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## THE IMPLICATIONS OF TRUMP'S SELF-DEFEATING 2025 TRADE WAR ON THE GLOBAL ECONOMY\*\*1

**Abstract.** *The biggest problem facing the world economy today is the intensification of neomercantilist policies reinforced by aggressive industrial policies. The USA has declared a trade war on the whole world, and most aggressively on China. The main objective of this article is therefore to find out what the consequences of this trade war for the countries attacked and the US economy are in view of the theory of tariff protection, claiming that in trade wars there are no winners, that all states lose, including the economy of the country that began the war. Among the countries attacked, we are particularly concerned with China and the EU and which policy options they may have available to react to, this trade war. Since this is not the first trade war in history, given that we already had one during the Great Depression in the 1930s, it is necessary to determine whether we have learned from these wars or are merely repeating the mistakes made at that time. It is clear that history has not taught us much. Although this trade war heralds tectonic shifts in the world economy, we conclude that better than reacting in panic is to design a wise, long-term reaction strategy. This is supported by an evaluation of the negotiation profile of the trade war's initiator, President Trump, characterised by initial dramatizing and black-mailing. The analysis provides arguments concerning why the trade war is not expected to be carried out in such a dramatic way as it was started. All the negative consequences and unrealised objectives for the initiator's economy will eventually become the basis for the gradual watering down of the most aggressive policy elements.*

**Keywords:** *Trump, tariffs, trade war, effects, retaliation, Great Depression, negotiations, European Union, China, USA.*

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## INTRODUCTION

In the 1960s, Mao Zedong is claimed to have said, “There is great disorder under heaven; the situation is excellent”. Today, we are also facing great disorder in the world, albeit the context is different. Humankind is fractured by poly crises, ecological exhaustion, persistent inequality, multiple wars, and the dismantling of the world order. US President Trump’s announcement of absurdly high, draconian reciprocal tariffs on 2 April *Tariff Day* or *Liberation Day*, as he calls it, are namely the biggest trade shock in history and the most foolish<sup>2</sup> tariff policy in history. Nothing like this in terms of the size and type of reciprocal tariffs has occurred in our lifetime. Not least because the calculation of ‘reciprocal tariffs’ was based on the wrong formula and incorrect calculations<sup>3</sup>. The new tariffs are also consistently higher than what would be required to achieve genuine reciprocity (Conteduca et al. 2025).

The mentioned disorder is now being intentionally created, ignoring the existing world order all so as to Make *America Great* and *America Rich*. One similarity with Mao Zedong’s disorder is that Trump is in fact launching a *Cultural Revolution*, like Mao did 67 years ago. Mao Zedong did so in order to erase the memories of the failure of Great Leap Forward (1958–1962), whereas Trump’s efforts have been to support his antidemocratic, extreme-right policy by a new *McCarthyism* (pardoning the rioters at the Capitol, the forced repatriation of immigrants contrary to the rule of law<sup>4</sup>, LGBTIQ, and the white supremacy policy, termination of the Ministry of Education, the withholding of financing to particular universities and public media etc.)

At that time, China was hardly integrated into the global economy. Its influence on global affairs was marginal. The situation today is quite different. Its influence is growing while that of the USA is fading. H. Brands (2025) claims that “if D. Trump follows this destructive path, the US will become less globally engaged but more aggressive, unilateral, and illiberal. It will not be an absent superpower but a renegade one—a country that stokes global chaos and helps its enemies break the U.S. led system”. The instrument for creating such disorder is his “impulsive, ill-prepared, unethical, and bullying, arm-twisting transactional negotiation style” (see Shell 2019). While it might sometimes be effective in business, it is “ill-suited for complex policy decisions that require more persuasion and problem solving”

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<sup>2</sup> The battery of tariffs already outpaces the stifling Smoot-Hawley law the USA introduced in the Great Depression (GD). »This is to economics what creationism is to biology, astrology to astronomy,“ former Treasury Secretary Summers posted on X”.

<sup>3</sup> The formula applied for determining tariffs was: the US trade deficit with a country divided with its export of goods to the US divided by 2. The formula used the wrong figures. While Trump’s chart claims that China imposes a 67% tariff on American products, World Trade Organization (WTO) data shows China’s average tariff in 2024 was just 4.9%. These calculations conveniently exclude services trade in which the USA runs a surplus with most of its trading partners (see Prasad 2025).

<sup>4</sup> The brain drain from the USA may have started after Trump’s attack on the autonomy of the universities (Harvard etc.). “More than 1,200 scientists who responded to a *Nature* poll — three-quarters of the total respondents — are considering leaving the US following the disruptions prompted by Trump” (Nature 2025).

(Latz 2018). As Schifferes argues (2025), “the worst of the pain from this era of tariffs will likely be felt by the countries that have historically backed free trade most enthusiastically. Such approach is making the situation deliberately unpredictable” (Carlsson-Szlezak et al. 2025). Apocalyptic emergencies are being created that normalise Trump’s ‘shock treatment’ policies all so as to populistically portray himself as the only possible saviour from all such threats.

After presenting the the theoretical framework, we shall: i) assess whether we have learned from the GD; ii) evaluate whether Trump’s policy is the outcome of his negotiation style or ignorance of trade policy; and iii) consider who will pay the costs of Trump’s *strategic neomercantilism*, concentrating on the economies of China, the EU, and the USA.

## THEORETICAL FRAMEWORK

The implications held by Trump’s neomercantile imperialistic policies are economic, political and security due to factors like the: i) importance of imports in the economy; ii) context; iii) policy instruments; and iv) actors launching and implementing such policies.

Trade policy theory is clear; tariffs hurt home and host economies and are finally paid by consumers. Still, by setting the optimal tariff<sup>5</sup> a large country able to influence international prices can maximise the country’s welfare without causing foreign producers to stop trading with it. Blanchard et al. (2025) nevertheless found that decoupling policies from global value chains (GVCs) with China would increase the optimal tariff on Chinese exports.

Like any other tax, tariffs are transferred as a cost to consumers as well as producers/suppliers. They redistribute incomes from domestic consumers to the domestic producers of protected commodities, leading to inefficiencies. The implications are however different in the case of large (due to a change in the terms of trade) or small countries. There are no winners in trade wars. All countries lose from such a beggar-thy-neighbour policy. US Senator E. Warren labelled Trump’s trade war “the dumbest trade war in history”. It would finally turn into a bagger thyself policy with devastating results for the world economy, bringing about a redistribution of power among the major actors with all associated instabilities and unpredictabilities. In her statement on 9 April 2025, Ngozi Okonjo-Iweala, director-general of the WTO, warned that dividing up the global economy into two blocs could cause a long-term decline in global real GDP of almost 7%. The Aston University Business School calculated the total cost around the world could amount to USD 1.4 trillion as trade is diverted and prices rise (Islam 2025). However, this calculation underestimates the total costs since it does not include geostrategic shifts costs (insecurity of supply, uncertainties<sup>6</sup>,

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<sup>5</sup> In practice, it is very hard to set such tariffs because they require precise information on global demand and supply elasticities, which are difficult to measure.

<sup>6</sup> Penn Wharton University of Pennsylvania calculated that the rise in economic uncertainty after Trump’s Liberation Day will reduce investment in the USA by about 4.4% in 2025 (Boller et al. 2025).

dependencies, global governance costs, relocation of industries...), which is major deficiency of trade theory when it comes to evaluating the implications of trade wars.

When tariff rates escalate into a trade war, traditional trade policy theory is insufficient for explaining all of the implications held by such a war. New theories are attempting to include such issues. Blanchard et al. (2025) posited that tariff setting with GVCs depends on the nationality of the value-added content embedded in home and foreign final goods. Their approach predicts that discretionary tariffs will be decreasing in the domestic content of foreign-produced final goods and the foreign content of domestically produced final goods.

More complex geo-economics, a combination of economics and political science, focusing on how governments use their country's economic strength to exert influence on foreign entities in interdependence should be a necessary addition to trade theory (see Clayton 2025). The fact that economic and security issues are so strongly intertwined means that a convergence is required between economics, politics (including security and defence issues), technology, and strategic affairs not only on the international scale but also the national one. A country's ability to materialise its interests depends strongly on its economic statecraft, which is limited by its position in the global distribution of technology, as well as its market power. The need for comprehensive assessments of the methods governments use to weaponise trade (including "offensive" and "defensive" strategic industrial policy particularly controlling technology export) is emphasised (see Aggarwal and Cheung 2024, 1). Crises and wars nowadays set different priorities and ways of achieving development by ensuring peace and security (Jaklič 2024). In uncertain, volatile and trust-absent conditions, security of supply is becoming crucial<sup>7</sup>. Uncertainty is becoming costly. Countries want to become more resilient and less dependent in the interdependent world by lowering the supply uncertainty by reshoring, nearshoring or friends-shoring policies (Jaklič et al. 2020).

The theory of tariff protection demonstrates that tariffs spoil market efficiency<sup>8</sup>, raise production costs and prices for consumers (in turn stimulating inflation!). It increases profits for the businesses protected behind tariff walls, shrinks the range of available products, destimulates innovations, reduces productivity as an outcome of more expensive import components<sup>9</sup> and, finally, bring

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<sup>7</sup> *Where things are made may matter more than how much they cost* is the logic of national security policies as posited by Georgieva, the managing director of the IMF (2025a).

<sup>8</sup> Tariffs result in societal losses, stemming from reductions in: (1) production efficiency as inefficient producers expand at the expense of other sectors in the economy; and (2) consumption efficiency as some consumers are priced out of goods they would otherwise choose to purchase (see Clausing and Lovely 2024).

<sup>9</sup> Steil and Harding found that productivity in the US steel industry tanked while productivity in other sectors rose after Trump imposed 25% tariffs on steel imports in March 2018 (Froman 2025). K. Russ and L. Cox estimated that for every new job created in a US steel mill benefiting from tariff protection 80 workers in downstream industries that use steel will now be hurt (Bown and Irwin 2025).

GDP growth down in all the *fighting* countries. People, especially the poorest, can no longer afford to buy the more expensive imported products. Unemployment and poverty rise. Protectionism also inhibits the flow of knowledge, thereby reducing innovation, which is otherwise stimulated by the diversity of ideas that open borders allow to flow. The result will be political and economic instability and socio/political conflicts, including xenophobia.

Although the countries initially targeted<sup>10</sup> are hurt more, in the end so too is the initiating country. The distribution of tariff costs depends on the importance of exports and imports relative to GDP in the countries concerned and their structure. In addition, whether it allows for substitution with alternative suppliers (elasticity of import substitution) or no such room is available, and similarly in the case of exports. Small countries with a very high share of imports or exports in their GDP are according to such a calculation hurt more and have fewer chances of avoiding Trump's arm-twisting. The share of imports in GDP in Slovenia in 2023 for instance was 77% compared to 48% for the EU generally and a much smaller share in the case of large countries (14% in the USA and almost 18% for China).

Trump's protectionist measures and countervailing duties are in breach of the WTO rules, its most-favoured nation non-discrimination principle.<sup>11</sup> In so doing, the USA is violating an even more profound principle: the rule of law. By refusing to approve new judges, during Trump's first mandate the US administration froze the WTO dispute resolution system, a step that J. Biden did not reverse. Even Bandow (2020), a senior fellow of the right-wing Cato Institute, claims that "the tariff idea is simply idiotic, chiefly punishing Americans, creating political tensions and triggering off fundamentalism/inflame nationalist sentiments". The raising of tariffs by one country triggers retaliatory tariffs by other countries<sup>12</sup>, even though under the WTO rules these are now illegal against certain foreign companies, or they use a national security argument as a blanket justification.

There are in addition long-term effects like the erosion of US firms' competitiveness not only because of rising intermediate input costs<sup>13</sup>, but also in the development of green technologies (leaving the Paris Accord, the World Health

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<sup>10</sup> Winchester's scenario without retaliation (2025) demonstrated that GDP for the rest of the world decreases by USD 155 billion, more than twice the corresponding decrease when there was retaliation. This indicates that the rest of the world can reduce their losses by retaliating. At the same time, retaliation leads to a worse outcome for the USA.

<sup>11</sup> J. Clark, former EU trade negotiator and Head of the EU Delegation to the WTO (2025), claims "the joint litigation of several countries in the WTO is necessary because the US tariffs breach GATT Articles I and II on respectively non-discrimination and tariff bindings – because the US decapitated the WTO Dispute Settlement System and the rules are not enforceable". The WTO defines the limits on the costs for new tariffs, allowing changes for the 'right' reasons (market failures or local externalities), but not to shift its costs onto trading partners.

<sup>12</sup> "When the US, China, or the EU put in place a subsidy measure, there is a 73% chance that one of the other countries will retaliate within 12 months", warned deputy director of IMF G. Gopinath (2023).

<sup>13</sup> Tariffs on inputs namely reduce the competitiveness of outputs and make the existing economic structure sclerotic.

Organization<sup>14</sup>) and increased energy prices, and the *drill baby drill* or *keep coal alive* policies.

Contrary to standard protectionism theory, Trump is obsessed by tariffs as the ideal policy instrument. For him, tariffs are politically a form of vengeance driven by grievance based on the “Grievance Doctrine” as a mythic tale and ‘placebos’ which fail economically, yet succeed politically” (Baldwin 2025). He sees tariffs as a fix-all instrument for what is troubling Americans, including:

- raising tax revenue from foreigners to replace domestic taxes;
- eliminating the trade and fiscal deficit<sup>15</sup>, and using the trillions of dollars *saved* to lower taxes;
- ensuring reciprocity<sup>16</sup> on the level of tariffs;<sup>17</sup>
- bringing manufacturing jobs back home to the USA;
- protecting national security and ending dependence on suppliers from adversarial countries; and
- punishing countries for unrelated sins like failing to stop migration.

Such ideas are taking the USA back to the 19<sup>th</sup> century (Clausing and Obstfeld 2025). In reality, tariffs can only exceptionally achieve some of these objectives and are almost never the best policy to tackle them. It is not the rest of the world that pays them, but importers, whether consumers or local producers who rely on imported *inputs*. They do not improve the trade deficit. Exports tend to deteriorate (due to retaliatory tariffs applied by target countries) and often appreciate the currency by reducing the demand for foreign currency to pay for imports (see Steinberg 2025), which is contrary to Trump’s goal to depreciate the value of the dollar so as to make the USA more competitive. Overall, you have some reduction in imports, but also a reduction in exports. Clausing and Obstfeld (2025) claim that it is very unclear that you will obtain a big reduction in the trade deficit, if any at all. A stronger dollar raises the relative international price of US goods, encouraging global consumers and firms to shift away from US exports.

Trump is forgetting that a trade deficit with the world is a macroeconomic phenomenon, the result of an equation between the national level of savings and investment. Americans simply spend too much and produce and save too little. With a trade deficit, a country is spending more money on imports than it makes from its exports.

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<sup>14</sup> Trump also imposed a 90-day pause on the delivery of all US foreign aid and ordered a sweeping 180-day review of all international organisations, including the World Bank and the IMF.

<sup>15</sup> In such a way, the USA is trying to coerce other countries into a “Mar-a-Lago Accord” whereby they would agree to depreciate the US dollar and lend long term to the USA by buying US Treasuries. This argument received a lot of attention in the financial markets, but it is very hard to see how it would ever work (Beattie 2025).

<sup>16</sup> The principle of reciprocity implies having »the same tariff rate on imports from another economy as it puts on its imports from the US. Thus, a reciprocal tariff for Vietnam would be about 9.4 percent, not the 46 percent as the arbitrarily calculated rate Trump announced on 2 April” (Hendrix 2025).

<sup>17</sup> It is true that some countries have a higher average tariff on imports than the USA. America’s average external tariff was 3.3% in 2023 compared to 3.8% for the UK, 5% for the EU, 7.5% for China, and 17% for India (Chu 2025).



*To fill the gap country can either borrow money from foreign lenders or permit foreign investment. Rather than reviving U.S. manufacturing, Trump's extreme tariffs and erratic foreign policy are likely to instead scare off foreign investors altogether and undercut the dollar's global role. That would indeed shrink the trade deficit – but only by eroding the very pillars of the country's economic dominance, U.S. dollar, at a steep cost to American firms and families, explains Professor Hassan (2025).*

Finally, the idea of balancing trade with each country as a basis for reciprocal tariffs is crazy<sup>18</sup> because you buy and sell different things you need and they are produced according to the international division of labour and comparative advantages. Balancing trade with each partner separately is therefore a no-go. Tariffs setting should thus take the different factor endowments of countries into consideration. Many countries for instance export raw materials and agricultural goods that the USA does not produce domestically. Such production cannot be moved to the USA. It is not tariffs for balancing trade but a duty of the market based on the division of labour which international trade is about.

A very intriguing question is why, despite the theory's predictions Trump is *putting so much money* into his tariff masterplan<sup>19</sup>, if there is one<sup>20</sup>. Is it ignorance, as we have claimed (Svetličič 2025a), the hidden private interests of specific lobbies (including himself<sup>21</sup>) or just the phenomenon whereby today bad ideas often drive out good ones, as paraphrasing Gresham's law would imply in the case of money. Perhaps the most important factor is that historically when starting to lose their economic/technological dominance developed countries always began to implement protectionist policies to defend their dominant global position. They have also frequently misused the security explanations for such measures so as to remain, at least very loosely, within the WTO rules.

Following the theory, it may be expected that the tariff-obsessed arguments cannot prevail in the very long term. The costs of the tariffs will convince even today's strong supporters of neomercantilist policy that the trade war is unsustainable<sup>22</sup> and that stepping back and changing the policy of the absurdly high

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<sup>18</sup> Not least because huge the transaction costs implied whether tariffs are negotiated with each country individually.

<sup>19</sup> Krugman (2025) is very critical of his tariff policy, claiming that: "Trump gone full-on crazy and making false claims about our trading partners – not sure, in this case whether they are lies, or because he may be truly ignorant. Many of the numbers in Trump's graph of countries' tariff rates are complete fabrications – including the supposed 39 percent tariff the EU places on U.S. goods since the average tariff it charges on US goods is less than 3 percent".

<sup>20</sup> "Increasingly, it has become obvious that there is no plan, or at least no coherent plan with a single target and a way of hitting it. Instead, Trump's tariff policy reflects a mixture of competing and often flat-out contradictory aims and a misunderstanding of the power of the crude instruments he is using" (a comment by A. Beattie from the Financial Times 2025).

<sup>21</sup> By speculating in the stock market, it is possible to earn a lot of money by inside trading. It is hard to imagine that Trump's techno friends did not know that he would postpone the implementation of reciprocal tariffs.

<sup>22</sup> As said by S. Bessent, US Treasury Secretary, on 23 April 2025.

tariffs and self-harming trade war is necessary. “Sooner or later, Trump will recognize that producing goods in the US raises costs, hurts consumers, and erodes the competitiveness of American exports”, Professor Hausmann states (2025). Turnarounds in his policy, such as the postponement<sup>23</sup> by 90 days of the new tariffs announced on Liberation Day, was the first crack in this policy.

### **HAVE WE LEARNED FROM THE GREAT DEPRESSION?**

Almost 100 years have passed since the GD. The context has changed tremendously. In any case, there are important lessons to be learned. The 1929 depression was so wide, deep and long because the international economic system was made unstable by the inability of the British and unwillingness of the USA to assume responsibility for stabilising it. These days, the USA is also unwilling to cooperate with other great powers on stabilising the global system and is turning to an inward-looking, self-centred sovereigntist techno-nationalism policy. Becoming aware that their national power is diminishing relative to rivals, the elites have started to implement neomercantile defensive policies, as also happened in the past.

The lack of readiness to coordinate policies is another lesson that has not been learned. While the USA's hegemony is now slipping away, neither the EU nor China (at least officially) are in a position to take on this role. In any event, Trump's policy is not just opening doors for an increasing role for China, but also for the EU. “In just a few weeks, the Trump administration has done more to strengthen the EU than Europeans themselves achieved over the last two decades” (Merritt 2025), and reinforced national cohesion in China.

The ineffectiveness of protectionist trade policies and the retaliation of other countries that saw international trade decrease threefold (what happened to world trade 1929–1933 – Search Images) forced the USA to alter its policy by launching bilateral trade negotiations upon the adoption of the Trade Agreements Act in 1934. Lowering tariffs or exempting individual countries from such measures became a bargaining chip, just like they are today.

The GD demonstrated what the theory of trade wars has been teaching for a century; namely, that protectionism is like a boomerang, that the tit-for-tat policy turns into a policy of beggar-thyself. The unanswered question is what will be the effects of contemporary strategic neomercantilism aggressively combined with industrial policy, including restricting exports of high technology or goods with American intellectual property content. This is what Trump is doing today, even a policy of picking the winners. We saw many of them, *techno feudalists*, Trump's camarilla oligarchs, at his inauguration, which might even be a sign of the *crony capitalism eroding long-term accountability* that comes with private influence over public policy.

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<sup>23</sup> This postponement was announced in a face-saving way. Similarly, also his claim that Xi Jinping ‘had called’ him, which China denied.



The political lesson has not been learned either. Extreme political right politicians, even fascists, are occupying leading political positions now in many countries just like they did in the 1930s using similar xenophobic slogans and imperialist aspirations. Also today, governments are disoriented. It is difficult to reach consensus on what to do in the climate of discontent, insecurity, despair and fear.

### TRUMP'S NEGOTIATION PROFILE

Contrasting Trump's *hair-pulling* arguments with hard economics alone, and ignoring his personal negotiations profile that has such a strong influence on his policy, can lead to erroneous conclusions. Among the three tools that tariffs can be used for macroeconomic, bargaining and punitive purposes, Trump is mostly applying a bargaining and punitive tool (some say '*mafia-like*' tactics). He is in fact creating a *bargaining-based international order* built on an unstable network of bilateral transactions.

By evaluating Trump's first presidential mandate along with his past negotiating record, one may safely conclude that chaos and unpredictability is partly a result of his threat-based trade policy ignorance and his negotiation tactics of:

- a) anchoring, *blackmailing*, seeking leverage over others by making outrageous demands; and
- b) creating disorder to be able to implement policies not "accepted in normal situations" (Klein 2017).

Experts, not simply those on negotiations, agree that Trump is very competitive, a bully, an intimidator and a humiliator, a win-lose oriented, impulsive, ill-prepared, unethical, empathy-lacking, ruthless, 'hard ball' player, manipulating, cunning, and willing to bluff. In short, he could be a pupil of Machiavelli (the ends justifies the means). Since he himself possesses the traits of an autocrat, he appreciates such negotiators on the other side of the table. Such a style creates fake, perceived urgencies<sup>24</sup>, compelling the other side to act quickly, often making concessions to avoid losing the deal in such a disrupted context. He is leveraging unpredictability, undermining the opposition's ability to prepare properly.

All of this is conducted with the use of public platforms and megaphone politics. Trump is a self-centred narcissistic performer, likes to bravado himself,<sup>25</sup> and is very good at creating his brand name. His emphasis on (perceived) power, his often empty threats and ineffectual bluffing, even his lying, demonising, intimidating and belittling of his political opponents (and his allies), making enemies out of his counterparty, and eroding trust, has been and will probably prove to

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<sup>24</sup> Announcing reciprocal tariffs, he stated that there is a "national emergency that threatens our security and our very way of life".

<sup>25</sup> It means that we must not focus on his provocative rhetoric, but on his actions.

be ill-suited for complex policy decisions that call for more persuasion and problem-solving (see Kogan 2019; Ross 2008<sup>26</sup>; Shell 2019; Latz<sup>27</sup> 2018).

It seems obvious that Trump's personal characteristics while strongly influence his policies and past negotiation record indicate that the period lying ahead of us in his mandate will be full of:

- uncertainties and volatilities, jumping from one 'urgency' to another;
- ruthless, 'hard ball' win-lose negotiations, threats and bluffing; yet also
- withdrawing from the initially made, not so infrequently irrational, demands and threats.

This approach will only contribute to the uncertain, unpredictable, confusing and chaotic geostrategic world landscape. Transformational shifts may be sudden and hard to predict. What is obvious is that the weight of economic issues will tend to be dominant and cause quite unimaginable and very costly uncertainty<sup>28</sup>, creating enormous instability. Trump is in fact weaponising uncertainty. Trust, so crucial in international cooperation, is lost. The assessment that his bark is worse than his bite may prove to be correct in the long term!

Negotiation literature heavily emphasises that an experienced negotiator must prepare not only for the issues on the table but also with respect to the persons on the other side of the table. In this regard, Sun Tzu's thought is inspiring: "If you know the enemy and know yourself, you need not fear the result of a hundred battles".

The few instruments available to successfully deal with an assertive, aggressive and competitive negotiator like Trump with strategic patience are:

- to be aware of the fact that win-win, collaborative *principle negotiations* (for more, see Fisher et al. 1983) do not work with such a negotiator;<sup>29</sup>
- to praise and ego-stroke them;
- to be prepared to take the first blow<sup>30</sup> and fight back in a controlled atmosphere of confrontation;
- by showing your strength and cunning potential<sup>31</sup>;
- hard arguments are not the most convincing; stories and power-based arguments are better than moral appeals;
- choosing a strong, charismatic negotiator for your side;
- creating alliances; show him your (combined) power!; and

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<sup>26</sup> He was executive vice president of the Trump Organisation. His book: *Trump-Style Negotiation: Powerful Strategies and Tactics for Mastering Every Deal*, 2008, is a very critical assessment of Trump's negotiation style.

<sup>27</sup> M. Latz's book *The Real Trump Deal: An Eye-Opening Look at How He Really Negotiates is based on over 100 of Trump's deals* – determining which strategies caused him to prevail and which caused him to fail.

<sup>28</sup> Handley and Limão (2017) demonstrated that trade policy uncertainty can hurt investment as much as actual tariffs.

<sup>29</sup> When Zelensky appeals to democratic principles, territorial integrity and international law, he speaks a language that Trump does not understand.

<sup>30</sup> Following Sun Tzu's advice: "Let the storm pass; don't lose face or control!" (Krause 1996).

<sup>31</sup> "Win by not engaging directly", Sun Tzu.

- use humour: respond in a light-hearted way like: “Are you joking”<sup>32</sup>.  
With such ways, one can better influence the outcomes of such tough negotiations in all fields, including economic.

## **THE EFFECTS OF TRUMP'S TARIFFS ON THE ECONOMIES OF CHINA, THE EU, AND THE USA, AND THE RESPONSES OF THE COUNTRIES TARGETED**

### **General Framework**

The starting point when evaluating any trade war is first knowing the level of tariffs imposed on specific countries, regions, and the world economy. Second, what are the sizes of the economies and the policies the target countries are implementing to neutralise the negative effects. Such policies are also strongly embedded in their cultural background. As we know, cultures have different approaches to, among others, time, a long- or short-term orientation, risks, truth/lies, decision-making, the communication style, and pride. Some are more inclined to a competitive approach to negotiations, others value greater harmony and good relations. It is necessary to know these cultural types.

By concentrating this chapter on China and Europe as targets, according to Lewis' classification of cultures (2006) we are dealing with reactive cultures where pride and harmony are very important (China) and linear-active and multi-active cultures (Europe) where facts are decisive (linear-active like Germany) and more emotional (multi-active, like Italy). On this basis, we can expect a more fact-based, cool and planned approach from the EU and a tough, proud yet amicable style from China. America should know that as such an old and proud civilisation, now also a major global economic power, China cannot be pushed around.

Countries can apply five major types of policies, provided they do not opt for capitulation or litigation in the WTO: i) retaliation; ii) negotiations; iii) redirecting trade; iv) wait, prepare and see; and v) a combination of the previous strategies.

Countries typically combine different policies as the development of the trade war demands. They also depend on the factor endowments as well as the negotiation strength and style (culture) of the country concerned. For most of them, retaliation is a solution for reducing the supply and demand shock. The elasticity of demand, the dependence on imports of certain strategic products, is narrowing the room for manoeuvre while possessing some strategic goods, enhancing it.

The first challenge faced by target countries is predicting how Trump's schizophrenic policy will develop. It is even hard to establish which tariffs are

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<sup>32</sup> “On April 11, China dismissed Trump's moves as a ‘joke’” (Kong 2025).

applied at different moments in time, not just in terms of the general rate but also with respect to sectors/products. Target countries should also consider Trump's: i) underestimation or lack awareness of how countries are interdependent; ii) belief that China's economy is very fragile and the EU with the states' heterogeneous interests is very dependent on the USA; iii) underestimating of the reach and scope of the geographic trade reorientation; and iv) arrogance and presumptuousness<sup>33</sup>.

The interdependence of economies is the argument leading to the policy of avoiding confrontation, inclining to the 'wait, prepare and see' strategy. It implies negotiations, based on the argument that the elimination of new tariffs would be in the interest of the USA and not just the country concerned. This argument can be applied to most cases, but especially China and the EU.

Trump's policy also demonstrates the presumptuousness of the big powers so characteristic of empires in relative decline. His policy overlooks that short-term-oriented American customers are not ready to make sacrifice today for the future, and not prepared to bear the costs of his tariff policy for long. In contrast, the Chinese are ready to absorb the short-term damage and pressure, being historically used to weathering multiple storms, enduring pain<sup>34</sup> and, "sparked by the trade war that has strengthened national cohesion" (Zhao 2025), can tolerate them longer.

Perhaps the major and most effective response of the *attacked* countries has been to diversify their trade flows. Countries will start trading *around* the USA. It has also been a consequence of Trump's trade war in his first term in office. The effectiveness of such a policy is however now limited because tariffs have been imposed on almost every country (including islands mostly inhabited by penguins).

The redirection of trade will also be one of the major responses to the present USA-initiated trade war. Targeted countries have already started hedging against Trump's impulsive and wildly erratic tariff policy by diversifying their trade ties: China mainly in Asia but also in Africa<sup>35</sup>, the Arab countries<sup>36</sup> and Latin America. Meanwhile, Mexico is turning to the EU and Latin America, Canada to Europe, and the EU to Japan, ASEAN, South-East Asia, and Australia.

Conteduca et al. (2025) empirically prove<sup>37</sup> that tariffs hurt all economies and the world economy<sup>38</sup>, just as theory predicts. Contrary to Trump's expectations,

<sup>33</sup> It is largely based on P. Navarro, the White House's senior counselor for trade and manufacturing, ideas who has no competence in economics. In his writings, he frequently quoted someone named 'Ron Vara' (an anagram of his own last name) as his invented fake expert source.

<sup>34</sup> Xi is not so sensitive about public opinion as American politicians and the public is not ready to endure Trump's self-imposed economic pain for too long.

<sup>35</sup> China is the biggest exporter to most African countries.

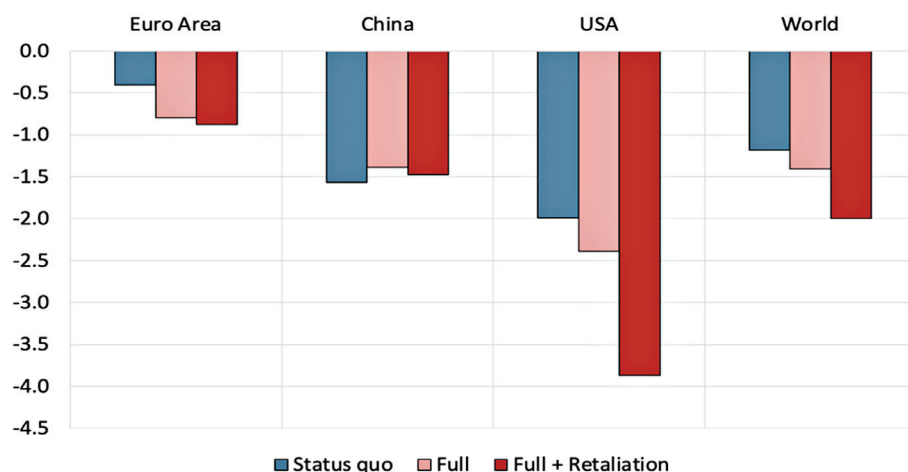
<sup>36</sup> It has accelerated negotiations on a free-trade agreement with the Gulf Cooperation Council.

<sup>37</sup> They applied Bagae and Farhi's (2024) model calibrated to 33 countries and 18 sectors using 2023 input-output data.

<sup>38</sup> Even assuming that the grace period results in a permanent suspension of *reciprocal tariffs* that would lead to a global welfare loss of 1.2% (Conteduca et al. 6).

the worst hit will be the US economy, particularly due to the retaliation measures taken by the target countries, followed by the Chinese and (at the least) the euro area. They calculated that US welfare would fall under all three scenarios<sup>39</sup> (2% in status quo and 4% in full + retaliation one<sup>40</sup>). This is much higher than compared to the euro area where welfare would drop by less than 1%. China is in between with a drop of 1.5% in all scenarios (see Figure 1).

Figure 1: CHANGES IN WELFARE BY REGIONS AND COUNTRIES (IN PERCENT)



Notes: The figure plots the change in welfare across different scenarios.

Source: Contenduca et al. 2025.

World trade would contract by between 5.5% and 8.5% relative to the pre-shock economy, depending on the scenario. Supply chains would be wildly disrupted, notably in the electrical, electronics, and transport equipment.

OECD modelling (2025) shows that efforts to relocalise supply chains could decrease global trade by over 18% and reduce global real GDP by more than 5%. The result would be a substantial reallocation and the fragmentation of international trade costing up to 7% of GDP, as estimated by Gopinah (2023). After Trump's recent trade war, such costs will rise dramatically. The IMF forecasts global growth slowing to 2.8% in 2025 from 3.3% last year, reflecting the Liberation Day tariffs and initial responses. The rest of the world can reduce their losses by retaliating. At the same time, retaliation leads to a worse outcome for the USA. Carlsson-Szlezak et al. (2025) calculated that in the event of retaliation

<sup>39</sup> They are: status quo, full implementation of reciprocal tariffs, and full implementation with retaliation.

<sup>40</sup> A calculation by Ignatenko et al. 2025 shows similar results. If trading partners optimally retaliated against the USA's tariffs, US welfare could fall by over 3.7%, while cutting the welfare losses for other countries in half from 7.2% to 3.1%.

in 2025 the GDP of US trade partners' growth would drop by between  $-0.1\%$  to  $-0.3\%$ . Yet, for countries that received exceptionally high tariffs and have large exports to the USA, such as Vietnam, the impact of the April 2 rates could prove devastating at more than  $-6\%$  of GDP. Finally, the new tariffs will hold important long-term implications for the competitive advantages of individual countries, subject to the different levels of tariffs attributed to each of them. This could lead to a substantial restructuring of international trade flows.

## China

The framework of China's reaction to the USA's escalating tariff war should be the Chinese philosophy, namely, a combination of Confucius patience, harmony, being calm under pressure, wisdom, avoiding confrontation together with Sun Tzu combativeness (for which there is perhaps more evidence in recent China policy) to meet the short-term American logic seeking instant gratification and quick wins. The Chinese are a forward-looking culture for which time is eternal. It is easier for them since "China, the surplus country, is giving up only sales, which is solely money; while the US, the deficit country, is giving up goods (strategically needed, op. author) and services it does not produce competitively or at all at home" (Posen 2025). It broadens Beijing's arsenal to fight back against Trump's wrecking policies, all inspired by the wish to never repeat China's "hundred years of humiliation". They have been preparing for a confrontation with the USA since 2018. Apart from retaliatory tariffs, this includes redirecting trade, reducing investment in US Treasury bonds, weaponising the control of strategic materials and preventing their export, and not least by stimulating domestic demand.

After postponing the implementation of reciprocal tariffs, Washington imposed a 145% tariff on Chinese imports on 4 April together with export controls on semiconductors (integrated circuits and manufacturing equipment) and the foreign direct product rule, blocking China from acquiring US technology. These tariffs are more than 40 times higher than before the US-China tariff war began in 2018, and already 6 times higher than the average US tariff on China (20.8%) when the second Trump administration commenced on 20 January 2025 (Bown in PIIE 2025). China, on the other hand, imposed 125% tariffs on US imports.

Both countries soon realised that such tariffs are unreasonable and began to renegotiate. They agreed on 12 May to: i) suspend their tariffs for 90 days; ii) that the USA would reduce the tariff on Chinese imports to 30% from the current 145%; while iii) China would lower its import duty on American goods from 125% to 10% (starting 14 May); and iv) to continue negotiations. The IMF (2025b) forecast China growth in 2025 and 2026 at 4%, a 0.6 of a percentage point reduction, while inflation was revised down by about 0.8 of a percentage point.

Such forecasts and bilateral renegotiations reveal how much Trump has underestimated the interdependency of the US and Chinese economies. China



is dependent on the USA for high-end technologies, food, and energy security, whereas the USA is increasing its dependence on China for many strategic goods at the same time as China's dependence on exports to the USA has decreased substantially (from 19.8% in 2018 to 12.8% of China's total exports in 2023). By 2022, the USA was reliant on China for 532 key product categories – nearly four times the level in 2000 – yet China's reliance on US products was cut in half in the same period. China supplies roughly 72% of rare earth<sup>41</sup> imports into the USA, and accounts for about half of US soybean exports (although the share has today decreased from 40% to 20%) and nearly 10% of American poultry exports (see Kong 2025). Restricting exports of such strategic goods as a retaliation strategy would hurt the USA terribly. Accordingly, the potential for such retaliation policy is very high and already been put into practice. China has restricted exports of key minerals such as gallium, germanium and antimony, as well as more recently rare earth magnets and six heavy rare earth elements vital for aerospace, defence, and semiconductor manufacturing. China's "unrivalled supply chains have made China a formidable foe in this trade war" (Koh 2025). US firms cannot substantially reduce that without serious damage. The position held by China is further enhanced by the fact that countries upset by America's new tariffs will start to align themselves with China against the USA. "Beijing with its large market is an alternative" (Chang 2025). The tariffs may well further prompt China to accelerate its "domestic demand expansion" and in turn try to neutralise the negative effects of the new tariffs.

Trump and the West generally have frequently overestimated the Chinese economy's fragility in view of the country's proven ability to overcome many of such problems and underestimated its advantages in the economic conflict. Overconfidence of this nature and the confrontational style have led to serious miscalculations, underestimating Beijing's capacity to react resolutely and the consequences held by a major disruption to the supply of vital goods from China that cannot be replaced any time soon or made at home without the costs being prohibitive. Fighting the current war before doing it is a recipe for almost certain defeat, at enormous cost" (Posen 2025). It was thus no surprise when CNN's F. Zakaria concluded that "China will clearly be the big winner in this new world economy because it will position itself as the new centre of trade". *The Wall Street Journal* even declared: "Trump's global trade war is a strategic gift to the Chinese president". The result of Trump's first-mandate trade war with China, which many observers think China won in the long run, may serve as an example.

A very effective neutraliser of the negative effect of tariffs is trade reorientation and a lowering imports from the USA. China is strengthening its ties in Asia<sup>42</sup>,

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<sup>41</sup> They are critical of the production of iPhones, chips, for the US defence industry (sonar and communication equipment for missiles and jet engines, magnetic resonance) etc... The USA is also dangerously dependant on China for drug supply. Import restrictions could be a threat to the health standard of Americans.

<sup>42</sup> ASEAN has become the top destination for Chinese manufacturing. The trip by President Xi to

partly for reasons of long-term economic and security, a strategic orientation to reinforce its dominant position in Asia, and to circumvent the US tariffs by indirectly exporting to the USA. Under the full+ retaliation scenario, over half of Chinese value-added exports reaches the USA via Mexico and 21% through Asian countries (Contenduca et al. 2025, 5). The large share of state-owned enterprises (SOEs) as importers of goods like petroleum also enables China to effectively reduce its imports from the USA, as happened during Trump's first term in office.

On top of this, China is seeking to introduce the yuan into these transactions, to displace the sliding role of the dollar in the last 20 years from 70% to around 60% of the global foreign exchange reserves.<sup>43</sup> By developing an alternative financial institution, China is weakening the USA's influence on world trade. Still, that does not mean leaving the existing liberal order, but it acts more as a safety net to improve its position in the global economy. This is ringing alarm bells on the American side. "We are going to require a commitment from these seemingly hostile countries that they will neither create a new BRICS Currency, nor back any other currency to replace the mighty U.S. Dollar or, they will face 100 percent tariffs. Similar is the threat to hit countries that buy Venezuelan oil by 25% tariffs", declared Trump.

In reality, his policy is endangering the dollar's traditional dominance. The only true threat to the dollar is the euro. The share of global export invoicing in euros is almost equal to that of the dollar. The problem, however, is the lack of military backing of the euro to shore up its long-term credibility that investors are seeking. Fishman et al. (2025) are clear: "Combined with Trump's attacks on the rule of law, his clumsy, erratic attempts to weaponized Washington's economic advantages pose the greatest threat so far to the dollar's status as a reserve currency". This is especially so because China possesses strong bargaining power by weaponising the sale of US Treasury bonds, of which could considerably damage the dollar's role in the global system (for more, see Svetličič 2025b).

### **The European Union**

Before postponing the reciprocal tariffs of 20% for the EU in May 2025, they remained as a 10% as well as a 25% tariff on EU steel, aluminium, copper, cars and pharmaceutical imports (Tompkins 2025). The EU responded by announcing EUR 26 billion in countermeasures to the USA's tariffs, and that it was open to negotiations. Trump is threatening to impose 50% tariffs on EU imports and has delayed taking such a step until 9 July 2025. The EU has obviously opted for

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several Asian countries in April and the signing of almost 100 trade agreements shows that such trade diversification efforts are still underway. However, this possibility is losing power since other Asian countries are also facing the highest tariff levels, ranging from almost 50% to 33%.

<sup>43</sup> Aiming to substitute the dollar as the global reserve currency, in 2015 China established the Cross-Border Interbank Payment System (CIPS) as an alternative to the Society of Worldwide Interbank Financial Telecommunication (SWIFT). By 2024, China's central bank had signed 40 bilateral swap agreements.

a cool head, *to wait, indirectly demonstrating its strengths*<sup>44</sup>, to use a *prepare and see* strategy, and *not to flinch at Trump's first move*.

The impact of such tariffs must be evaluated in the context of the interdependency of the two economies. The EU and the USA are the most integrated economies in the world, having the world's largest bilateral trade and investment relationship. The EU's trade balance in goods with the USA is positive, but negative in services. US exports of goods and services to the EU indirectly support 2.3 million jobs in the USA, while EU firms' investments employ 3.4 million people in the USA (EU Commission 2025). The EU is a source of critical supplies to the USA, including medicinal ingredients, pharmaceutical products, advanced machinery and equipment, and aerospace parts and components. At the same time, the EU is the largest buyer of the USA's natural gas and oil. Energy has become a bargaining chip in the bilateral negotiations on tariffs on cars; Trump is said to be ready to exempt the EU from tariffs on cars provided the EU buys energy from the USA for USD 350 billion.

The EU holds strong *cards* for negotiating with the USA in the long run, provided that successfully resolves many of the problems it is facing<sup>45</sup>. The European market is extremely important for the USA. The combined GDP of European countries is comparable to that of the USA. All of this should add to the EU's self-confidence and make it less shy and feel weak or put itself in a subordinate position in the negotiations with the USA.<sup>46</sup>

The reaction to Trump's Liberation Day has thus far been much better than the late-response EU policies seen before. For instance, the warning signals about a worsening of transatlantic relations were already clear in the first Trump mandate. In 2019, E. Geranmayeh and M. L. Rapnouila warned that the USA could carry out economic aggression against the EU. They suggested the EU should prepare to respond aggressively. The idea was not taken seriously<sup>47</sup> at the time and now it has happened.

The EU quietly and thoroughly started to prepare its reaction plan, without dramatising problems in public too much to avoid escalating the relations. Retaliation measures were designed to be kept in stock and be activated if required. The first priority was to invest more in its defence and security. Such a policy can nevertheless be problematic if not balanced with enhancing the Union competitiveness (see Strategic Agenda 2024–2029) and improving the welfare of the population. Damijan (2025) lucidly notes that the EU's focus on armaments

<sup>44</sup> In a similar way as the Chinese do, demonstrating it has the power (a sword) but keeping it in its scabbard.

<sup>45</sup> Like a lack of military power, weak competitiveness, unclear industrial policy priorities, too strong band-wagoning on US neoliberalism, too long and inefficient decision-making processes etc.

<sup>46</sup> Mrak emphasised that if the EU had started negotiating in a subordinate position, it would be always treated in that way (Jenko 2025).

<sup>47</sup> The report was a reaction to the German Minister of Foreign Affairs H. Mass' essay proposing a EU payment channel independent of the USA. This was too radical for A. Merkel, dismissing it as an »expression of opinion«. Nevertheless, the German Ministry of Foreign Affairs, in cooperation with the French one, later commissioned a report to the European Council of Foreign Affairs (Farrel and Newman 2023, 124).

and underestimating its competitiveness is wrong. The military threats coming from Russia are, he claims, smaller than the threats of economic weakness and impending associated social unrest in the member states. Arming the EU will not significantly improve its geostrategic position, nor, as he argues, will it buy security and peace. However, by strengthening the Union's competitiveness and concluding trade and investment agreements, it can.

Among the arsenal of possible retaliation instruments, implementing tariffs on services where the USA is a leader and maintains a surplus with most countries, or taxing the US service firms dominating the digital sector in the EU, could prove to be the most effective. Countries will soon begin to wonder whether the system protecting America's most valuable economic assets – its intellectual property and the global mechanisms that allow it to be monetised – is still serving their interests. "If the same reciprocal tariffs formula were to be applied to services, the EU ought to impose an 18% tariff on US services, China a 22% tariff and South Korea a 20% tariff, to cite only a few examples" state Feás et al. 2025, adding that:

*It may be necessary for the first time that EU resort to the Anti-Coercion Instrument, approved at the end of 2023, which enables drastic non-tariff measures to be taken, although it would be wise to use it cautiously with services and financial transactions, given that dependency on the US (in strategic services, for example) is considerable.*

There are two problems here. First, the different interests of EU members. Some countries like Ireland and Luxemburg are against such a digital tax. Another problem is high level of dependence in the EU, including public services, on US digital multinationals. All European transactions made using Visa, MasterCard or PayPal go through the USA. Nevertheless, Hausmann may be proved to be right while positing that "when those protection (of services, note SM) begin to be eroded, maybe – just maybe – Trump and his acolytes will come to see that the multilateral order wasn't so unfair after all, and perhaps not worth tearing down" (2025).

The third policy option entails the redirection of trade especially, apart from the booming Asia, to India (in the few years the 'next China?'), Australia (talks have restarted), to Latin America (the Mercosur agreement is awaiting ratification), and Africa, a continent of the future. J. Clark (2025) has suggested<sup>48</sup>, "The EU must rapidly conclude a plurilateral Free Trade Agreement between affected economies. The minimum should be to join the Comprehensive and Progressive Trans-Pacific Partnership, a Free Trade Agreement grouping several ASEAN countries, Japan and Korea, Australia, New Zealand, the UK, Canada, Mexico, Costa Rica and others. China should be persuaded to join".

<sup>48</sup> As well as former Australian Prime Minister M. Turnbull.

The fourth option for reacting is to create strategic autonomy vis-à-vis the USA by enhancing cooperation with China and many other countries. In this, the EU can strengthen its bargaining power as concerns the USA, add to its sovereign autonomy and strengthen its global geostrategic position. “Even Europe, concerned about Russia and so openly abandoned by the US, will seek a friendlier relationship with China”, M. Wolf claimed recently (2025). The barrier is the deep-seated European scepticism and fears about China’s long-term geopolitical ambitions in Europe. China is also contemplating such an option (see ISPI 2025) not least because the EU is becoming a more attractive model for other countries. Many around the world view the EU as a highly relevant global actor, appreciated for championing human rights and sustainable development, although its credibility has been waning due to its hypocrisy (see Veron 2025).

By expanding its cooperation with China, the EU can help itself gain economic and geopolitical influence at the same time. Engaging with China can strengthen the EU’s autonomy in key industries. The biggest challenge of strategic autonomy strategy vis-à-vis China and the USA concerns how to hedge against the risk of too strong economic dependence (entrapment) on China while maintaining the transatlantic relations and all the differences among the member countries regarding these issues. Why, for instance, should the EU not consider reviving the agreement on investment (CAI), as China has also suggested? Godement from Institute Montaigne even talks about a “reverse Deng” strategy for the EU.

*It implies that EU would do what Deng’s China did in his time stimulating FDI in order to acquire foreign technology and in such a way stimulate its development. Chinese firms could become joint venture partners in Europe, which involves, as was the case in China that their European partners could absorb a good deal of the technology and processes for which Chinese firms have become more advanced. China guiding motto for FDI in China – “in China for China” could be matched by “in Europe for Europe” policy, /.../ with rules that guarantee technology sharing or, alternatively, a high percentage of locally sourced supplies and components. (Godement 2025)*

The first challenge with such a strategy is whether China would submit to the demands and risks involved. It might also imply the EU’s economic overreliance on China, a flood of Chinese products into the EU market<sup>49</sup>, a deterioration of transatlantic relations<sup>50</sup> and the erosion of the EU’s soft power based on its respect for human rights and other civilisational values, which China frequently violates.

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<sup>49</sup> Conteduca et al. (2025, 9) calculated that China’s exports to the euro area and the UK would rise by 9%.

<sup>50</sup> Although it would be naïve to expect that *yesterday’s* transatlantic friendly relations could be fully restored any time soon.

### Effects of the Tariffs on the USA

Trump started the trade war devoid of any clear strategy, without anticipating many of the potential (negative) consequences, including for the US economy. A reasonable description of the present trade war is that USA is now “attacking” the whole world, not just particular countries. It is not a bilateral war but a multilateral one. It is a “trade war on all fronts—a 360° trade war. The U.S. may receive global and cumulative blowback, while other countries will only see an impact on their trade with the U.S. Fighting on all fronts accumulate supply and demand shocks” (Carlsson-Szlezak et al. 2025).

Theory is clear; consumers, not other countries, pay tariffs. Prices for consumers and producers rise, lowering the standard of living, growth rates go down, while non-price effects are induced (insecurity, uncertainty, discontent, fear). Such negative effects were visible in Trump’s first mandate<sup>51</sup> (Caliendo and Parro 2022; Svetličič 2020, 13). Notwithstanding the substantial changes in the context and particularly the much more aggressive tariff policy, by analogy a similar yet stronger and wider spread of effects can also be expected now.

- a. **Effects on GDP growth.** The cumulative effect of these tariffs calculated before Liberation Day can be expected to reduce US real GDP by 0.54 in 2025 to 1.53 percent in 2028. That would mean a total cumulative loss of US economic output of USD 1.4 trillion by the end of 2028 (Steil and Harding 2025). Under the 2 April tariff rates, GDP growth is anticipated to fall much more –1.4% in 2025 (Carlsson-Szlezak et al. 2025). McKibbin and Noland estimated that by the end of the second Trump administration, US GDP will be USD 432 billion lower than it would have been without the tariffs. Australian Prof. Winchester (2025) showed that the effects of reciprocal tariffs would lower US GDP by USD 438.4 billion or USD 3,487 per household annually). That is larger than the corresponding decreases in any other country. The costs of tariffs are distributed differently between consumers and producers. Taking account that they are split 50/50 (a reasonable assumption since approximately 50% of US imports are intermediate products), Boller et al. (2025) estimated that the US growth rate would decrease by 0.6% in 2030, with the decrease reaching 1.8% in 2039 and as much as 6.3% in 2054.
- b) **Recession.** US consumption will fall more in 2030 (by 2.8%) and rise steadily to 9.8% by 2054 (ibid. 2025). Prices and inflation will increase, making the US economy going into recession more likely. “There is the probability of a recession over the coming year surging to 45%” (IMFa). Posen estimated the probability of the US going into recession at 60% (PIIE 2025).
- c) **Distribution of costs.** Instead of Making America Great, people, notably poor ones, are going to be worse off. J. Stiglitz has predicted that the cuts in

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<sup>51</sup> The trade balance has deteriorated. Manufacturing jobs increased only slightly, but more went abroad than came back to the USA. The welfare of Americans generally and blue-collar Americans in particular has been reduced. The USA’s reputation around the world has been undermined.



health protection and restrictions on trade unionism will lead to even greater stratification and a fall in the well-being of Americans, “especially of the bottom 60% of households” (Clausing and M. Lovely 2025). The techno feudalist (Varoufakis) are also losing money due to the precipitous fall in the stock market, not least of Tesla, and the even more serious drop in bond prices. At the same time, they may be earning money by speculating on Wall Street by buying cheap when shares drop in panic and after the announcement of draconian tariffs (based on insider information about the pausing of such measures from those close to the president), reaping enormous earnings in the longer run.

- d) **Reindustrialisation.** The idea of bringing manufacturing back home to the USA is misleading and utopian<sup>52</sup> given the relative declining share of this industry globally and especially in the USA as an irreversible historical trend. “In the US, the service sector where the American power is, especially the digital and internet multinational giants, now employs 80% of all employees, compared to only 8% in manufacturing” (Steinberg 2025). “The US runs a sizable surplus in services, totalling \$278 billion in 2023, driven by industries like finance, telecommunications, digital trade, high-value business services, and the licensing of American patents and copyrights” (Hausmann 2025). A strategy of reindustrialisation would not create new jobs, but inhibit the economy’s transformation to inclusive development. Forcing industry to return home while hindering work and investment abroad would stimulate the (further) automation and robotisation of American industry and replace low-paid labour abroad<sup>53</sup>. The instability and uncertainties created by his *executive orders* will prevent, not stimulate, foreign investments in the USA. “Americans and foreigners alike would no longer trust the U.S. government to live up to any deal, making a negotiated settlement or agreement to de-escalate difficult to achieve. As a result, U.S. productive capacity would decline rather than improve” (Posen 2025).
- e) **The USA’s image around the world.** The volatile policies are eroding the USA’s soft power, image and reputation in the world. This already happened during Trump’s first term in office. Consumers might become reluctant to buy American products, as is already occurring now with Tesla cars. The *executive orders governance* also implies an erosion of US democracy. In an interview for Slovenia TV, Fukujama was clear: “Trump is behaving like a king”, like an arbitrary despot far back in history. In terms of his attitude to his associates, he resembles King Henry the 8<sup>th</sup>’s ruthlessness by not tolerating disobedience

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<sup>52</sup> “Jobs and factories will come roaring back into our country...We will supercharge our domestic industrial base”, Trump claimed.

<sup>53</sup> S. Jobs’ answer to Obama’s question of »why he didn’t produce iPhones in the USA“ back in 2012 nicely illustrates this: “Those jobs won’t come back, not only because foreign workers are cheaper, but also because foreign industry has surpassed U.S. industry in flexibility, diligence, and industrial skills. Reshoring could only be profitable if machines replaced workers” (Steinberg 2025).

and disloyalty<sup>54</sup>. The US “administration is embarking on an economic equivalent of the Vietnam War—that will soon result in a quagmire, undermining faith at home and abroad in both the trustworthiness and the competence of the US—and we all know how that turned out” (Posen 2025).

A general conclusion is that the present trade war with multiple countries will obviously not achieve the US administration’s objectives, but will harm US interests more than it will benefit them. After taking direct and indirect costs into account, many studies have demonstrated that in the end the US economy will suffer more than China’s economy will. Trump’s tariff regime “is shooting oneself in the foot, or maybe rather in the head (because it is stupid) and the heart (because it is cruel, especially to smaller African and Asian economies”, Foroohar states (2025).

The Trump administration may think that it is acting tough, but in fact it is placing the US economy at the mercy of Chinese escalation because the US economy is entirely reliant on Chinese sources for vital goods<sup>55</sup>. It is wildly reckless not to arrange alternate suppliers or adequate domestic production *before* cutting trade. The supply shock arising from drastically reducing or zeroing out imports from China would mean stagflation, that macroeconomic nightmare seen in the 1970s and during the COVID pandemic (see Posen 2025).

The intensity of the effects listed above depends crucially on their size and duration of the war. The critical question thus is whether such a policy can stay for a longer period or will be watered down. The scientific arguments provide some cause for optimism that Trump’s measures cannot survive for long. No US government can work against Wall Street and the bonds markets for any length of time. Americans hate nothing more than losing money, claims the German financier T. Schüßler (see Brächer 2025). An internal backlash has already temporarily frozen Trump’s tariff plans. Postponing the Liberation Day tariffs, the mid-May suspension of the restrictive tariffs for 90 days between the USA and China (the USA lowered the current tariffs on China imports from 145% to 30%, and China did so from 125% to 10%), or the US–UK trade agreement illustrate this<sup>56</sup>.

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<sup>54</sup> The bitter war between Trump and Musk after he left the administration is a good illustration of this.

<sup>55</sup> It relies on China for industrial inputs—base chemicals, generic drugs, rare earths, and low-end chips. The USA will face shortages of critical inputs, ranging from basic ingredients for most pharmaceuticals to inexpensive semiconductors used in cars and home appliances to critical minerals for industrial processes, including weapons production.

<sup>56</sup> R. Armstrong from The Financial Times captured the essence of Trump’s policy in a humorous way as “TACO” (Trump Always Chickens Out), later supported by many other experts (like T. Friedman and M. Wolf). It would be better to call it TABBAL (Trump Always Bullies and Backs Away Later).

## CONCLUSIONS

The trade wars that have been initiated will have devastating effects for the global economy and all countries, including on the country that started them: the USA. Small ones have been hit harder and have fewer options available to respond. The mistake made in the GD has not been learned; beggar-thy-neighbour turning into beggar-thyself and the absence of the coordination of policies also prevail today. The negative reactions shown by Wall Street, the negative effects of the trade war on the US economy including the downgrading of US Treasury ratings, coupled with internal pressures from his supporters (just 40% of Americans support his tariff policy<sup>57</sup>), including the gradually disappointed techno elite, has and in the end will induce a watering down of his extreme measures. China's wise, patient and non-nervous wait, prepare and see negotiating strategy, carefully deciding on the time to strike back, has already forced Trump to retreat, as we predicted even before the 90-day moratorium was announced (see Stepišnik 2025).

The portrayal of Trump's policy as an apocalyptic, seismic transformation of the existing world economy system<sup>58</sup>, like what happened during the financial crisis in 2008 and the COVID-19 crisis, is really *blowing Trump's horn*. His goal was, according to Baldwin (2025), "to *hack* the world trade system, not reform it". Trump wants to create panic. In this way, apocalyptic emergencies are created that normalise his "shock treatment policies, not accepted in normal situations" (see N. Klein 2017).

In spite of all the unpredictability and contradictory policies, it is more realistic not to expect that the system will be completely broken and to instead expect a watering down of his draconian policies, a return to a more *conservative old normal* not based solely on the neoliberal *invisible hand* but on the *visible hand* of protectionism/mercantilism combined with a strategic industrial policy. This is far from "the so needed new Bretton Woods compromise for the 21<sup>st</sup> century" (Nahtigal 2019, 443). Most probably, the apocalyptic policies will finally lead to a gradual resetting of the system to the *new very old 19<sup>th</sup> century neomercantile normal* (for more, see Svetličič 2025b). The rumbling tsunami will finally ease and turn into an ordinary storm also because the transaction costs of the *bargaining-based order* will force all actors into more institutionalised arrangements.

Our analysis has shown that the initially targeted countries will be hit the hardest, but in the long run and when taking all of the indirect effects (on reputation...) into consideration also the USA. The USA's trade balance is not going to be substantially improved since the "US cannot launch a trade war against the whole world and at the same time expect the world to finance its debts"

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<sup>57</sup> If history is anything to judge by, Trump could lose supporters even among republican senators, as happened when [Smoot-Hawley] put on their tariff in the early 1930s, when republicans lost the House and the Senate for 60 years, Newsweek reported.

<sup>58</sup> See Mrak and Avbelj 2025.

(Schüßler, in Brächer 2025, 25). On the contrary, the dominant role of the dollar will ultimately come under threat.

All countries must prepare themselves for the worst scenario, not by jumping up and down in panic following his populist demands and seeing them as the agenda for negotiations, but by trying to change the agenda in the direction of more reasonable issues in line with common interests. It is not only hard power deciding the outcome of the negotiations but also negotiating skills. In the short and medium run, neutralising of the negative effects of the tariffs either by retaliating with tariffs and similar measures, negotiating with the US administration, redirecting trade flows to other countries, or a combination of all these measures can be effective. Among others, a very promising measure is attacking the service surplus of the USA and taxing services.

The position of small and large countries/blocs as rivals are nonetheless different. Large ones like China and the EU can ban the exporting of certain strategic goods and retaliate strongly in some sectors (the EU particularly in services). China, the biggest target of trade war, can and is retaliating fiercely, based on its hard power.

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## **POSLEDICE TRUMPOVE SAMOUNIČUJOČE TRGOVINSKE VOJNE LETA 2025 ZA SVETOVNO GOSPODARSTVO**

**Povzetek.** *Največji problem svetovnega gospodarstva dandanes je krepitev neo-merkantilistične politike, okrepljene z agresivno industrijsko politiko. ZDA so napovedale trgovinsko vojno vsemu svetu, najbolj napadalno pa Kitajski. Glavni cilj članka je ugotoviti, kakšne so posledice te trgovinske vojne za napadene države in za ameriško gospodarstvo, skladno s teorijo carinske zaščite, ki pravi, da v trgovinskih vojnah ni zmagovalcev. Med napadenimi državami se posebej ukvarjamo s Kitajsko in z EU. Ker to ni prva takšna trgovinska vojna v zgodovini – odvijala se je že med veliko depresijo v tridesetih letih prejšnjega stoletja –, je bilo nujno treba ugotoviti, ali smo se iz teh vojn kaj naučili ali pa le ponavljamo že storjene napake. Očitno je, da nas zgodovina ni dosti naučila. Čeprav ta trgovinska vojna naznanja tektonske premike v svetovnem gospodarskem sistemu, ugotavljamo, da je bolj kot panična reakcija primeren premišljen dolgoročen pristop, kar podkrepljujemo tudi z analizo pogajalskega profila njenega pobudnika, predsednika Trumpa, katerega značilnosti sta namerno dramatiziranje in izsiljevanje. Ugotavljamo, da ni pričakovati tako drastičnega poteka trgovinske vojne, kot je bil njen začetek, saj se bodo sčasoma izkazale njene negativne posledice tudi za ameriško gospodarstvo in konkretne nosilce te politike.*

**Ključni pojmi:** *Trump, carine, trgovinska vojna, učinki, povračilni ukrepi, velika depresija, pogajanja, Evropska unija, Kitajska, ZDA.*