward lies not in retrenchment, but in intelligent transformation. The next chapter, *Charting a Smarter Trade Future: From Tariffs to Transformation*, explores what that forward-looking trade architecture could look like, and how it might balance economic strength with strategic foresight and global responsibility.

## **Chapter 9: Charting a Smarter Trade Future: From Tariffs to Transformation**

As the global trade environment enters a period of fragmentation and recalibration, the United States faces a pivotal strategic choice: continue relying on tariffs as blunt instruments of economic defense or pursue a more deliberate and forward-looking approach to trade policy. This chapter argues that while tariffs may offer temporary leverage, long-term U.S. economic leadership in the 21st century depends on three interrelated pillars: revitalizing strategic industrial capacity, modernizing international trade governance, and reshaping global supply chains through targeted, cooperative frameworks. The path to sustainable prosperity necessitates more than reactive protectionism; it demands integrated policies that enhance resilience, competitiveness, and strategic alliances. The chapter unfolds in three parts. First, it explores how the U.S. can develop a 21st-century industrial policy, focusing on key sectors like semiconductors, clean energy, and advanced manufacturing. Second, it outlines essential reforms to global trade institutions—either through a revitalized World Trade Organization or plurilateral agreements reflecting digital trade, carbon pricing, and fair competition. Third, it presents a concrete proposal for incentivizing supply chain diversification and economic resilience, primarily through friend-shoring, near-shoring, and investment in domestic infrastructure and labor capacity. These proposals provide a roadmap toward a more intelligent, secure, and inclusive trade future.

### **1. Build a Modern Industrial Policy**

**Policy Recommendation:** The U.S. should adopt a 21st-century industrial strategy emphasizing strategic sectors such as semiconductors, clean energy, biotechnology, and rare earth materials. This strategy should incorporate federal R&D funding, targeted tax incentives, public-private partnerships, and localized workforce initiatives development.<sup>1</sup>

#### **Why It Matters:**

Global competitors such as China and the European Union have implemented robust industrial policies that support domestic leaders and bolster their supply chains. In response, revitalizing American industry presents an opportunity to create high-value jobs, reduce the nation's supply chain vulnerabilities, and improve national security.

## **Implementation Steps:**

- Expand the scope of initiatives such as the CHIPS and Science Act to include small and medium-sized enterprises (SMEs).
- Launch "Manufacturing Renaissance Zones" in areas that have suffered from deindustrialization.
- Link federal grants to apprenticeship programs and regional technical education.<sup>2</sup>

## **2. Reform the WTO or Lead a Plurilateral Alternative**

**Policy Recommendation:** The U.S. should lead the reform of the World Trade Organization or create a parallel, plurilateral trade framework centered on reciprocity, digital trade norms, and climate-related tariffs. The existing multilateral system, while essential, has struggled to keep pace with 21st-century trade realities. Significant disputes have gone unresolved for years, and the rules often fail to address non-market behaviors by state-led economies. Urgent issues like e-commerce, cross-border data flows, and carbon pricing lack comprehensive regulation. A plurilateral coalition of advanced economies and democratic allies within or alongside the WTO could establish enforceable rules that reflect modern trade dynamics and shared values. This framework would restore credibility to global trade governance, create pressure for reform from lagging members, and safeguard the integrity of open markets while promoting labor, environmental, and digital standards. In conjunction with these trade governance reforms; the U.S. should pursue domestic fiscal reforms that align with its trade and industrial policy goals. Redirecting subsidies and eliminating inefficient tax loopholes, particularly those that benefit offshore profit shifting and unproductive corporate buybacks, could free up significant budgetary space. According to the Congressional Budget Office (CBO),<sup>3</sup> closing three tax avoidance schemes and reforming the treatment of capital gains could generate tens of billions of dollars annually that are currently lost due to ineffective fiscal design. The connection between trade and fiscal policy reform is significant and mutually reinforced. An open trade agenda demands increased investment in infrastructure, education, and technological advancements. However, such spending must be fiscally sustainable. The IMF's 2024<sup>4</sup> Fiscal Monitor highlights that enhancing tax compliance and reallocating spending from distortionary subsidies to growth-oriented expenditures provide long-term productivity and fiscal stability benefits. It advocates

targeted fiscal consolidation through base-broadening tax reforms, and the gradual elimination of regressive consumption subsidies can create budgetary space without worsening inequality or hindering long-term growth. A modernized fiscal regime would also ensure a more resilient domestic economy. The U.S. could encourage onshore manufacturing and technology development by replacing tax shelters and offshore havens with incentives for domestic investment. According to the OECD's 2023 Inclusive Framework on BEPS, countries that adopt a global minimum tax regime can reduce harmful tax competition and redirect revenues toward strategic priorities. These reforms would effectively strengthen support for supply chain security, climate goals, and digital infrastructure. Additionally, trade policy must acknowledge the growing importance of carbon pricing and climate-related adjustments. If countries fail to account for the environmental cost of production, high-emission, low-regulation exporters may undermine those that invest in clean energy. Carbon Border Adjustment Mechanisms (CBAMs), already implemented in the European Union, offer a model for linking trade liberalization with climate accountability. The United States should collaborate with its G7 partners to establish a plurilateral CBAM framework aligned with the Paris Agreement, encouraging clean production while maintaining competitiveness. Equally important is the regulation of digital trade and data sovereignty. As cross-border digital services expand, the WTO has lagged in creating enforceable rules for e-commerce, intellectual property in the digital realm, and data localization. A new plurilateral agreement should establish clear rules for data governance, platform liability, and digital tax regimes. The U.S. can lead efforts to standardize these principles, using the OECD's Pillar One and Two proposals as a foundation for cross-border tax and digital service coordination. Finally, the U.S. must modernize the dispute settlement mechanism, which has historically upheld the WTO's credibility. Restoring the Appellate Body or replacing it with a more efficient and responsive arbitration system is crucial for enforcing rules. The U.S. should push for expedited timelines and digital transparency in dispute resolution to ensure that trade rules remain binding and credible.

### **Why It Matters:**

- The WTO's consensus-based structure has made it ineffective in enforcing rules or adapting to digital and environmental trade challenges.
- China's self-declared "developing country" status distorts the level playing field.

- A new framework would rebuild trust in multilateralism while promoting democratic and climate-aligned trade principles.
- Fiscal realignment ensures long-term sustainability, reduces deficits, and supports strategic public investment.
- Digital governance and climate pricing are now essential for trade fairness and future resilience.

### **Implementation Steps:**

- Hold a WTO reform summit with like-minded partners (EU, Japan, Canada, Australia).
- Propose quicker adjudication panels for digital disputes.<sup>5</sup>
- Explore Carbon Border Adjustment Mechanisms (CBAMs) through a new climate-trade alliance.<sup>6</sup>
- Close offshore tax loopholes and redirect the savings to boost export competitiveness and support clean technology incentives.
- Launch an OECD-led framework for global minimum taxation that includes climate-smart conditions.
- Establish a plurilateral data governance and digital taxation treaty.
- Restore or replace the WTO Appellate Body with a reformed mechanism for resolving disputes.

### **3. Incentivize Supply Chain Diversification: Friend-shoring and Near-shoring**

**Policy Recommendation:** The United States should launch a comprehensive “Strategic Resilience Tax Credit” program to bolster economic resilience and reduce overdependence on geopolitical adversaries.<sup>7</sup> This initiative would incentivize companies to restructure and relocate their supply chains toward allied nations, such as Mexico, Canada, Vietnam, or members of the European Union, or to economically distressed regions within the U.S. that have experienced prolonged deindustrialization. The program should offer a blend of fiscal and logistical support to maximize impact and sustainability. At its core, the policy would provide **generous tax credits**, potentially up to 20–30%, on capital expenditures incurred when reshoring or near-shoring manufacturing facilities, warehousing infrastructure, and logistics hubs. To further

reduce barriers to relocation, the federal government should allocate **targeted infrastructure grants** to support the development of regional transportation networks, energy systems, and digital connectivity in these areas. Additionally, a pool of **federal loan guarantees** could be made available to lower the cost of capital for private firms undertaking large-scale moves. This program should be tied to clear metrics of resilience and inclusivity: priority would be given to projects that contribute to critical sectors (e.g., semiconductors, medical supplies, renewable energy), foster job creation in underserved communities, or strengthen integration with strategic allies through the U.S.–Mexico–Canada Agreement (USMCA) and other regional frameworks. A centralized coordinating body, such as a **Supply Chain Resilience Council** within the Department of Commerce, should oversee project selection, ensure compliance, and track outcomes. Combining tax relief, infrastructure investment, and strategic coordination, the Strategic Resilience Tax Credit program would help insulate the U.S. economy from external shocks, catalyze domestic industrial renewal, and deepen trusted international partnerships.

#### **Why It Matters:**

- The COVID-19 pandemic and geopolitical tensions highlighted the risks of overreliance on China-centered supply chains.
- Diversification boosts resilience, strengthens economic relationships with allies, and stimulates domestic production.

#### **Implementation Steps:**

- Offer up to 20% tax credits on capital expenditures for companies relocating production from China to Latin America or the U.S.
- Collaborate with Mexico and Canada to develop integrated supply chain parks under USMCA provisions.
- Establish a White House-led Supply Chain Resilience Council.

#### **Chapter Conclusion**

Tariffs may make headlines and gain short-term political support, but they do not constitute a strategy for long-term prosperity. This chapter has shown that the United States needs to transition from reactive trade policy to a proactive, integrated economic agenda. This

entails building a resilient industrial base through strategic public investment and workforce development, modernizing the international trade system to tackle 21st-century challenges such as digital commerce and climate accountability, and restructuring global supply chains to lessen overreliance on geopolitical adversaries. These strategies are not mutually exclusive; they complement each other. Industrial strength offers leverage in trade negotiations; modern governance frameworks encourage rule-based competition; and diversified supply chains reduce systemic risk vulnerability.<sup>8</sup> The overall lesson is clear: U.S. economic leadership cannot be achieved through protectionism alone; it requires strategic coordination across domestic policy, multilateral diplomacy, and targeted fiscal reforms. If America is to thrive in an era of shifting power and fragmented globalization, it must lead with foresight, not fear, and with strategy, not slogans.<sup>9</sup>

## Epilogue

So, will Trump's tariff plan address this? The great tragedy is that there is little reason to believe they will. Federal representatives announced that the loss of manufacturing jobs is partly due to globalization, which Trump seeks to reverse. However, research shows that trade and globalization often serve more as a scapegoat than a driving force, accounting for only a small fraction of job losses (typically around 10%). The primary cause of manufacturing's decline is rising productivity. Today, it simply takes fewer workers to produce goods due to the relentless growth in automation and the increased output per worker. If the entire US trade deficit were rebalanced by expanding domestic industries, this would raise the share of manufacturing employment in the US by about one percentage point, from approximately 8% today to 9%, according to figures from the US Bureau of Labor Statistics. However, this change would not be transformative.

The effects of tariffs are also double-edged. They may shift some manufacturing back to the U.S., but this could be counterproductive. Increased U.S. steel production benefits workers, yet the higher cost of U.S. steel results in higher product prices. This includes the cars that Trump fixates on (remember the "Tesla show" at the White House?). Lower competitive prices lead to reduced exports and job losses. A few days after Liberation Day, Tesla Inc. announced it would not suspend new orders for Model S and Model X vehicles on its Chinese website. Checks by Reuters News Agency on Friday, April 11, 2025, revealed the escalating tensions between the world's two largest economies in a trade war. Both models are produced in the U.S. and imported to China. New orders for these models were also no longer available on the automaker's WeChat mini program account in China.

The 1950s were a distinctive era. By the end of World War II, the U.S. had become a manufacturing powerhouse, producing one-third of the world's exports while importing only around one-tenth. Few other industrialized nations existed then, as the war had devastated them. The U.S. avoided this destruction, creating immense demand for American exports since no other nations had a significant manufacturing base. However, this situation was never going to last indefinitely. Another significant aspect of that era is that colonialism shaped the global economic system. European powers leveraged their dominance to hinder industrialization in the rest of the world. As those empires were dismantled and countries gained independence, they embarked on

their paths of industrialization. Today in the U.S., President Donald J. Trump is mistaken if he believes that tariffs will usher in a new golden age of manufacturing. The White House website is clear: “Tariffs Work”.<sup>1</sup>

The White House website does not provide any references. After further research, it appears that these words from Janet Yellen date back to October 2024. That month, while serving as Treasury Secretary, Yellen criticized the proposed broad tariffs, stating they would “raise prices for American families and make our businesses less competitive.” She also warned that such tariffs could reignite inflation and increase the risk of a recession. Additionally, the study, which indicated that a global tariff of 10% would grow the economy by \$728 billion and create 2.8 million jobs, was conducted by the Coalition for a Prosperous America (CPA).<sup>2</sup> The CPA's projections provided both figures and a vision for tangible economic relief. They estimated that a 10% universal tariff could generate around \$263 billion in revenue, funds that would not vanish into abstract government coffers but could be returned directly to American families. This might translate into a \$1,200 refund for lower-income households, while middle-income earners could expect their income taxes to decrease by 3 to 4 percent. Understandably, some might be concerned about the effect of tariffs on prices. According to the CPA analysis, consumer costs would rise only modestly. Over six years, prices were projected to increase by approximately 3.26%, averaging just 0.5% annually. More importantly, these small price increases would likely be more than offset by gains in real income, leaving most families better off in the long term.

Following the April 2, 2025 announcements, numerous world leaders contacted the U.S. President and Administration through diplomatic channels and in person to emphasize the significance of their bilateral trade relationships. The global focus shifted from multilateral frameworks to direct, country-level negotiations, where creating win-win agreements requires strategic skill and diplomatic finesse from all parties involved. This marks the beginning of a transformative era in international trade, defined by a transition from multilateral negotiations to bilateral and country-specific negotiation tables. We will continue to closely monitor how these developments unfold in the coming months and years. Thank you for reading this book! I truly appreciate it and hope you keep having learning fun!

## Chapter 1: Notes

Burns, D. (2022, September 13). *U.S. stock market wipes out \$9.6 trillion in value since Trump's inauguration*. LSEG/Reuters. Retrieved from <https://www.reuters.com>.

<sup>1</sup> A tariff is a tax levied on goods/services brought into/or leaving a country. There are import and export tariffs. A reciprocal tariff is agreed upon mutually between countries, often in trade agreements. It is “give and take,” primarily seen in Free Trade Agreements (FTAs). A retaliatory tariff responds to another country's tariffs or unfair trade practices. It is a form of economic punishment or pressure often used during trade disputes or wars.

<sup>2</sup> Chad P. Brown and Melina Kolb, *Trump's Trade War Timeline: An Up-to-Date Guide*, Peterson Institute for International Economics (PIIE), 2020, <https://www.piie.com>.

Although not a peer-reviewed journal article, this policy analysis outlines how tariffs contributed to price increases in consumer goods and potentially fueled inflation and economic slowdown, especially in import-dependent sectors.

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### **About the Author**

Dr. Bert Wolfs is a global citizen. He holds a PhD from the University of the Cumberland, a D.Litt. from BVSK University, and an MDP from Harvard Graduate School of Education. He is the Academic Dean of SBS Swiss Business School in Kloten-Zurich, Switzerland. An innovative educator, he has traveled worldwide to teach students of 168 nationalities. He enjoys vanilla and chocolate pudding and spending time with his family. His contact details are: dean@sbs.edu. Email can be used for speaker engagements, comments, or questions.

I first got the idea for this book while watching the Rose Garden announcement on TV on April 2, 2025.

The moment was surreal: tariffs imposed on Switzerland—a country rarely at the center of trade disputes. I asked myself: Where does this number come from, and why?

The boldness of the announcement, its unapologetic tone, and its theatrical flair struck me. This was more than a policy speech—it was part economic warfare, part patriotic performance, and part diplomatic brinkmanship.

As someone fascinated by international trade dynamics and geopolitical strategy, I knew instantly this was more than a headline. It was a signal flare. The global order whifing.

Was this the beginning of a global unraveling? Or was it a calculated maneuver—America's new playbook to remake the rules of global trade?