Trade Turmoil:

An Analysis of the Effects of American Tariffs & Trade Policy on Global Markets

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Abstract

On April 2nd, 2025, United States (US) President Donald Trump declared that the date would be remembered by Americans as "Liberation Day," announcing a sweeping, tentative set of tariffs on goods imported from other countries, ranging from 10 to 49%.(The White House, 2025g) These tariffs followed existing geopolitical and economic uncertainty, related to actions undertaken by the Trump administration. Stock and commodities markets fell sharply on this news, with the S&P 500, a popular US stock market index, falling nearly 5%,(Yahoo Finance, 2025c) and oil futures falling 6.5%.(Yahoo Finance, 2025a) Despite the initial negative reaction from markets, US equity prices have since recovered in spectacular fashion, with the S&P 500 up over 8% year-to-date, as of August 20th, 2025.

The Trump administration's rationale for these tariffs, which were labeled as "reciprocal", was to correct trade imbalances in favor of the US, as well as to revitalize American manufacturing. In his speech announcing the tariffs, President Trump made reference to "foreign leaders stealing jobs" and American "taxpayers being ripped off."(The White House,

2025g) This paper will examine the validity of the Trump administration's claims that formerly existing trade policy was unfair to the United States, whether these tariffs are capable of accomplishing their stated aims of revitalizing American industrial capacity, and determine what the future effects of American trade protectionism might be, by examining specific cases and similar historic policies.

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Acknowledgement

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1 Historical Background

On April 7th, 2025, President Trump cited the United States' "unilateral economic surrender" and foreign currency manipulation as reasons for the perceived decline of American economic prowess, and outlined steps to be taken to reassert American economic dominance, largely through trade protectionism via tariffs.(The White House, 2025i) The steps taken by the Trump administration represent a drastic deviation from the policy of previous US presidential administrations, who have largely favored liberal trade policies, including becoming a member of the General Agreement on Tariffs and Trade (GATT) in 1947, and the World Trade Organization (WTO) in 1995,(Library of Congress, n.d.) which incorporated and expounded upon the aforementioned GATT. The stated goals of the GATT and WTO include:

> "... entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce..."

(General Agreement on Tariffs and Trade (GATT 1947), 1947)

In addition to the disregard for existing trade agreements, the economic logic of the Trump administration's actions has been viewed skeptically; a paper authored by prominent economists, including former Securities and Exchange Commission (SEC) Chair Gary Gensler and published by the Center for Economic Policy Research (CEPR), stated that:

> "Over time, the cumulative effect may be a profound weakening of both US economic dynamism and the global system it once led."

(Gensler, G., S. Johnson, U. Panizza and B. Weder di Mauro, 2025)

When referring to the policies being enacted by the Trump regime. To fully understand why leading economists feel that trade protectionism is a strategic error on the part of the United States, one must examine and understand the keystone role of the US dollar in the global economy, the historical context in which this occurred, and why US capital outflows are difficult, if not impossible, to reverse, if the United States is to maintain its position as the source of global capital and the largest financial center.

1.1 A Brief History of Early Money

To act as an effective form of currency or money, three criteria must be met. The currency must be:

- a medium of exchange,

- a unit of account, and
- a store of value.

(Tavlas, 1998)

While many cultures have developed some form of currency, from the use of "stone money", consisting of large stone rings, on the south Pacific Island of Yap, to salt bars in ancient Ethiopia,(Fauvelle, 2024) the development of what can be thought of as the first "coins" can be traced to ancient Lydia in Asia Minor, in what is now western Türkiye, in the 7th century BCE.

Example of a Lydian stater, an early electrum coin

Source: Classical Numismatics Group (Classical Numismatics Group, n.d.)

These coins were initially made of electrum, a gold and silver alloy, before being developed into a bimetallic system of gold and silver.(American Numismatic Association, 2025) By guaranteeing the weight and purity of each coin, the ancient Lydian state was able to use its power to exchange its newly minted coins for a greater value of material than the raw metal alone was worth; the increased consistency and quality of the currency presented an opportunity for state arbitrage.(Classical Numismatics, 2022) This concept is known as seigniorage, which can be defined as:

> "Seigniorage (noun): profit made by a government by issuing currency, especially the difference between the face value of coins and their production costs."

Over the millennia, the right of seigniorage has both increased and been privatized, to the extent that modern central banks produce currency at little to no costs to themselves. Understanding the concept of seigniorage is key to understanding the immense privilege that the Federal Reserve, the central bank of the United States, enjoys as the primary issuer of American legal tender, and why the United States has trade deficits with many of its trade partners.

1.2 Fractional Reserve Banking & Paper Currency

As currency became a more widespread technology, those with the means to safely protect currency, such as goldsmiths, formed depository institutions, such as banks, and would issue depository notes that could be used to withdraw the indicated amount of gold on deposit. These depository institutions would issue interest-bearing loans to others, using the gold on deposit with them. The net effect of this practice was that a larger amount of notes circulated than gold reserves actually existed. This practice is known as fractional reserve banking,(House Financial Services Committee, n.d.) and has been a mainstay of global finance since medieval times.

This begs the question: when too many depositors wish to withdraw their money, what occurs? The result is a bank run, and depositors taking a potential loss on their deposits. In order to mitigate these risks and maintain public confidence in the banking system, governments have devised risk mitigation strategies, such as mandating that banks participate in depositors insurance, such as the European Deposit Insurance Scheme (EDIS), as well as capital controls at banks and other depository institutions.

Historically, one of the capital controls imposed on banks was maintaining minimum reserve requirements, meaning that banks need to maintain a percentage of deposits on reserve to service client withdrawal requests. At the end of the 19th century, in the United States, this ranged between 10 and 35 percent.(Carlson, 2013) On March 15th, 2020, the Federal Reserve board lowered reserve requirements on US banks to zero percent.(Board of Governors of the Federal Reserve System, 2024) In the European Union, national banks work with the European Central Bank (ECB) to set reserve requirements. As of August 2025, the *Banque de France* has an effective minimum reserve requirement of 1 percent for short term obligations (payable in less than two years).(Banque de France, 2025)

1.3 Debt Monetization

As the early modern era progressed, the opportunity arose for financial institutions to emerge to fill the need for government borrowing. In 1668, the Swedish Riksbank was founded as a joint stock venture, with the partial aim of lending money to the Swedish government.(Michael D. Bordo, 2007) However, the most famous, early central bank was the Bank of England, established in 1694 and given a royal charter, stating that the bank existed "to promote the public Good and Benefit of our People". The Bank of England would serve as the British government's primary lender and the model for other central banks around the globe for centuries to come.

With the advent of the central bank as a lender to the government, without the means to collect on government debt, government debt levels have historically risen over the course of the 20th century,(International Monetary Fund, 2015) as governments monetize deficit spending to fund their operations.(Yale School of Management, 2020) As of August 31st, 2025, the United States' national debt sits at 37.31 trillion US dollars.(US Treasury, 2025)

1.4 The Federal Reserve & Bretton Woods

The panic of 1907, which saw American GNP fall 12 percent, led to the Federal Reserve Act of 1913, which created a central bank in the United States.(Moen & Tallman, 2015) The Federal Reserve initially operated on a gold standard, mandating that a certain percentage of the United States' legal tender be backed by a percentage of real gold.

In 1933, during the Great Depression, President Franklin D. Roosevelt issued executive order 6102, prohibiting private hoarding of gold, in order to increase the nation's gold reserves:

> "...do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations..."

(The American Presidency Project, 1933)

The following year, the US Congress passed the Federal Reserve Act of 1934, forcing the purchase of gold at 35 US dollars per troy ounce (approximately 31.1 grams, a standard trading unit for precious metals). This increased the price of gold from the former peg of 20.67 US dollars per troy ounce, incentivizing gold miners to sell to the American government.(Gary Richardson & Gou, 2013)

In 1947, following the Second World War, 44 allied leaders met in Bretton Woods, New Hampshire to outline a new, global monetary system. Initially, it was proposed by influential economist John Maynard Keynes that all currencies would be exchangeable for a supranational currency, called the "bancor"; however this would not be adopted. Instead, it was agreed that the price of gold would be pegged at the existing 35 US dollars per troy ounce, and other major currencies would be traded against the US dollar.(Ghizoni, 2013a) The Bretton Woods conference also created the International Monetary Fund (IMF), an agency of the United Nations, to act as a lender of last resort for sovereign entities.

The positioning of the US dollar as the lynchpin of the global financial system gave unprecedented importance to the US dollar, setting the stage for its continued success as the world's foremost reserve currency. As of August 2025, US dollars still constitute the vast majority of global currency reserves.(International Monetary Fund, 2025a)

1.5 Fiat Currency & the Nixon Shock

By 1971, the United States was again running low on gold reserves. In order to avoid a run on the nation's gold reserves and a loss of confidence in the global financial system, President Nixon suspended the convertibility of the US dollar to gold, effectively making the US dollar a fiat currency.(Ghizoni, 2013b) As opposed to a gold standard, fiat currency derives its value from the power of the authority that issues it, such as the government's willingness to accept it as payment for taxes, or the government's ability to force its acceptance as legal tender through state authority.

In 1976, the Jamaica Accords formally ended the Bretton Woods system, by phasing gold out of the international monetary system.(Office of the Historian, 1976)

Overall, it is widely considered that global free trade has been a benefit to the United States. Since the signing of the Bretton Woods agreement in 1947, US gross domestic product (GDP) has grown from 243.17 billion USD, to 30,353.902 billion USD - an increase of over 120 times.(Federal Reserve Bank of Saint Louis, 2025) The percentage of the US population living in poverty fell from 26.0 percent in 1967 to 14.4 percent in 2017.(Danilo Trisi and Matt Saenz, 2019) The United States has grown substantially wealthier since the creation of the global financial system by the Bretton Woods conference.

1.6 The Triffin Dilemma

The Bretton Woods system had a major flaw, that would be exposed with time; as foreign powers desired to save in gold and US dollars, the US dollar being the global reserve currency resulted in sustained capital outflows from American gold reserves over time. American economist Robert Triffin described this problem in 1960 as such:

> "The enormous improvement of foreign countries' reserves which has taken place in recent years has been primarily the result of a vast redistribution of net reserves from the United States to the rest of the world. . . . It is evident that such a movement could not continue indefinitely without eventually undermining confidence in the dollar itself"

(Triffin, 1978)

However, with the Nixon Shock, the United States no longer had to worry about net outflows of gold reserves. Being a fiat currency, the only cost of US dollar outflows from the United States is the increase in the total money supply, potentially resulting in inflation.

1.7 Key Takeaways Thus Far

Some key points to understand the implications of the Trump administration's decisions regarding tariffs and trade policy:

1. Countries borrow money from their central banks, which lack the means to collect on this debt, allowing countries to monetize their debt as an engine for economic growth,

2. Modern currencies are generally fiat, and allow sovereign entities to buy goods and services at a marginal cost to themselves,

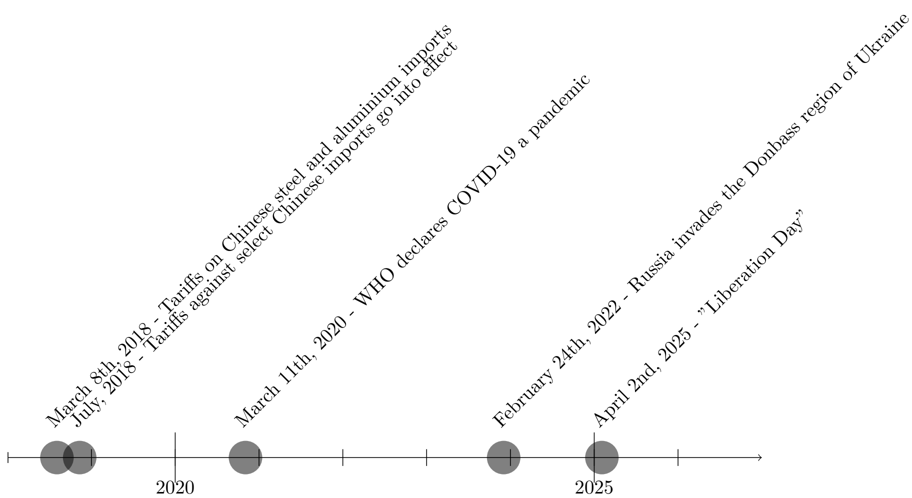
3. Monetary outflows are a natural result of being a reserve currency, as sovereign entities want to save in reserve currencies.

What can be learned with respect to the United States, is that the United States lies at the center of a complex international system, of its own design, that allows the US to purchase material wealth from other countries, using its own currency, that can be produced at marginal cost to itself. It is in the national interest of the United States to maintain and perpetuate this system, by being a reliable member of the global order it has created.

While the abandonment of the gold standard did contribute to a period of sustained inflation in the US dollar in the 1970s,(Bryan, 2013) the switch to a fiat currency has effectively maintained the United States' position as the leading, global economy, through a period of time where material wealth in the United States was effectively decreasing.

While the concept of "national debt" is not necessarily meaningless, it is important to remember that trade balances and debt do not follow the same rules when held by sovereign nations, as they do when held by individuals or companies.

2 Current Events



On April 2nd, 2025, President Donald Trump held a press conference in the White House Rose Garden, with a crowd of both suit wearing office workers, and reflective vest wearing construction workers, in attendance. This press conference was the world's first glance at the "Liberation Day" "reciprocal" tariffs on over 100 countries, so-called because they intended to correct trade balances in favor of the United States. President Trump accused foreign powers of currency manipulation, implementing trade barriers for American companies, and promised a new "golden age" for the United States.

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs

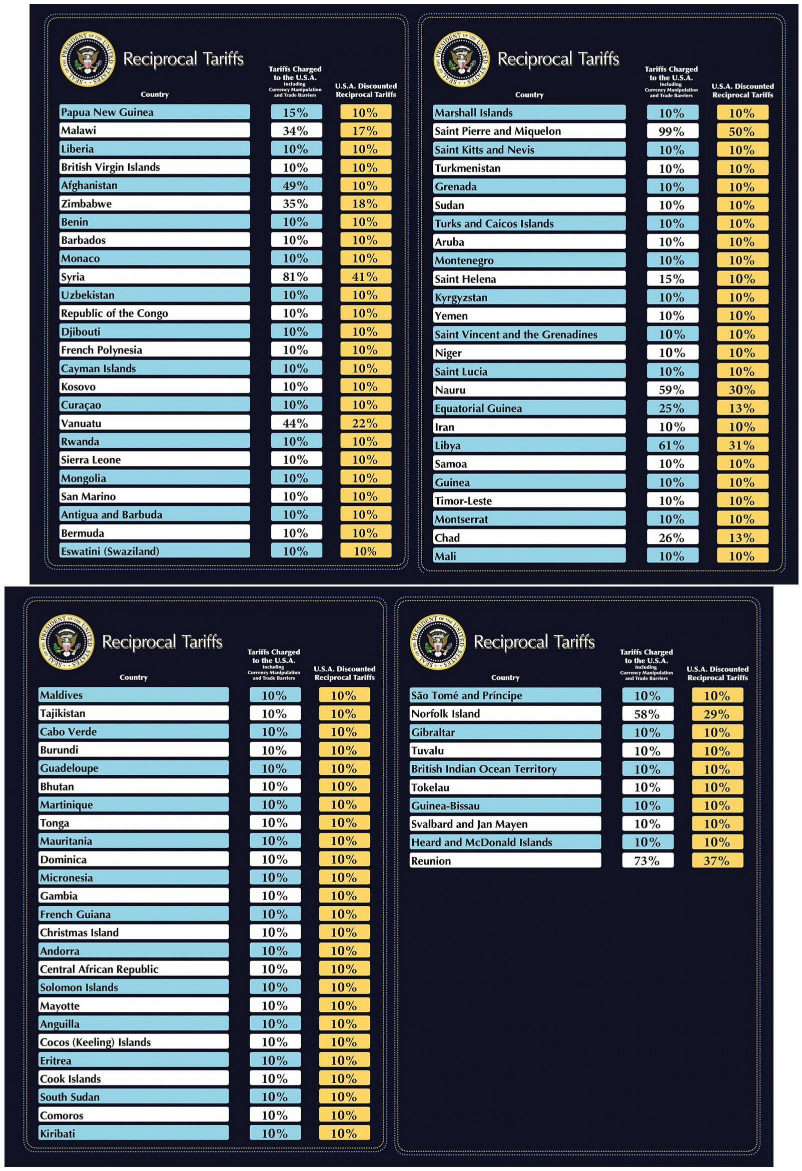
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d`Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Algeria	59%	30%
Oman	10%	10%
Uruguay	10%	10%
Bahamas	10%	10%
Lesotho	99%	50%
Ukraine	10%	10%
Bahrain	10%	10%
Qatar	10%	10%
Mauritius	80%	40%
Fiji	63%	32%
Iceland	10%	10%
Kenya	10%	10%
Liechtenstein	73%	37%
Guyana	76%	38%
Haiti	10%	10%
Bosnia and Herzegovina	70%	35%
Nigeria	27%	14%
Namibia	42%	21%
Brunei	47%	24%
Bolivia	20%	10%
Panama	10%	10%
Venezuela	29%	15%
North Macedonia	65%	33%
Ethiopia	10%	10%
Ghana	17%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Moldova	61%	31%
Angola	63%	32%
Democratic Republic of the Congo	22%	11%
Jamaica	10%	10%
Mozambique	31%	16%
Paraguay	10%	10%
Zambia	33%	17%
Lebanon	10%	10%
Tanzania	10%	10%
Iraq	78%	39%
Georgia	10%	10%
Senegal	10%	10%
Azerbaijan	10%	10%
Cameroon	22%	11%
Uganda	20%	10%
Albania	10%	10%
Armenia	10%	10%
Nepal	10%	10%
Sint Maarten	10%	10%
Falkland Islands	82%	41%
Gabon	10%	10%
Kuwait	10%	10%
Togo	10%	10%
Suriname	10%	10%
Belize	10%	10%



Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Papua New Guinea	15%	10%
Malawi	34%	17%
Liberia	10%	10%
British Virgin Islands	10%	10%
Afghanistan	49%	10%
Zimbabwe	35%	18%
Benin	10%	10%
Barbados	10%	10%
Monaco	10%	10%
Syria	81%	41%
Uzbekistan	10%	10%
Republic of the Congo	10%	10%
Djibouti	10%	10%
French Polynesia	10%	10%
Cayman Islands	10%	10%
Kosovo	10%	10%
Curaçao	10%	10%
Vanuatu	44%	22%
Rwanda	10%	10%
Sierra Leone	10%	10%
Mongolia	10%	10%
San Marino	10%	10%
Antigua and Barbuda	10%	10%
Bermuda	10%	10%
Eswatini (Swaziland)	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Marshall Islands	10%	10%
Saint Pierre and Miquelon	99%	50%
Saint Kitts and Nevis	10%	10%
Turkmenistan	10%	10%
Grenada	10%	10%
Sudan	10%	10%
Turks and Caicos Islands	10%	10%
Aruba	10%	10%
Montenegro	10%	10%
Saint Helena	15%	10%
Kyrgyzstan	10%	10%
Yemen	10%	10%
Saint Vincent and the Grenadines	10%	10%
Niger	10%	10%
Saint Lucia	10%	10%
Nauru	59%	30%
Equatorial Guinea	25%	13%
Iran	10%	10%
Libya	61%	31%
Samoa	10%	10%
Guinea	10%	10%
Timor-Leste	10%	10%
Montserrat	10%	10%
Chad	26%	13%
Mali	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Maldives	10%	10%
Tajikistan	10%	10%
Cabo Verde	10%	10%
Burundi	10%	10%
Guadeloupe	10%	10%
Bhutan	10%	10%
Martinique	10%	10%
Tonga	10%	10%
Mauritania	10%	10%
Dominica	10%	10%
Micronesia	10%	10%
Gambia	10%	10%
French Guiana	10%	10%
Christmas Island	10%	10%
Andorra	10%	10%
Central African Republic	10%	10%
Solomon Islands	10%	10%
Mayotte	10%	10%
Anguilla	10%	10%
Cocos (Keeling) Islands	10%	10%
Eritrea	10%	10%
Cook Islands	10%	10%
South Sudan	10%	10%
Comoros	10%	10%
Kiribati	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
São Tomé and Príncipe	10%	10%
Norfolk Island	58%	29%
Gibraltar	10%	10%
Tuvalu	10%	10%
British Indian Ocean Territory	10%	10%
Tokelau	10%	10%
Guinea-Bissau	10%	10%
Svalbard and Jan Mayen	10%	10%
Heard and McDonald Islands	10%	10%
Reunion	73%	37%

Infographics depicting Liberation Day tariffs.

Source: @WhiteHouse on x.com (The White House, 2025h)

2.1 Rationale & Examining the Validity of President Trump's Claims

President Trump has explicitly stated several reasons for the Liberation Day tariffs. These include:

1. Protecting American jobs, particularly in the manufacturing and resource extraction sectors,
2. Reversing American trade deficits with other countries and trading blocs,
3. Increasing American economic sovereignty, by decreasing reliance on foreign supply chains and manufacturers,
4. Reducing the flow of counterfeit goods and drugs into the United States,
5. Aligning American defense manufacturing with national defense goals, and
6. Reminding foreign powers that "access to the American market is a privilege, not a right."

As a side effect of these explicitly stated aims, President Trump seeks to use these tariffs to appease the political base that brought him to power. Press announcements from the White House, cited extensively in this paper, routinely refer to "taking back our economic sovereignty" and reprioritizing US manufacturing,(The White House, 2025c) which have direct economic implications for the working class voters with whom Trump has proved remarkably popular.(Jason Lange & Heath, 2024)

2.2 Legality of Presidential Tariffs

The United States Constitution, Article I, Section 8, explicitly states:

> The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;

However, this right is not exclusive, and some ability to implement and enforce tariffs is delegated to the sitting President through statutes, such as the Trade Expansion Act of 1962 and the Trade Act of 1974, the former of which was cited by President Trump when implementing aluminium and steel tariffs on Chinese imports in 2018, at the beginning of the US-China trade war. The Trade Act of 1974 gave the US President what is now known as Trade Promotion Authority (TPA), the authority to negotiate trade agreements within the goals and oversight laid out by Congress.(Casey & Cimino-Isaacs, 2024)

The legal justification for Trump's "Liberation Day" tariffs was *Executive Order 14257*. Executive orders (EOs) are presidential directives from the White House to the US federal administration, without approval from Congress. President Trump has been heavily criticised by government watchdogs and activist groups for the use and content of his executive orders.(National Immigration Law Center, 2025) However, President Trump's use of EOs is modest compared to many other modern US Presidents. While he is on track to issue many more in his second term, having already issued 198 by August 28th, 2025, a pace of 329 per year, President Trump issued 55 per year throughout his first term, which is about average for modern Presidents, and significantly less than Presidents Roosevelt and Truman.(The American Presidency Project, 2025)

On August 29th, 2025, the US Court of Appeals for the Federal Circuit voted 7-4 to declare President Trump's tariffs to be illegal.(Breuninger & Mangar, 2025) However, it is unlikely that this ruling will stand if appealed to the Supreme Court of the United States, as there are legal precedents and legislation that establish the President's actions as within his authority as head of state.

Overall, while some courts have found President Trump's tariffs to be illegal, it is unlikely that they will be struck down by the Supreme Court of the United States, as there is legal precedent for Presidents unilaterally imparting tariffs, even if the legal criteria outlined in section 232 of the Trade Expansion Act of 1962 are only questionably fulfilled. Additionally, while American trading partners have filed complaints with the WTO, alleging that the tariffs violate existing trade agreements,(Kitamura, 2025) it is unlikely to stop US enforcement of the tariffs, as the WTO has historically lacked the political power to enforce decisions against major economic powers.

3 Consequences

While it will take years to fully quantify and witness the results of the shift in American trade policy, the initial effects of President Trump's tariffs and trade policies can be seen in some select areas, some of which were underway before the Liberation Day tariffs were announced.

3.1 Effect on Trade with the United States

The most significant and immediate effect of the Liberation Day tariffs has been countries renegotiating their trade agreements with the United States, and the imposition of retaliatory tariffs from some countries.

The largest American trading partners are as follows, as of 2025:

Country/Trade Bloc	Exports	Imports	Total Trade	Trade Balance
European Union	370.2	605.8	975.9	-235.6
Mexico	334.0	505.9	839.9	-171.9
Canada	349.4	412.7	762.1	-63.33
China	143.5	438.9	582.4	-295.4
Germany	75.6	160.4	236.0	-84.8
Japan	79.7	148.2	227.9	-68.5
South Korea	65.5	131.5	197.1	-66.0
Taiwan	42.3	116.3	158.6	-73.9
Vietnam	13.1	136.6	149.7	-73.9
United Kingdom	79.9	68.1	148.0	11.8
India	41.8	87.4	129.2	-45.7
World	**2,065.18**	**3,267.39**	**5,332.57**	**-1202.21**

All values are in billions of USD, for the year 2024.(United States Census Bureau, 2025)

The above list provides a frame of reference for the countries that US policy-makers are prioritizing. On July 30th, 2025, President Trump posted on Truth Social:

> "THE AUGUST FIRST DEADLINE IS THE AUGUST FIRST DEADLINE — IT STANDS STRONG, AND WILL NOT BE EXTENDED. A BIG DAY FOR AMERICA!!!"

(Breuninger, 2025)

And a big day it was indeed, as global leaders rushed to secure new trade agreements with the United States.

3.1.1 European Union

On July 27th, 2025, European Commission President Ursula von der Leyen and US President Donald Trump signed a non-binding agreement, stating that EU imports to the United States would be subject to a 15 percent tariff ceiling,(European Commission, 2025b) with the EU pledging to purchase 750 billion US dollars of American energy over the coming three years.(The White House, 2025e) Additionally, "EU companies have expressed interest" in investing 600 billion US dollars into the American economy by 2029.(European Commission, 2025b) However, while the European Union has the authority to negotiate trade policy for the EU market,(European Union, 2021) it will require ratification by the European Parliament, as well as review by other EU institutions, to come into effect.(European Commission, 2025a) It remains in doubt, how much of the 600 billion US dollar wealth transfer will actually occur.

3.1.2 Canada & Mexico

Being the United States' largest trading partners outside of the European Union (EU), as well as the United States' closest geographic neighbours, Mexico and Canada were covered by the North America Free Trade Agreement (NAFTA); however, in 2017, during his first term in office, President Trump used his aforementioned Trade Promotion Authority to notify the Canadian and Mexican governments that they were renegotiating the agreement.(Villareal, 2017) Previously, opponents of NAFTA had worried about American manufacturing and agricultural job losses to cheaper Mexican labor.(Villareal, 2017) The subsequent result was the United States-Mexico-Canada Agreement (USMCA) in 2020, which slightly renegotiated tariffs and trade practices in favor of the US. Canadian and Mexican goods had their *de minimis* values increased and duty deferral was agreed upon, when goods transiting through a participant country were destined for a third country.(International Trade Administration, 2021)

Mexico and Canada were not present on the list of countries and tariffs presented by President Trump at his Liberation Day press conference, however, the existing trade agreement had already been placed into question. On February 1st, 2025, President Trump announced a blanket 25 percent tariff on Canadian and Mexican imports bound for the US, along with an additional 10 percent tariff on Chinese goods.(The White House, 2025d) This sparked a series of tit-for-tat tariff impositions by Canada on American goods. On March 4th, 2025, the Canadian government announced a retaliatory 25 percent tariffs on 30 billion US dollars worth of goods, including livestock, poultry, dairy products, fruits, vegetables, and coffee.(Department of Finance Canada, 2025c) This was followed by a further round of retaliatory tariffs on March 13th, which imposed a 25 percent tariff on adhesives, certain precious metal products, cookware, and industrial products such as rail track, among other items, worth approximately 14.2 billion US dollars.(Department of Finance Canada, 2025b) Following negotiations, some of these tariffs were set to be repealed on September 1st, 2025.(Department of Finance Canada, 2025a)

While Mexico did not immediately implement retaliatory tariffs, Mexican President Claudia Sheinbaum ordered her economy minister to prepare response measures against American tariffs. On July 31st, 2025, President Trump wrote on Truth Social that:

> “We have agreed to extend, for a 90 Day period, the exact same Deal as we had for the last short period of time, namely, that Mexico will continue

> to pay a 25% Fentanyl Tariff, 25% Tariff on Cars, and 50% Tariff on Steel, Aluminum, and Copper."

As of the writing of this paper, neither Canada nor Mexico have a firm agreement with the United States. However, policies being implemented by the Trump administration, such as the removal of the *de minimis* exemption for goods valued at less than 800 US dollars,(Steinberg, 2025) are in conflict with the USMCA, and imply a renegotiation of the existing agreement.

3.1.3 China

While the trade war with China will be examined in more detail in sub-subsection 4.2.1, a blanket 10 percent tariff on Chinese goods was included in the 25 percent tariff announcement on Canada and Mexico.(The White House, 2025d) Furthermore, cheap, Chinese manufacturing had previously benefited extensively from the *de minimis* exemption on low value packages, as well as subsidized shipping from the Universal Postal Union (UPU).(Schaefer, 2019) For decades, high mail prices in the developed world subsidized lower mail costs in developing countries, which countries like China have used to allow local manufacturers to sell to overseas clients at remarkably cheap prices, which the first Trump administration challenged with the UPU.(Schaefer, 2019) Additionally, with the removal of the 800 US dollar *de minimis* exemption in the United States, American clientele of Chinese firms will now be taxed on a much wider range of low value Chinese items,(Steinberg, 2025) lowering the appeal of Chinese goods to American consumers.

As of the time of writing, August 30th, 2025, effective US tariffs on Chinese exports stand at 57.6 percent, and effective Chinese tariffs on US exports stand at 32.6 percent, down from highs of over 100 percent following a long series of tit-for-tat tariffs.(Brown, 2025) Sub-subsection 4.2.1 will examine the history behind the current, effective tariffs in more detail.

3.1.4 Japan

In July, Japan signed an agreement for 15 percent reciprocal tariffs with US negotiators, down from the threatened 25 percent, after Japan promised to invest 550 billion USD into the US economy. However, on August 28th, 2025, Japanese trade envoy Ryosei Akazawa canceled a trip to Washington D.C. for a tenth round of negotiations, citing a need for more details before talks could continue.(Yamaguchi, 2025) Japan is a major exporters of cars and advanced machinery to the United States, with the US running a 65 billion USD trade deficit with Japan across these two categories alone.(Holodny, 2017)

3.1.5 South Korea

South Korea saw presidential elections on June 3rd, 2025, following a period of political turmoil, during which former President Yoon Suk Yeol declared martial law in December 2024 before being impeached, in what has now been called a coup and is referred to in Korea as the 12.3 Rebellion.(Kang, 2025) The impeachment of Yoon was followed by a series of Acting Presidents, complicating trade negotiations as administrations changed. Current President Lee Jae Myung was sworn in the day following the election.

On July 30th, 2025, the Trump administration and South Korean negotiators reached a tentative agreement. South Korean imports will be taxed at 15 percent, lower than the threatened 25 percent, with exceptions for various industries such as steel (50 percent). In return, South Korea promised to invest 350 billion US dollars into the American economu, including 150 billion in shipbuilding. Korea also pledged to purchase 100 billion US dollars in liquid natural gas (LNG).

3.1.6 Taiwan

Taiwan is home to the most advanced semiconductor manufacturer on the planet, TSMC, and is heavily reliant on American support to deter Chinese aggression. The United States had attempted some risk mitigation by divesting from Taiwan under the Biden administration, negotiating a new TSMC manufacturing facility in the US state of Arizona, which would manufacture some of TSMC's most advanced 4 nm processors.(Shepardson, 2025)

The United States is also reliant on Taiwan to contain Chinese geopolitical influence. Taiwan represents a key piece of the "first island chain", a series of islands in the western Pacific that are allied with the United States.(O'Hanlon & Yeo, 2023) Additionally, while the United States is still home to many semiconductor design teams, with companies such as Intel, Synopsys, Apple, and Cadence, these companies have largely moved to a "fabless" model in recent years, meaning they are reliant on TSMC and Taiwanese manufacturing capacity to produce the most performant chips. Being the home of the world's most advanced semiconductor manufacturer gives Taiwan significant leverage when negotiating with the US.(Meaghan Tobin & Wu, 2025)

The Liberation Day infographics initially targeted Taiwan with a 32 percent tariff. Taiwanese officials were subsequently able to negotiate a 20 percent tariff rate, and a complete exemption for computer chips.(Meaghan Tobin & Wu, 2025) Taiwanese officials were criticized for not being able to secure as good a deal as Japan or the EU at 15 percent. However, Taiwanese President Lai Ching-te stated that the tariffs were "temporary" and that further negotiations were expected.(Lee & Lee, 2025)

3.1.7 Vietnam

On July 2nd, Vietnam signed a tentative agreement, which reduced American tariffs on Vietnamese imports from a proposed 46 percent to 20 percent. However, Vietnamese delegates expected to continue talks to come to a finalized agreement.(Reuters, 2025b)

3.1.8 United Kingdom

On May 8th, 2025, the United States and the United Kingdom signed the Economic Prosperity Deal (EPD). A general 10 percent tariff on British goods being imported to the US remained in place. Additionally, any British vehicles imported to the United States after the first 100,000 units are subject to a 25 percent import duty. Certain American agricultural and dairy products would be subject to reduced tariffs when being imported into the UK.(The White House, 2025b)

3.1.9 India

India surpassed Japan in 2025, to become the world's fourth largest economy by GDP,(International Monetary Fund, 2025b) and is the number one source country for skilled migrants to the US.(Carolyne Im & Mukherjee, 2025) However, the Trump administration increased its initial threatened tariff of 25 percent to 50 percent for some goods, as a retaliatory measure against India's purchasing of Russian oil, which went into effect in late August.(Lawder & Kumar, 2025) As of the time of writing, August 28th, 2025, the US and India have failed to reach an agreement on tariffs, and remain at an impasse, with US trade advisor Peter Navarro stating the India would need to suspend purchases of Russian oil to reach an agreement.(Lawder & Kumar, 2025)

While the tentative agreements generally favor the United States, and the EU deal in particular should theoretically result in large capital inflows to the US, it is important to note that none of the agreements signed as of August 28th, 2025, are legally binding, and are sparse on details. Most of the agreements are subject to ongoing negotiations. As seen with the Japanese and Vietnamese delegations, there is noticeable displeasure with the lack of transparency and objectivity from US negotiators.

4 Historical Precedents

At various points in US history, domestic economic concerns have manifested into demands for trade protectionism from American businesses and consumers. This paper will examine three examples to determine whether trade protectionism has historically been used a tool to attempt to stimulate the US economy:

the Tariff of 1828, the Smoot-Hawley Act, and the Plaza Accord.

4.0.1 The Tariff of 1828

During the French Revolutionary and Napoleonic Wars of 1792 to 1815, American farming and food exports flourished and land prices rose tremendously, as war ravaged Europe saw a slump in domestic productivity, and imported food from the United States. By 1818, however, European manufacturing had begun to recover, and nascent American manufacturing was beset by competition from cheaper, higher quality European goods. The result was an extensive pamphlet campaign in the United States, particularly in the northeast, demanding tariff protection for American manufacturing. Advocates of these tariffs proclaimed that trade protectionism would result in flourishing domestic industry in the still-young United States.(Taussig, 1888)

While members of Congress for southern states initially supported tariffs, as the south had its own nascent manufacturing sector, by 1820, this had turned to opposition, as southern lawmakers feared that Britain would begin retaliatory tariffs against southern export crops such as cotton, which was used in British textile manufacturing. In 1828, the US Congress passed the Tariff of 1828, which imposed complex *ad valorem* duties; for example, textiles costing less than 40 cents a yard could be taxed at 40 cents, all goods costing more than 40 cents but less than $2.50 could be taxed at $2.50, goods costing between $2.50 and $4 could be taxed at $4, and so on, with varying tariffs and rates for different types of goods. Wool was specifically targeted.(Twentieth Congress, 1827) The net result was an effective tax rate of 33 to 45 percent on goods imported to the United States.

Led by Vice President John C. Calhoun, a movement for nullification of the tariff appeared in South Carolina almost immediately after the passing of the bill. On November 24th, 1832, the South Carolina legislature struck a statewide convention to pass the "Ordinance of Nullification," in open defiance of the federal government, and threatened armed resistance. Tensions were partially defused when Senator Henry Clay introduced a series of bills in that resulted in the Compromise Tariff of 1833, although tensions over the tariff did not die completely.(Silverbrook, n.d.)

In addition to the business and economic implications, the Tariff of 1828 is noteworthy because it represented an increasing political and economic divide in the United States, which, by the early 19th century, was already fracturing along political, economic, and social lines. While the reasoning for outbreak for the US Civil War of 1861-1865 are varied and complex, the Tariff of 1828 is sometimes cited as a contributing factor to the eventual armed conflict.

4.0.2 The Smoot-Hawley Act

The 1920s were a period of rapid economic growth for the United States, with GNP growing roughly 4.2 percent per year from 1920 to 1929.(Smiley, 2004) Strong wage growth and increasing asset prices had Americans feeling optimistic about the economy. This can to an abrupt end on October 24th, 1929, when the New York Stock Exchange (NYSE) fell 11 percent in intraday trading.(Amadeo, 2020) While this particular date is often cited as a turning point towards economic depression, in reality, the stock market had already fallen 21 percent since its peak a month earlier.(Amadeo, 2020) The economic fallout was catastrophic; unemployment soared to 25 percent, the stock market fell by 80 percent, and nearly 7,000 US banks closed. US GDP fell by nearly a third.(Wheelock, 2007)

Faced with high unemployment and slumping domestic industry, there was pressure on President Herbert Hoover to intervene from business leaders and politicians, despite his "hands off" approach to managing the economy. The result was the Tariff Act of 1930, more commonly known as the Smoot-Hawley Act, after its congressional sponsors, Senator Reed Smoot of Utah and Representative Willis Hawley of Oregon. While taxes varied for certain products, the act effectively raised import duties on foreign goods from 40 percent to 60 percent, as well as expanding the number of tariffed goods.(Zahn, 2025) President Hoover signed the bill into law in June 1930. Supporters hoped that the bill would revitalize floundering US domestic industry.

The effects of the tariffs were disastrous and felt almost immediately, as US trading partners quickly passed retaliatory measures. Canada, which supplied 19 percent of US imports at the time, quickly passed "countervailing measures" against 16 US exports to Canada, with the Canadian Prime Minister William Lyon Mackenzie King explicitly stating their retaliatory nature.(O'Brien, 2001) Total US imports fell 40 percent within two years of the Act's signing.(Irwin, 1998)

One major effect of the Smoot-Hawley Act was the exportation of America's economic crisis to the rest of the globe. By 1933, representatives from 66 countries were meeting in London to discuss currency revaluations in an effort to end the crisis.(Office of the Historian, n.d.) In November 1932, President Franklin D. Roosevelt was elected to the US Presidency, partially on a platform of repairing the US economy.(The White House, n.d.)

While the Smoot-Hawley Act only caused a direct loss of 0.7 billion USD to American GDP,(O'Brien, 2001) relatively minor compared to the overall slump in the US economy, American politicians, businesses and voters rapidly saw and felt the detrimental effects of the Smoot-Hawley Act, as the overall economy experienced a sharp downturn. In 1934, newly elected President Roosevelt signed the Reciprocal Trade Agreements Act, also known as the Reciprocal Tariff Act. In an attempt to normalize international trade, the Act authorized the President to renegotiate tariffs with other countries, which he did with 19 other nations over his presidency,(Office of the Historian, n.d.) resulting in tariff reductions of approximately 50 percent. President Roosevelt also established an import-export bank to facilitate international commerce in the US.(Office of the Historian, n.d.)

It is worth noting that both the Tariff of 1828 and the Smoot-Hawley Act were supported by northern, urban, and arguably progressive factions of their times, although not exclusively. This is in contrast to the tariffs being enacted by President Trump, which are often construed as an attempt by the President to garner support among conservative, rural voters in America's former industrial heartlands.(BBC News World Service, 2018) Trump's attempts to appeal to this demographic can also be seen in his choice of Vice Presidential running mate JD Vance, who first gained public attention for his book "Hillbilly Elegy: A Memoir of a Family and Culture in Crisis", which described the decay of rural America and resonated with voters in Appalachia and the midwest.(Horton, 2024) In many ways, like the Tariff of 1828 and the Smoot-Hawley Act, the Liberation Day tariffs are a manifestation of greater cultural and economic inequalities in the United States.

4.0.3 The Plaza Accord

Following the Second World War, Japan experienced the "Japanese economic miracle"; domestic industries were growing rapidly and becoming global leaders in domains such as automobiles and industrial machinery.(Branstetter, 2017) From 1960 to 1964, Japanese real GDP growth was nearly 10 percent year-over-year, and from 1965 to 1969, this grew to nearly 12.5 percent year-over-year.(BER Staff, 2023) Some analysts, such as Yale University's Paul Kennedy, projected that the Japanese economy would overtake the United States' as the world's largest.(Mueller, 2023) In 1989, even future US President Donald Trump would comment that Japan "systematically sucked the blood out of America — sucked the blood out!"(Griffiths, 2019)

In the early 1980s, the US dollar had appreciated nearly 50 percent against other leading global currencies, including the Japanese yen.(Anne-Marie Brook & Ollivaud, 2004) Initially, this was welcomed by the administration of sitting US President Ronald Reagan, who was a public proponent of free markets,(Kilborn, 1985) and viewed the strong dollar as a sign of recovery from the stagflation that had plagued the US economy in the 1970s, and a vote of confidence from markets in the strength of the American economy.

However, American manufacturers, such as IBM and Caterpillar, lobbied for currency devaluation,(Harris, 2020) viewing competition from the now-recovered postwar economies of Japan and West Germany as a serious threat, arguing that a strong dollar made US exports less appealing. Under pressure from American businesses, Treasury Secretary, and later Secretary of State under President George H. W. Bush, James Baker III began negotiations with Britain, France, Japan, and West Germany, resulting in the Plaza Accord of 1985, so named because it was negotiated at the Plaza Hotel in New York City.(Jeffrey Frankel, 2015)

The Plaza Accord was an agreement between signatories to engage in coordinated currency manipulation to devalue the US dollar. This was acceptable to the other signatories, who wanted to maintain strong US relations and saw that a devalued US currency would allow them to purchase more affordable American goods and services. From 1985 to 1987, the Plaza Accord successfully resulted in a 40 percent decline in value of the US dollar against other major currencies.(Harris, 2020)

While the net beneficiary of the Plaza Accord has been widely debated, the agreement has generally been seen as a net positive for the United States, and detrimental to Japan. From 1986 to 1990, for reasons including and beyond the Plaza Accord, Japan experienced a large asset bubble, which popped in 1992.(Watkins, 1999) The Nikkei 225, a widely followed index for the Tokyo Stock Exchange, peaked at 38,040.37 points in December 1989 - it would not reach that level again until March 2024.(Yahoo Finance, 2025b) For these reasons, the 1990s and 2000s are often referred to as "lost decades" for the Japanese economy, marked by stagnant growth and an increasingly risk averse business culture.

The Plaza Accord is notable because it is an instance where trade protectionism worked out well for the US economy, while maintaining good relations with trading partners abroad.

4.1 Effect on Trade Not Involving the United States

While a longer time period is required to fully quantify the net effect on American trade from these tariffs, for all parties, foreign powers are increasingly signing trade deals that do not involve the United States. In March 2025, Japan, China and South Korea agreed to an economic partnership and to work towards strengthening economic ties.(Reuters, 2025a)

In 2024, former Soviet states (Russia, Armenia, Belarus, Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan), entered into a free trade agreement.(Unified register of legal acts and other documents of the Commonwealth of Independent States, 2024)

4.2 Escalation of Existing Tensions

4.2.1 China

On March 23rd, 2018, the first Trump administration invoked section 301 of the 1974 Trade Act, launching a salvo of 60 billion US dollars of tariffs towards China, targetting products in industries where American officials believed American intellectual property had been stolen.(Diamond, 2018) This followed a smaller tariff action on January 23rd, 2025, which targeted Chinese solar panels and washing machines.(United States Trade Representative, 2018) The Chinese government subsequently responded with a smaller, 3 billion US dollar set of tariffs, targeting a variety of American imports.(Diamond, 2018) In 2018, the United States, led by trade advisor Peter Navarro, pressured the Universal Postal Union to allow nations greater flexibility in setting their own rates for postage, to allow full reimbursement to wealthier countries.(Schaefer, 2019)

US trade advisor Peter Navarro was also mentioned when discussing trade negotiations with India. It should be noted that Navarro believes a war between China and the United States is inevitable, authoring *The Coming China Wars* in 2008. Navarro has repeatedly outlined his perspective as to how China intends to defeat the United States, and his belief that the United States needs to act first in this future conflict.

Following several minor exchanges, effective US tariffs for Chinese exports to the United States remained at 19.3 percent, and Chinese tariffs on US exports remained at 21.2 percent, from 2020, through the Biden administration.(Brown,

2025) While tariffs were high by historic standards, the Biden administration identified China as a geopolitical rival in the Pacific region, and did not feel compelled to improve economic ties.

The US-China trade war drastically restarted during the second Trump administration, with China being hit with a blanket 10 percent tariff on all goods, during the same announcement that placed 25 percent tariffs on Mexico and Canada.(The White House, 2025d)

On April 4th, the State Council Tariff Commission of the People's Republic of China announced that all US goods imported into China would face a 34 percent tariff. In response, on April 9th, the Trump administration modified the Harmonized Tariff Schedule of the United States (HTSUS):

> (a) heading 9903.01.63 of the HTSUS shall be amended by deleting "34%" each place that it appears and by inserting "84%" in lieu thereof; and (b) subdivision (v)(xiii)(10) of U.S. note 2 to subchapter III of chapter 99 of the HTSUS shall be amended by deleting "34%", and inserting "84%" in lieu thereof.

(The White House, 2025a)

effectively creating an 84 percent tariff on all Chinese goods entering the United States, to be implemented at a later date.

On April 11th, China imposed a 125 percent tariff on all American goods. The White House implemented a series of tariff hikes on raw materials, reaching an effective tariff rate of 145 percent. (Bao, 2025)

On May 10th, American and Chinese delegations met in Geneva and agreed to suspend the threatened tariffs for 90 days. The US also agreed to reduce the threatened tariffs by 24 percent.(The White House, 2025f)

As of the time of writing (August 28th, 2025), the effective tariff rate for Chinese goods being imported to the US stood at 57.6 percent, and the effective tariff rate for American goods being imported to China stood at 32.6 percent.(Brown, 2025)

4.2.2 The EU and Ukraine

The escalation of trade tensions comes at a time when US allies are increasingly concerned about the steadfastness of American support in an increasingly multipolar world order. Reasons for this include a widely publicized disagreement between Ukrainian President Volodymyr Zelenskyy and President Trump on February 28th, 2025 at the White House,(Le Monde, 2025) where President Trump put American materiel support for Ukraine against Russia into question. The US President also made comments that the US would not defend NATO allies who did not meet their military expense commitments as part of the alliance.(Hunnicutt & Brunnstrom, 2025) Countries that have found themselves in the United States' sphere of influence post-WWII may increasingly seek to cut the US out of trade and defense agreements if they perceive the United States' to no longer be a reliable ally.

5 Conclusions

While the Trump administration's policies of trade protectionism may offer short term economic and strategic benefits for the United States, such as an onshoring of supply chains and capital inflows, the long term consequences could prove the administration's actions to be a strategic error. In a world of increasing multipolarity and geopolitical uncertainty, tariffs risk alienating American allies. Furthermore, current data and historical case studies indicate that trade protectionism is economically detrimental to both parties. The United States is risking the US dollar's position as the primary reserve currency, as savers and investors around the world seek out more alternatives that are less subject political meddling and weaponization.

The motives behind President Trump's tariffs lie at a complex intersection of economics, geopolitics, international relations, and group psychology. In international relations, it is important to act decisively and strike when the enemy is vulnerable. If the United States views conflicts with rival powers such as

Iran, Russia and China as an inevitability in the coming decades, it must act now to onshore supply chains, consolidate manufacturing, and divest from these geopolitical rivals. President Trump also stands to please his base of working class Americans, although initial reactions from this demographic on the tariffs are mixed.(Knowles, 2025)

However, two of the three historical American tariffs examined, the Tariff of 1828 and the Smoot-Hawley Act, were nearly unequivocally negative for long term US economic strength and prosperity. In the case of the Tariff of 1828, it is often cited as an indirect cause of the US Civil War. In the case of the Smoot-Hawley Act, it is widely viewed as an error at a critical time, that deepened the Great Depression and damaged American relations abroad. Only one of our historical comparisons, the Plaza Accord, had an arguably net positive effect in the American economy - and in that case, US diplomats were working with cooperative trading partners, who surmised that they may be able to gain from increasing the values of their own currencies against the US dollar. In this case, the United States is entering into a much more hostile world order, with reluctant allies and numerous geopolitical rivals, who are eager to gain at the US' expense.

The haphazard nature of the implementation of the tariffs has been damaging and embarrassing for the US. As seen with the trade war with China, both sides backed down and the threatened tariffs were reduced, following a two day meeting, yet no conclusive results were produced either, only a 90 day delay on tariff implementation. Such economic brinkmanship is damaging to markets, as it makes future planning difficult for businesses, who need to plan their future costs and build robust supply chains. Arbitrary threats of tariff increases, especially if not carried out, only serve to add doubt to already risky international business ventures.

Ultimately, these changes will serve to diminish American power on the world stage. When "soft" power, such as political, economic, and cultural influence is no longer effective, declining hegemons often resort to "hard" power, such as military action and sabotage, to support their interests abroad. While the

United States faces significant headwinds to its continued status as a global hegemon, such as a declining fertility rate(CBS News, 2025) and increasing costs for basic necessities for many citizens,(Cerullo, 2025) the United States' actions with respect to trade and tariffs represent an untimely test for the United States' economic prowess and an unforced policy error, one that lies on the boundary of the US President's legitimate authority. Like a cancer treatment, the United States' current trade policies are as damaging to the United States' interests as they are a benefit. Only time will tell whether the United States' current policies do, in fact, make America great again, or if they only serve to accelerate its decline. The early results should concern US policymakers.

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