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Trump, Global Populism, and International Trade: Analyzing Economic Consequences and Future Implications.

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Abstract

This study examines the economic consequences of Donald Trump's populist trade policies, particularly the *"America First"* agenda, and their global implications during his presidency (2017–2021) and potential second term (2025 onward). Through a mixed-methods approach combining empirical analysis and scenario forecasting, the research assesses the short-term and long-term effects of protectionist measures—such as tariffs, tax cuts, and deregulation—on the United States, the European Union, and China. Findings indicate that while these policies provided temporary relief for certain U.S. industries, they also triggered inflation, supply chain disruptions, and a decline in multilateral trade cooperation. In response, the EU and China shifted from defensive strategies to proactive restructuring, accelerating digital sovereignty, supply chain autonomy, and alternative trade alliances. The study highlights the risks of populist economic policies to global trade stability and underscores the emergence of a multipolar trade governance system.

Keywords: Populism, America First, trade wars, the United States, China, the European Union, supply chain realignment, economic nationalism

Contents

1. Introduction

In recent years, populism has gained prominence as a transformative political phenomenon, reshaping global governance and international relations. During the Trump administration (2017–2021), this influence was evident in the implementation of "America First" strategies, characterized by protectionist trade measures, large-scale tax cuts, and widespread regulatory rollbacks. (Henderson, 2019) These policies have not only reshaped the domestic economic and political ecology of the United States, but also had significant impacts on major global economies, such as the European Union and China. (Ammar, 2024).

The Trump administration's pursuit of the "America First" policy aimed to protect domestic economic interests, reduce foreign dependency, and redefine U.S. international trade relations through tariff barriers and bilateral negotiations. For instance, the U.S. trade conflict with China and the imposition of tariffs on steel and aluminum imports from the EU not only escalated global trade tensions but also prompted other countries to reconsider their trade strategies and frameworks, reflecting a broader trend of economic nationalism and a historic shift in global trade governance. (Latraverse, 2021).

Against this background, this thesis explores the economic consequences of populist policies during the Trump presidency and their implications for global trade. It focuses on three key actors—the United States, the European Union, and China—to assess how they responded to the initial wave of "America First" and how they are now reacting to Trump's political comeback in 2025. The study addresses two central questions: what were the economic impacts of Trump-era populist policies on international trade and development, and how are global dynamics evolving following his return? Through a comprehensive analysis of trade data, policy documents, and economic indicators, the research aims to explain how these policies reconfigured trade flows, strategic alliances, and global economic development.

This research adopts a mixed-methods approach, combining empirical analysis with scenario-based forecasting. Part I examines the period 2017–2021, analyzing the short-term effects of "America First" through trade statistics, tariff policies, and case-specific developments in the U.S., the EU, and China. Part II projects future trends by evaluating early 2025 policy moves—such as the introduction of a new global tariff framework—and comparing them to the 2018 trade war. A comparative table outlines changes in legal justification, implementation strategy, and affected sectors. The forecast also considers the evolving responses of the EU and China, particularly in areas of digital sovereignty, climate-linked trade instruments, and supply chain autonomy.

Findings show that while protectionist measures offered short-term industry support, they also triggered inflation, disrupted supply chains, and weakened multilateralism. In response, the EU and China have moved from passive defense to active restructuring, marking a shift toward multipolar trade governance.

This study contributes to the understanding of the economic dimensions of populism by offering both historical and forward-looking perspectives. It underscores the long-term risks populist trade agendas pose to international stability and multilateralism.

Policymakers and scholars may draw on these insights to formulate more resilient and adaptive global trade strategies.

The remainder of this thesis is structured as follows. The first section reviews key academic debates on populism and its economic dimensions, and contextualizes the Trump administration within this framework by examining the ideological features and political drivers behind its trade and fiscal policies. The second section provides a detailed empirical analysis of the economic and trade measures implemented between 2017 and 2021, assessing their short-term consequences for the United States, the European Union, and China. The third section shifts focus to the global landscape in 2025, evaluating how Trump's return to office is reshaping international trade relations and forecasting possible trajectories of global economic governance. Finally, the conclusion summarizes the key findings and discusses their broader implications for the stability and direction of global trade.

2. Literature Review

2.1 Populism and its Economic Consequences

The definition of populism as a political phenomenon has been the focus of academic debate. Essentially, populism can be understood as a political discourse or ideology that views the society as two homogeneous and antagonistic groups: the "pure people" against the "corrupt elites", and the politics should be the expression of the general will of people. (Mudde, 2004). The core features of populism include anti-establishment, anti-elite, anti-globalization and an emphasis on direct democracy. (Müller, 2016).

Populism takes many forms and can appear in both left-wing and right-wing politics. Left-wing populism usually focuses economic inequality and social justice, while the right-wing populism is more concerned on cultural identity, immigration issues, and national sovereignty. (Judis, 2016). Guriev and Papaioannou (2022) further argue that, regardless of ideology, populist leaders often erode institutional checks, undermine trust in experts and the media, and adopt short-term economic policies to sustain public support. These tendencies, intensified after the 2008–09 financial crisis, can lead to long-term macroeconomic and governance challenges. (Guriev & Papaioannou, 2022).

Populist policies are frequently oriented towards short-term economic gains, by emphasizing the protection of national industries, restricting free trade, and increasing social welfare and public spending. However, as Funke, Schularick, and Trebesch (2023) show, these measures are frequently associated with long-term risks, including macroeconomic instability and institutional erosion. (Funke, Schularick, & Trebesch, 2023).

Populist governments tend to adopt trade policies with protectionist-tinged trade policies as a response to their domestic constituents' concerns about the economic inequality and unemployment caused by globalization. The Trump administration's implementation of tariff barriers and its adjustments to multilateral trade agreements, such as withdrawing from the TPP and renegotiating NAFTA, are vivid examples of populist trade policies. (Rodrik, 2018). While these initiatives may have provided a short-term shelter for certain domestic industries, they have also inspired retaliatory actions from trading partners, which in turn have exacerbated tensions in the global

trade environment. (Evenett & Fritz, 2019).

2.2 Existing Studies on Trumpism and International Trade Policies

Scholarly research on Trump's trade policies has largely been framed by two competing yet complementary theories: the economic insecurity thesis and the cultural backlash thesis (Inglehart & Norris, 2016). While the former emphasizes material grievances stemming from globalization's disruptive effects on employment and wages, the latter focuses on identity-driven anxieties over cultural change and national sovereignty. Together, these perspectives help explain why Trump's protectionist agenda—marked by trade wars, anti-multilateralism, and nationalist rhetoric—resonated with key segments of the American electorate.

The economic insecurity thesis underlines the structural economic imbalances brought about by globalization and technological advances as a central driver of the rise of populism. Rodrik (2018), as cited in Guriev and Papaioannou (2022), argues that the dislocations caused by global trade integration—particularly in advanced economies—have fostered economic grievances that fuel populist political movements. Research by Inglehart and Norris (2016) reveals that the decline of manufacturing, the displacement of labor by automation, and the reconfiguration of global supply chains in the "Rust Belt" of the U.S. Midwest have led to a significant increase in unemployment among workers in the region, which in turn has increased economic inequality and feelings of social deprivation. This group of people has been labeled the "globalization losers", and their discontent has since been exploited by Trump's protectionist trade policies. Measures such as the withdrawal from the TPP, the reopening of the NAFTA negotiations, and the imposition of tariffs on China, have been seen as formulated in direct response to the demands of these economically insecure groups. Rodrik further elaborates that by blaming unemployment on "unfair trade competition" and "foreign exploitation", such policies effectively transform popular economic anxieties into political mobilization as a political strategy.

The cultural backlash theory suggests that Trump's trade policies are fundamentally an expression of conflicting cultural values aimed at preserving traditional markers of national identity and sovereignty. As Inglehart and Norris (2016) observed, globalization has not only reshaped the economic structure, but also shaken the cultural supremacy of the white American community through the flow of immigrants and the spread of multiculturalism. Trump's advocacy of "America First" and his anti-multilateralist stance coincide with this group's concerns about the "erosion of cultural authority".

3. Part I: Trump's Consequences on International Trade: Evidence from the First Mandate (2017-2021)

3.1 Overview of Trump's Populist Trade Policies (2017-2021)

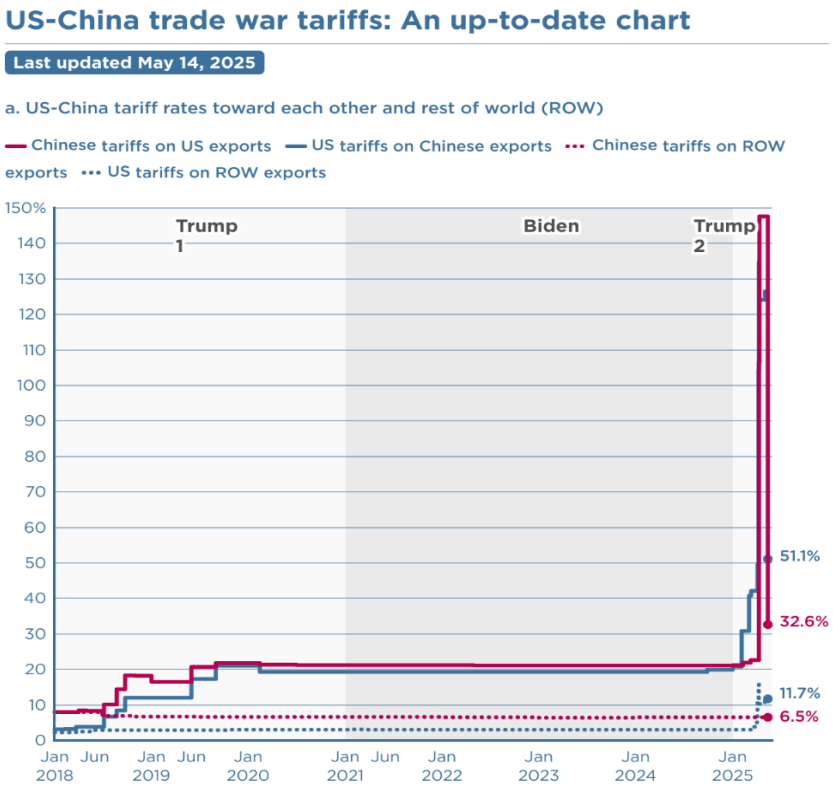
"America First" is the core guiding ideology of the Trump administration's trade policy, which emphasizes protecting American domestic industries and employment in the U.S. and reducing external dependence. Rooted in economic nationalism and a rejection of multilateralism, this approach reflects a broader shift toward isolationist thinking in

trade governance. As noted by the Cambridge Yearbook of International Law (2021), these measures aimed to stimulate domestic industry and re-establish economic frontiers around the United States, representing a turning point in U.S. global trade leadership. This policy is put into action by increasing tariffs, renegotiating trade agreements, and withdrawing from multilateral trade pacts. For example, the Trump administration withdrew from the Trans-Pacific Partnership (TPP), arguing that it would harm U.S. manufacturing and sovereignty. It also initiated a renegotiation of the North American Free Trade Agreement (NAFTA), which ultimately resulted in the establishment of the United States-Mexico-Canada Agreement (USMCA), a revised trade framework with stricter rules of origin and labor provisions.

Among the various measures adopted under the "America First" agenda, three key dimensions stand out: the use of protectionist tariffs, a preference of bilateral trade negotiations, and sustained criticism of the World Trade Organization (WTO) and pressure for institutional reforms. These dimensions not only reflect the ideological foundation of Trump's trade policy but also materialize in a range of concrete actions.

The first dimension concerns protectionist tariff measures. The Trump administration has imposed tariffs on major trading partners such as China and the EU, triggering trade frictions around the world. In 2018, the Trump administration implemented multiple rounds of tariff increases on Chinese goods, based on Section 301 of the Trade Act of 1974, on the grounds that China had "unfair trade practices" and "infringed intellectual property rights". The first round of tariff adjustments officially took effect in July of that year, imposing a 25% tariff on Chinese goods worth $34 billion, mainly affecting industrial machinery, electronic equipment, and auto parts. Subsequently, in August and September, the U.S. imposed additional tariffs on $16 billion and $200 billion worth of Chinese goods, foods, and textiles. In May 2019, the U.S. raised tariffs on $200 billion worth of Chinese goods from 10% to 25%, and in September of the same year, imposed a 15% tariff on an additional $120 billion worth of a wide range of Chinese goods, including electronics, clothing, footwear and other industries (USTR, 2018a). Figure 1 below provides a visual summary of the tariff escalation between the U.S. and China during Trump's first term, showing both the rounds of tariff increases and the associated trade value.

Figure 1. U.S.–China tariff escalation trends (2018–2021)



Source: Bown (2025), Peterson Institute for International Economics. https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart

In March 2018, the Trump administration imposed tariffs of 25% on steel and 10% on aluminum under Section 232 of the Trade Expansion Act of 1962, citing national security concerns. This directly impacted the EU, a major supplier of these metals to the U.S. The tariffs targeted EU exports like hot-rolled steel, steel pipes, foil and so on. (Federal Register, 2018) Additionally, a long-standing dispute over subsidies to Airbus illegal, authorizing the U.S. to imposed tariffs on 47.5 billion of EU goods. These included 10% tariffs on aircraft and parts and 25% tariffs on agricultural products like wine, cheese, and olive oil, as well as industrial goods such as whiskey and cosmetics. France, Germany, Spain and the UK, which are home to Airbus production, were heavily affected, particularly in wine and cheese exports. (WTO, 2020)

The second dimension involves bilateral Trade Negotiations. The trump administration prefers to resolve trade issues through bilateral negotiations rather than multilateral, stressing a “one-to-one” approach to reach trade agreements that are more favorable to the U.S. For example, in addition to renegotiating the North American Free Trade (NAFTA) and reaching the US-Mexico-Canada Agreement (USMCA), the U.S. has signed bilateral trade agreements with Japan in 2019 that eliminates Japanese tariffs on the U.S. agricultural products and reduces the U.S. tariffs on Japanese industrial products (USTR, 2019). And the U.S. also revised its trade agreement with South Korea in 2018, increasing access to the South Korean market for the U.S. automobiles and

pharmaceuticals and limiting the U.S. tariffs quotas on South Korean steel (USTR, 2018b).

The third dimension addresses criticism of the World Trade Organization (WTO) and pressure for institutional reforms. The Trump administration has repeatedly criticized the WTO for failing to effectively resolve trade disputes and has threatened to withdraw from the organization. The U.S. government has argued that the WTO's dispute settlement mechanism is inefficient and has failed to effectively constrain "unfair trade practices" by countries such as China. Specific actions include the U.S. blocking the appointment of new judges to the WTO Appellate Body, which has led to its suspension from December 2019 onwards. The Appellate Body is the centerpiece of the WTO's dispute settlement mechanism, and its suspension has seriously undermined the authority of the multilateral trading system (WTO, 2019).

These policies have partially achieved the goals of reducing trade deficits and protecting domestic industries in the short term. However, these measures have also come at a high price: global trade tensions have significantly escalated, the stability and authority of the multilateral trading system have been severely weakened, and the global supply chain has undergone deep adjustments and restructuring. Trump's policies have not only had a complex and muti-dimensional impact on the U.S. domestic economy, but also posed far-reaching economic and policy challenges to major economies such as the EU and China, forcing these countries to adopt corresponding response strategies to mitigate the impact.

Taken together, these trade strategies illustrate a coherent shift toward a more confrontational and unilateral approach to global economic relations. Rather than relying on multilateral consensus, the Trump administration systematically prioritized national interest, challenging long-standing norms of international cooperation. This repositioning not only redefined U.S. trade diplomacy, but also marked a broader transformation in the architecture of global trade governance under populist influence.

3.2 Consequences of the U.S.: America First Trade Policy, tax cuts, deregulation and protectionist trade policies

The Trump administration's "America First" policy and its range of economic measures, including tax cuts, deregulation and protectionist trade policies, are typically populist in character. According to Funke, Schularick, and Trebesch (2023), after 15 years of populist governments, GDP per capita is 10% lower than in non-populist control countries. This finding provides an important reference for analyzing the medium and long-term economic consequences of the Trump administration's policies.

To begin with, the economic erosion of the "America First" policy is evident in both domestic inefficiencies and diminishing international influence. The Trump administration has sought to reduce trade deficits and protect domestic industries by imposing tariffs and implementing protectionist policies. However, while such policies may provide protection for some industries in the short term, they may ultimately result in less efficient resource allocation and weakened incentives to innovate. Funke et al. (2023) pointed out that populist policies often prioritize short-term economic gains while neglecting long-term structural reforms, ultimately harming economic growth

potential. In parallel, the "America First" policies have undermined the multilateral trade order and weakened the U.S.'s leadership within it. As a result, other countries have begun to seek alternative trading partnerships. For example, the signing of the Regional Comprehensive Economic Partnership (RCEP) in 2020 marked a shift in Asia-Pacific trade dynamics. Likewise, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed in 2018 by 11 economies after the U.S. withdrew from the original TPP, serves as another major trade framework that seeks to uphold high-standard trade rules and deepen regional economic integration. These developments reflect not only a strategic realignment in global trade but also a decline of U.S. influence in shaping global trade norms, a trend that could lead to a further undermine its long-term economic competitiveness.

In addition, Trump's tax policies, particularly the Tax Cuts and Jobs Act (TCJA), generated short-term economic stimulus but have raised serious concerns about long-term fiscal sustainability and resource misallocation. The Act boosted economic growth in the short term by sharply reducing corporate and personal income taxes, stimulating consumption and investment. Specifically, the Act reduced the federal corporate income tax rate from 35%to 21%, representing the most significant cut since 1986 (Tax Policy Center, 2018). However, such policies have also led to a significant rise in the federal deficit. Funke et al. (2023) show that populist governments tend to favor fiscal expansion to gain short-term political support, but the long-term cost of such policies is a threat to fiscal sustainability. Gale et al. (2018) quantify this effect, noting that while TCJA stimulated near-term demand, its impact on GDP remains small and the legislation is projected to increase federal debt by over $1 trillion over a decade, posing intergenerational fiscal burdens. Moreover, although tax cuts increased corporate profits, many firms chose to allocate these gains to stock buybacks rather than to productive investments, resulting in less efficient resource allocation and slower productivity growth (Funke et al., 2023).

Equally important, deregulation under the Trump administration brought short-term industrial benefits but also posed long-term economic and environmental risks. By relaxing rules in sectors such as energy and finance—particularly through the repeal of numerous environmental regulations—the government stimulated the recovery of traditional energy industries in the short run. However, this approach also led to increased pollution and potentially undermined the country's long-term sustainable development. As Funke et al. (2023) point out, populist policies often neglect environmental concerns, resulting in higher social costs over time. Furthermore, easing financial regulations may have reduced compliance burdens on banks, but it also introduced greater systemic risks. Populist governments tend to weaken financial oversight, which can diminish macroeconomic stability and heighten vulnerability during downturns.

Finally, Trump's protectionist trade policies have generated lasting challenges for the U.S. economy by fostering global trade frictions and undermining long-term competitiveness. These policies—particularly tariffs imposed on major trading partners such as China and the EU—have heightened global trade uncertainty and contributed to the deterioration of the international trade environment. Funke et al. (2023) argue

that such populist strategies often weaken global economic cooperation, which ultimately constrains economic growth. In addition, the erosion of U.S. price advantages due to retaliatory tariffs and disrupted supply chains has reduced the global competitiveness of American firms. As other countries gain market share in response, the long-term growth potential of the U.S. economy is increasingly at risk.

3.3 Consequences for the EU: Response to U.S. Trade Policies, Digital Trade and Taxation Issues

The Trump administration's trade policies have had a profound impact on the EU, especially regarding tariffs, digital trade and tax policies. As one of the world's largest economies, the EU has adopted a multi-level response to the U.S.'s unilateralism and protectionism policies, while also engaging in a complex game with the U.S. on digital trade and tax issues.

To begin with, the EU took formal legal action and filed a complaint with the World Trade Organization (WTO) to challenge the tariff measures imposed by the U.S. on the grounds of "national security". Commissioner for Trade Cecilia Malmström said: "The rules of international trade, which we have developed over the years hand in hand with our American partners, cannot be violated without a reaction from our side. Our response is measured, proportionate and fully in line with WTO rules." (European Commission, 2018a). Then, the EU took direct economic countermeasures by imposing tariffs on 2.8 billion euros worth of U.S. goods, including motorcycles, whiskey, and agricultural products (European Commission, 2018b). Recognizing the systemic threat that U.S. unilateralism poses to the multilateral trading system, the EU has accelerated its efforts to diversify its trading partners and reduce its reliance on the U.S. market. The core outcome of this strategy is the EU-Japan Economic Partnership Agreement (EPA) signed in 2018. The agreement covers 630 million people and accounts for 28% of global GDP. It not only deepens economic ties with key Asian allies, but also becomes a symbolic move to hedge against U.S. protectionism. As Dadush and Wolff (2019) point out, the agreement was finalized during the escalation of U.S.-EU trade tensions, and its geopolitical intention was clear: by reinforcing a commitment to rules-based multilateralism, the EU positioned itself in direct contrast to the "America First" approach of the Trump administration.

In the digital domain, during the Trump administration, the U.S. and EU had major differences on digital trade rules and data protection issues. The U.S. promoted unrestricted cross-border data flows and minimal regulation of internet companies, emphasizing a market-oriented model with limited constraints on tech firms. In contrast, the EU stressed strong data privacy protection and formally implemented the General Data Protection Regulation (GDPR) in 2018, which imposed strict compliance requirements on multinational technology companies. This regulatory divergence created early tensions between the two sides, as American technology firms operating in Europe were forced to adjust to a fundamentally different legal regime. According to Bradford (2020), this illustrates the "Brussels Effect," in which the EU, through its regulatory power, shapes global norms beyond its borders. While many headline-grabbing enforcement cases, such as multi-billion-euro fines, occurred after Trump's

term, the legal architecture and transatlantic friction were already taking shape during his administration. This "weaponization of rules" not only weakens the cost advantage of American companies, especially those benefiting from a deregulated digital environment in the U.S., but also uses data localization requirements to support European cloud service providers in disguise, opening up a new battlefield beyond the digital tax dispute, escalating the trade game from the tariff level to a competition for dominance of digital governance rules, and ultimately reshapes the balance of transatlantic economic power.

With respect to taxation, since the adoption of the Tax Cuts and Jobs Act (TCJA) in the United States in 2017, the transatlantic tax conflict has significantly intensified. The bill significantly reduced the federal corporate income tax rate from 35% to 21%, but also introduced new anti-avoidance provisions aimed at curbing profit shifting by multinational companies. One of the most notable measures was the Base Erosion and Anti-Abuse Tax (BEAT), which imposes a minimum tax on certain payments made by large U.S. corporations to foreign affiliates (Tax Foundation, n.d.). This rule was designed to prevent companies from eroding the U.S. tax base by shifting profits to lower-tax jurisdictions. However, this reformation put pressure on EU member states to induce multinational corporations to shift profits back to the United States, thus eroding the European tax base (Fox Business, 2018).

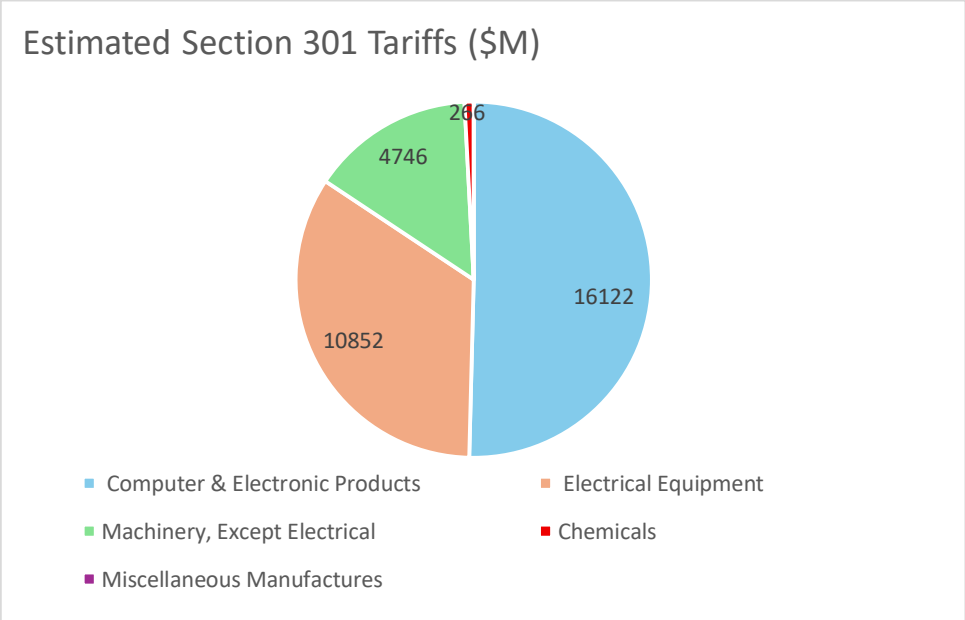
In response, the EU adopted a multi-layered strategy to defend its fiscal sovereignty, combining unilateral taxation measures, active engagement in international negotiations, and regulatory initiatives. For instance, countries such as France, Spain, and Italy introduced a Digital Services Tax (DST) targeting large technology firms with significant digital revenues generated within the EU. In France, the 3% DST collected approximately €400 million in its first year, most of which came from U.S.-based companies (Osborne Clarke, 2019). Furthermore, the EU intensified its participation in international tax cooperation by playing a central role in the negotiation of the OECD's Global Minimum Tax Agreement, and subsequently adopted the Minimum Tax Directive in 2022. This directive requires EU member states to apply a minimum effective tax rate of 15% on profits of multinational enterprises starting in 2024 (EUR-Lex, 2022). In addition, the EU revised the Anti-Tax Avoidance Directive and launched the Joint Coordination Platform for Tax Enforcement (JCTC) to strengthen information exchange and cross-border enforcement. As a result, major U.S. tech firms such as Apple, Microsoft, and Amazon have faced substantial tax reassessments across Europe. These institutional developments highlight the EU's strategic shift from passive compliance to active norm-setting in global tax governance, aiming to reinforce its fiscal autonomy and increase its regulatory influence on the international stage.

3.4 Consequences for China: Tariff Wars and Economic Adjustments, Supply Chain Realignment

In 2018, the Trump administration imposed punitive tariffs on Chinese exports to the U.S. in four phases based on the results of the "301 investigation". Ultimately, the first three rounds of tariffs imposed by the United States on Chinese goods under the Section 301 investigation, which were actually implemented by 2019, covered approximately

$370 billion worth of goods—accounting for 68.5% of China's total exports to the U.S. (USTR, 2019). The originally planned fourth round (List B), targeting an additional $180 billion in goods, was suspended due to the signing of the Phase One trade agreement between China and the U.S. However, if fully implemented, the total coverage would have theoretically reached about 73% of China's exports to the United States. These tariff measures show obvious strategic targeting. The first batch of $34 billion worth of goods mainly hit the key areas of "Made in China 2025", including industrial machinery and aerospace equipment, with a tax rate as high as 25%; then it gradually expanded to people's livelihood areas such as consumer electronics, forming a comprehensive suppression of Chinese export goods (Bown, 2025). Figure 2 below illustrates the estimated tariff burden under Section 301 by product category. The data shows that the most heavily targeted sectors included computer and electronic products (50%), electrical equipment (34%), and machinery (15%), confirming the strategic emphasis on both industrial and consumer technologies.

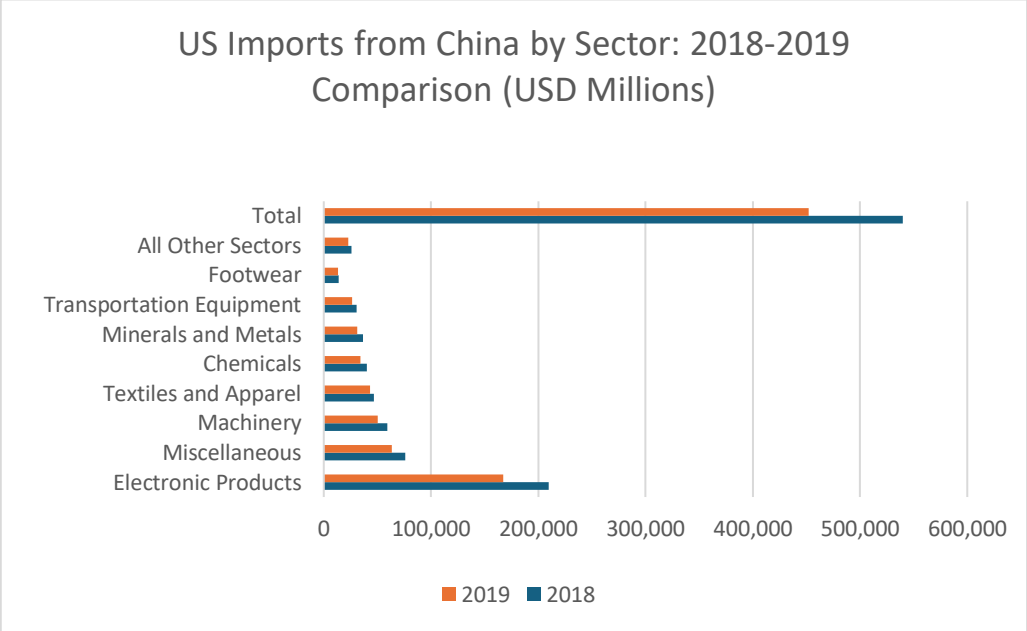
Figure 2. Distribution of Estimated Section 301 Tariffs by Sector (in $ Millions)



Source: WITA (2022), CTA Section 301 Tariff Whitepaper. https://www.wita.org/wp-content/uploads/2022/08/CTA_Section-301-Tariff-Whitepaper.pdf

This tit-for-tat tariff confrontation has led to a sharp contraction in bilateral trade. According to World Bank WITS data, China's exports to the United States in 2019 were approximately US$419.32 billion, reflecting a significant 12.5% year-on-year decline (World Bank WITS, 2024). At the same time, U.S. imports from China also fell. Data from the U.S. International Trade Commission (2020a) show that U.S. imports from China totaled $452.2 billion in 2019, a year-on-year decline of 16.2%, with the largest decline in electronic and information products, a 25.3% drop in computers and accessories, and a 17.6% drop in telecommunications equipment (USITC, 2020). Figure 3 below, "U.S. Imports from China by Sector (2018–2019)", illustrates these sectoral declines, highlighting the disproportionate impact on high-tech manufacturing. These figures underscore the economic cost of the trade war for China and reveal pressure points in its export structure.

Figure 3. U.S. imports from China by sector (2018-2019)



Source: USITC DataWeb/USDOC, accessed March 10, 2020.
https://www.usitc.gov/research_and_analysis/trade_shifts_2019/china.htm?utm_
Notes: Import values are based on customs value; export values are based on free alongside ship value, U.S. port of export; Calculations based on unrounded data.

To stabilize the domestic economy, the Chinese government launched a large-scale tax and fee reduction initiative in 2019. According to the Ministry of Industry and Information Technology of the People's Republic of China(2020), the total amount of tax cuts and fee reductions for the year 2019 is expected to reach RMB 2.36 trillion, of which VAT reductions in manufacturing and related industries account for close to 70%, and inclusive tax reductions for small and micro-enterprises amount to about RMB 250 billion. This policy improved the business environment and buffered domestic industries against external trade shocks.

Despite the decline in the proportion of total retail sales of consumer goods to GDP from 42.3% in 2018 to 38.5% in 2021, the absolute volume of consumption continued to grow steadily: Total retail sales of consumer goods increased from 38.1 trillion yuan in 2018 to 44.1 trillion yuan in 2021. Over the same period, GDP grew by 27.1%. [1] This growth trend reflects how, against the backdrop of weak external demand and export constraints, the absolute contribution of domestic demand to economic growth strengthened. Such a shift underscores China's gradual adjustment toward a growth model increasingly driven by domestic demand in response to external shocks. This

[1] China's total retail sales of consumer goods was RMB 38.1 trillion (38,098.7 billion) in 2018(https://www.stats.gov.cn/sj/zxfb/202302/t20230203_1900241.html) , and RMB 44.1 trillion (44,082.3 billion) in 2021(https://www.stats.gov.cn/sj/zxfb/202302/t20230203_1901393.html) . During the same period, the gross domestic product (GDP) was RMB 90.0 trillion (90,030.9 billion) and RMB 114.4 trillion (114,367 billion).

trend is illustrated in figure 4. China's Retail Sales and Consumption Share of GDP (2018–2021), which shows that despite the declining consumption-to-GDP ratio, overall consumption remained on an upward trajectory.

Figure 4. China's Retail Sales and Consumption Share of GDP (2018–2021)

Year	Total Retail Sales of Consumer Goods (trillion CNY)	GDP (trillion CNY)	Consumption Share of GDP (%)
2018	38.1	90.0	42.3
2021	44.1	114.4	38.5

Notes: Data source from National Bureau of Statistics of China; Consumption share calculated as (Retail Sales / GDP) × 100%.

In addition, China actively expanded its exports to emerging markets, especially in the ASEAN region. 2019 China's exports to ASEAN grew by 12.7% year-on-year, with ASEAN overtaking the United States as China's largest trading partner for the first time. This diversification of trade partners highlights China's strategic transition from "U.S. dependence" to "multilateral layout" in the global trade network (China Daily, 2020).

The trade war also triggered visible shifts in global supply chains. In 2019, U.S. imports from China fell from $539.7 billion to $452.2 billion, a 16.2% decline. At the same time, the U.S. increased imports from countries such as Vietnam and Cambodia, signaling a partial relocation of labor-intensive production. For example, imports from Vietnam rose by 35.6% year-on-year (USITC, 2020b), while imports from Cambodia grew by 40.4% (U.S. Census Bureau, 2020). These countries began to take on segments of China's production capacity, especially in textiles, furniture, and electronics assembly.

However, despite this shift, China maintained its core position in high-end manufacturing and global electronics supply chains. Many Southeast Asian countries significantly increased their imports of Chinese intermediate goods. For example, 35% of Vietnam's electronic exports to the U.S. still rely on Chinese components. This pattern, well-documented by Kukharskyy, Felbermayr, Krebs, and Eppinger (2021), demonstrates that although final assembly has moved to third countries, critical intermediate inputs continue to originate from China. Full decoupling from Chinese suppliers would result in substantial cost increases, prompting firms to retain Chinese components in restructured value chains.

Overall, these adjustments suggest that global supply chains are becoming multilayered, with China at their core. While labor-intensive industries are relocating to other countries, China continues to dominate high-tech manufacturing, reflecting both its structural advantages and the strategic resilience of its industrial system.

4. Part II: Forecast the direction of Trump's economic policies and the potential impact on the international trade after his possible return to politics (2025 and beyond)

This section is based on policy developments available up to *May 31, 2025*. Given the fast-evolving nature of Trump's second-term trade and economic agenda, readers should interpret the projections in light of the possibility of subsequent policy changes.

The following analysis is based on the policy logic of Trump's first term (2017–2021) and extrapolations from existing economic models, assuming a continuation or escalation of similar policies in 2025. This caveat is particularly relevant for forecasting long-term implications, as several announcements and countermeasures were still ongoing at the time of writing.

4.1 New trade protectionism escalates: Comprehensive tariff war 2.0

On April 2, 2025, U.S. President Trump signed an executive order declaring that the United States had officially entered a "national emergency" due to the threat posed by foreign unfair trade practices to the U.S. economy and national security. According to the White House (2025), the U.S. would impose tariffs on global goods to protect domestic industries and reduce the long-term trade deficit. Beginning April 5, a uniform benchmark tariff of 10 percent was applied to imports from all countries, and from April 9, higher individualized tariffs were announced targeting countries with the largest trade deficits with the U.S., including China. The new tariff policy contains a list of exemptions that will not affect copper, pharmaceuticals, semiconductors, timber, precious metals and some energy products.

In the weeks following the announcement, however, the Trump administration reconsidered certain aspects of the tariff package due to pressure from domestic industries and rising inflation concerns. While the 10 percent benchmark tariff remained in effect, some individualized tariffs—particularly those on high-tech Chinese imports—were temporarily suspended or revised downward. This sequence of escalation followed by partial adjustment reflects the volatility of the administration's trade strategy in 2025 (Bouët, Sall, & Zheng, 2025).

The Trump administration's pursuit of comprehensive tariff measures stemmed from dual motivations—domestic political calculations and economic nationalist objectives—while strategically employing legal mechanisms to legitimize its trade policy. On the political and economic dimensions, the policy directly echoes its "America First 2.0" campaign platform, with core demands including: rebuilding the local industrial base (e.g., automotive and steel industries) through "manufacturing repatriation," reducing reliance on China's supply chain for strategic industries (semiconductors, new energy), and rescuing the worsening trade deficit (merchandise trade deficit to reach $1.2 trillion in 2024), which is now at an all-time high. These initiatives are aimed at consolidating voter support in key swing states and delivering on his promise to "Make America Great Again". In terms of legal basis, the government mainly cited two key bills: (1) International Emergency Economic Powers Act (IEEPA): Authorizes the president to impose emergency tariffs without congressional approval on the grounds that "trade deficits threaten national security"; (2) Section 232 of the Trade Expansion Act of 1962: Maintain a 25% tariff on strategic materials such as steel and aluminum in the name of "national defense security", continuing the logic of the steel and aluminum tariffs on China in 2018. According to the White House (2025), legal tools and political goals form a closed loop - IEEPA provides a framework for rapid action, and Section 232 targets specific industries, together forming the legal pillars of "Comprehensive Tariff War 2.0".

To better understand the evolving nature of U.S. trade protectionism, especially under President Trump's two administrations, the following Table 5 provides a comparative overview of the key characteristics of the trade wars initiated during Trump's first (2017) and second (2025) terms. The comparison highlights both institutional continuity and strategic escalation across multiple dimensions such as legal basis, scope, implementation speed, and policy logic.

Table 5. Comparative Overview of Trump's Trade Wars: 2018 vs. 2025

Dimension	2018 Trade War (Trump 1.0)	2025 Trade War 2.0 (Trump 2.0) [Forecast + Partial Facts]
Coverage Scope	Targeted specific countries (e.g., China, EU, Mexico)	Global tariff measures with a baseline 10% levy on most imports, with exemptions granted to USMCA partners (Canada, Mexico) under the so-called "Liberation Day Tariff" framework
Legal Instruments	Mainly Section 301 (Trade Act of 1974), Section 232 (Trade Expansion Act of 1962)	IEEPA (International Emergency Economic Powers Act) as the core legal basis, expanding presidential power
Exemption Mechanism	Companies could apply for individual exemptions	Fixed exemption list, difficult to update; no dynamic adjustment process available
Implementation Speed	Gradual, multi-round imposition over several months	Immediate effect (e.g., effective from April 5, 2025)
Policy Logic	Driven by trade deficits, manufacturing reshoring, and negotiation leverage	Geopolitical, supply chain control, and national security considerations as strategic motivations
Ally Relations	Trade frictions with allies (EU, Canada); multilateralism weakened	[Forecast] Selective pressure on allies; possible anti-China "de-risking" coalition
Affected Sectors	Steel, aluminum, agriculture, low-end manufacturing, and some tech firms (e.g., Huawei)	[Forecast] High-end semiconductors, EVs, green technologies, AI/ICT, and strategic tech sectors

Notes: 1. The items labeled "[Forecast]" or described as "partial facts" indicate informed projections based on current trends and policy signals as of May 2025, but are not yet fully

confirmed by official documents. 2. The “Liberation Day Tariff” exemptions specifically applied to USMCA member states (Canada, Mexico), reflecting treaty-based carve-outs as described in CSIS (2025).

4.2 Economic impact on the U.S.: Short-term contradictory results

After Trump returned to the White House in 2025, he quickly implemented a series of "America First" oriented economic policies, which brought complex and contradictory economic impacts in the short term. According to the U.S. Bureau of Labor Statistics (2025), these effects include both job creation in protected industries and price increases due to higher import costs.

On the one hand, driven by strengthened local industry protection measures and increased tariff barriers, certain manufacturing sectors have shown signs of moderate recovery. According to The Washington Post (2025a), manufacturing employment in the United States increased by approximately 6,000 jobs since January 2025 following the introduction of the new tariff regime. However, the article also highlights that this short-term gain is marginal compared to the potential long-term damage to the broader services sector, which comprises over 80% of U.S. employment. Although limited in scale, these developments may reflect the early signs of reshoring and partial revival of domestic production capacity. As Di Stefano, Zollo, and Pisano (2023) explain, this pattern aligns with broader sustainable development goals in both home and host countries. On the other hand, high tariffs lead to higher import costs, which are eventually transmitted to the consumer end, triggering a rebound in inflation. Data from the U.S. Bureau of Labor Statistics (2025) show that the Consumer Price Index (CPI) rose to 4.9% during the year, weakening residents' actual purchasing power and creating a situation made by simultaneous growth and price increases.

At the same time, U.S.-China trade has nearly decoupled, with bilateral trade shrinking dramatically. As Bouët, Sall, and Zheng (2025) observe, this was reflected in an 80.5% decline in China's exports to the United States and a 58% decline in U.S. exports to China. This dramatic change has profoundly affected the structure of trade between the two countries and has further exacerbated economic volatility.

The structural shift in trade flows has given rise to new market space - against the backdrop of the United States' drastic cuts in China's imports, Canada and Mexico's exports grew by 8.3% and 26.1% respectively by filling the supply chain gaps, demonstrating the take-up effect in the reorganization of the U.S. industry chain Significant. However, if the United States extends tariff barriers to the North American Free Trade Area, Canada and Mexico will face the impact of export contraction. As Bouët, Sall, and Zheng (2025) emphasize, this dilemma deeply reveals the paradox of the reconstruction of the global value chain - the existing beneficiaries of regional trade agreements may gain alternative opportunities in new trade conflicts, or they may become the next link in the domino effect.

More concerningly, the Congressional Budget Office (2025) projects that, massive industry subsidies and tax breaks will push the federal deficit past $1.9 trillion in 2025, stimulating the economy in the short term but sowing long-term fiscal risks.

In 2025, Trump’s “America First” policies had complex short-term effects: high tariffs

fueled inflation, weakening consumer purchasing power; U.S.-China trade sharply declined, while Canada and Mexico saw export growth amid supply chain shifts, though tariff expansion risks remain; substantial subsidies boosted the economy but increased the federal deficit. Overall, these developments highlight contradictions and challenges in global value chain restructuring.

4.3 The EU Response: From Defensive Response to Proactive Stance

Facing the Trump administration's 2025 upgrade of trade barriers against Europe (e.g., steel and aluminum, auto tariffs), the EU has shifted from a defensive response to a multidimensional counterstrategy, combining trade retaliation, supply chain autonomy, and rule-making power to reshape global economic dynamics.

Trade and climate policies now serve as the EU's dual strategic weapons. On April 9, 2025, the European Commission imposed 22 billion euros in retaliatory tariffs targeting U.S. imports like steel, aluminum, and whiskey, as a strong counterattack on the imposition of trade barriers by the U.S. This action was reported by Euractiv (2025) as a landmark move signaling the EU's readiness to defend its economic and environmental interests in parallel. The tariffs not only target traditional industrial goods, but also reflect the EU's strategic focus on the digital economy sector. As reported by Techzine (2024), the EU is actively considering imposing a digital services tax on large U.S. cloud computing providers such as Amazon and Microsoft, with the aim of curbing the market dominance of U.S. tech giants and protecting Europe's digital sovereignty. According to Article 83 of the GDPR (GDPR-info, 2023), the EU has amended GDPR to mandate data localization for U.S. companies with penalties of up to 4% of global revenue, while wielding the Digital Markets Act to dismantle monopolistic segments like Google's advertising business. In parallel, the EU is developing a project known as "EuroStack," a fully open-source digital infrastructure project aimed at reducing dependency on U.S. cloud services, enhancing data control and cybersecurity, and strengthening the EU's technological autonomy.

Meanwhile, the climate policy dimension has become particularly potent. Through the Carbon Border Adjustment Mechanism (CBAM), the EU plans to tax high-carbon imports to raise the cost of U.S.-produced liquefied natural gas (LNG) imports, undermine their price competitiveness, and promote low-carbon energy development. As reported by Transport & Environment (2022), building on this carbon pricing framework, the EU is advancing regulatory measures targeting the carbon footprint of electric vehicle (EV) batteries. Under the revised EU Battery Regulation, electric vehicle batteries placed on the EU market will be required to disclose their life-cycle carbon footprint starting from 2025, with classification and potential maximum thresholds to follow in 2026 and 2028 respectively. Although no specific tax has been imposed at this stage, Rystad Energy (2024) notes that these evolving standards are expected to act as a de facto trade barrier for high-emission battery imports—including those from the U.S.—by increasing compliance requirements and limiting market access for non-compliant products. According to S&P Global (2024), these regulations reflect the EU's broader strategy to promote cleaner battery manufacturing and enhance transparency in global EV supply chains.

To reduce strategic vulnerability, the EU is accelerating the process of "de-Americanization" of the supply chain, focusing on key industry autonomy and digital sovereignty. On the one hand, the EU is investing more in enhancing autonomous capabilities in key industries. The European Commission (2024) outlines that through the European Chips Act, the EU aims to mobilize €43 billion in public and private investment to double its global chip market share from 10% to 20% by 2030. At the same time, the EU has also prioritized the advanced battery industry, with Financial Times (2024) highlighting that support of Sweden's Northvolt reflects efforts to reduce dependence on Asian EV supply chains.

Another pillar of EU autonomy is reducing dependence on high-carbon energy imports. In May 2025, the EU, with Germany's KfW and DEG, launched the MENA Green Transformation Fund to develop renewable energy and green hydrogen. As detailed in the European Commission's press release (2025), this initiative aims to accelerate the green transition in the MENA region through climate financing and industrial cooperation. In addition, the EU has supported the establishment of a trans-Mediterranean hydrogen pipeline linking Algeria, Tunisia and Europe, which is expected to be operational by 2030 and will then deliver large-scale renewable hydrogen from North Africa to the EU. Commonspace (2025) reports that these projects strengthen EU energy security and signal a shift toward replacing U.S. hydrogen imports through South–South strategic cooperation.

Facing the resurgence of the U.S. protectionism under a potential second Trump administration, the EU has shifted from reactive defense to a proactive, multidimensional trade strategy. By integrating trade and climate policies, the EU now leverages retaliatory tariffs, digital sovereignty measures, and carbon-based regulations to counterbalance U.S. influence and reshape global trade norms. Simultaneously, it is accelerating efforts to reduce strategic dependencies-investing in key sectors like semiconductors, clean energy, and digital infrastructure- to enhance economic resilience. This evolving approach reflects the EU's broader ambition to assert regulatory leadership and secure greater autonomy in an increasingly fragmented global economic order.

4.4 China's Response: From Defensive Measures to Strategic Transformation

In response to the Trump administration's multiple rounds of tariffs on Chinese exports from February 2025, Beijing Customs (2025) issued implementation details of China's export controls on mineral resources to the U.S. China quickly adopted a multilayered countermeasure strategy. Immediately after the first round of U.S. announcements of a uniform 10% tariff on all Chinese goods, China announced a 15% tariff on U.S. coal and liquefied natural gas, as well as a 10% tariff on crude oil, agricultural machinery, large-displacement automobiles and pickup trucks. These measures were announced by the State Council of the People's Republic of China (2025, February). On March 3, 2025, the U.S. government further announced an additional 10 percent tariff on all Chinese exports to the United States. China subsequently imposed tariffs on selected U.S.-origin agricultural products effective March 10, including 15 percent tariffs on chicken, wheat, corn, and cotton, and 10 percent tariffs on sorghum, soybeans, pork,

beef, aquatic products, fruits, vegetables, and dairy products. This retaliation was reported by CCTV (2025, March 4). Then, in May, the U.S. tariffs were escalated again, with sanctions targeting high-end manufacturing and green energy-related products, in particular. This escalation was covered by Caixin (2024, May 14). China has gradually expanded the scope of its retaliation by not only imposing differentiated tariff rates on some U.S. products and placing some U.S. firms (e.g., PVH and Illumina) on a list of "unreliable entities" (Ministry of Commerce of the People's Republic of China,2025), but also by initiating export controls on five key mineral resources - tungsten, tellurium, bismuth, molybdenum, and indium – as noted by the China Council for the Promotion of International Trade.

At the domestic economic level, the Chinese government has set a GDP growth target of 5% for 2025 and launched a series of domestic demand stimulus policies. The rationale behind this target was explained by the State Council (2025, March 9). This year, the Ministry of Finance plans to issue about 1.3 trillion yuan of ultra-long-term special treasury bonds , as reported by Xinhua News Agency (2025, April 22), which will specifically support domestic demand projects such as consumer goods "trade-in", equipment renewal and technological upgrading, as well as investing in infrastructure and "new quality productivity" related areas, especially focusing on artificial intelligence, 6G, low-carbon manufacturing and advanced manufacturing technologies. It also invests heavily in infrastructure and "new quality productivity" related sectors, with a particular focus on artificial intelligence, 6G, low-carbon manufacturing and advanced manufacturing technologies. The Chinese Academy of Social Sciences (2025) emphasized that such policies aim to strengthen the domestic macro-circulation mechanism to enhance the endogenous resilience of the economy and mitigate the impact of the downturn in external demand.

After Trump returned to power in 2025 and introduced a tougher technology restriction policy against China, the confrontation between China and the United States in the field of technology has further escalated. The U.S. government has not only expanded the scope of export controls on high-end artificial intelligence chips (such as NVIDIA H20 and AMD MI308) and EDA software, as reported by The AI Insider (2025) and The Washington Post (2025b), but has also increased restrictions on Chinese STEM student visas in an attempt to curb China's development in cutting-edge technology. MarketWatch (2025) noted that these restrictions were justified by alleged violations of the Geneva deal.

In response, China has accelerated its strategy of "de-glorification" of core technologies and strengthened its financial support for local science and technology innovation enterprises. Reuters (2025a) reported that China plans to expand financial measures for innovation by 2025. In addition, Chinese regulatory authorities have launched a new round of antitrust and data security reviews of US-funded technology companies in China, raising the compliance threshold for foreign companies. For example, regulatory agencies have strengthened control over cross-border data transmission, requiring companies to strictly comply with data security and privacy protection regulations, while increasing investigations into monopolistic practices that may harm fair competition in the market, and pushing foreign companies to improve their compliance

systems to ensure that their operations in China comply with China's increasingly stringent regulatory environment. These developments were highlighted by Asian Financial Insight (2025). At the same time, China has been actively expanding its technological cooperation with non-U.S. economies such as the EU and Japan, especially in the field of open-source chip architectures such as RISC-V, in order to build a “non-U.S. technology ecosystem” to circumvent the U.S.-dominated patent system and export controls. As Reuters (2025b) disclosed, China intends to roll out national policies to promote RISC-V chip adoption. This move is not only a direct response to the Trump administration's “technology decoupling” strategy, but also reflects China's strategic intent to reshape its voice in the global science and technology governance system.

China has actively adjusted its foreign strategy at the geo-economic level, using market access as a bargaining chip to attract major European economies to maintain cooperation with China in key areas, especially in the fields of electric vehicles and new energy. For example, Reuters (2025c) reported that the EU and China have begun to discuss setting a minimum price for Chinese-made electric vehicles to replace the tariffs imposed by the EU on them last year.

It is worth mentioning that China has made significant progress in promoting the internationalization of the digital renminbi (e-CNY) in 2025, with the aim of reducing its dependence on the U.S. dollar and promoting the process of “de-dollarization”. As Lin and Tian (2025) report, the People's Bank of China (PBOC) has strengthened the application of digital RMB in more than 30 countries around the world by expanding cross-border RMB payments and currency swaps. In addition, Kramer (2025) highlighted China’s support for the establishment of the “BRICS Pay” payment system, which aims to promote the use of local currencies for trade settlements among BRICS countries, reduce reliance on the U.S. dollar and promote the diversification of the financial system.

China has shifted from defensive tariffs to proactive economic and technological transformation in response to U.S. trade pressures. Domestically, it boosted demand through stimulus policies and investments in AI, 6G, and green manufacturing. Technologically, it accelerated self-reliance, tightened foreign firm regulations, and expanded non-U.S. partnerships (e.g., RISC-V). Geopolitically, China promoted the digital yuan and BRICS payment systems to reduce dollar reliance. These moves underscore China’s broader strategy to reshape global trade and technology governance, challenging U.S. dominance and fostering a multipolar economic order in the post-Trump era.

5. Conclusion

The Trump administration's "America First" policy has profoundly reshaped the global trade landscape. Although its protectionist measures have provided support to some U.S. industries in the short term, they have also triggered inflation, supply chain disruptions, and the weakening of the multilateral trading system. This article analyzes the policy effects from 2017 to 2021 and the initial trends after Trump's return to politics in 2025, revealing the far-reaching impact of the populist trade agenda on the global economy.

For the United States, the tariff policy has pushed up consumer prices and exacerbated the fiscal deficit, while technological restrictions and trade decoupling have further weakened its long-term competitiveness. Although the export growth of trading partners such as Canada and Mexico has filled some supply chain gaps, the risk of potential tariff expansion highlights the contradictions in the reconstruction of the global value chain.

The EU, on the other hand, has shifted from passive defense to active stance, reinforcing its rule-making power through retaliatory tariffs, digital sovereignty legislation, and a carbon border mechanism, while accelerating chip autonomy and green energy cooperation to reduce its strategic dependence on the United States and demonstrate its normative leadership in a multipolar trading system.

China, meanwhile, has reduced its reliance on the U.S. through a multi-pronged strategy that includes domestic demand stimulus, technological self-sufficiency, and currency internationalization. Despite the sharp decline in U.S.-China trade, China has deepened its cooperation with the EU and ASEAN, demonstrating supply chain resilience and flexibility in economic transformation. These adjustments indicate that global trade governance is accelerating towards multipolarity, rule-based competition and regional restructuring.

Although populist trade policies address short-term political incentives, they ultimately erode the institutional foundations of global economic stability. The continuation of Trump-era strategies in 2025 suggests that protectionism could further entrench trade fragmentation. As countries shift from passive response to active agenda-setting, the outlook for global economic governance grows increasingly uncertain. This evolving reality underscores a critical lesson for policymakers: only by balancing domestic priorities with international cooperation can a more resilient and equitable global trade system be secured.

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