

Course 10

The “Trump Shock” April 2025

From *The Globalisation Paradox* and
Trilemma (by Dani Rodrik) to
De-Globalisation?

Class Outline

- The “Trump Shock” – some elements
- Dani Rodrik, *The Globalisation Paradox*, 2011 and the “political trilemma” of the global economy
- The end of multilateralism through GATT/WTO
- The retreat from globalisation:
 - 1/ GFC > Brexit and Trumpism
 - 2/ the ambiguities of Covid-19
 - 3/ the war in Ukraine and the end of globalisation (Larry Fink)
 - 4/ The war in Gaza
- The deepening trade and commercial war between the US and China

The Trump Shock

Tariff hikes announced
2 April 2025

Implemented 9 April 2025

104% tariffs on Chinese
goods.

20% on EU, etc.



The Trump Formula

Reciprocal tariffs are calculated as the tariff rate necessary to balance bilateral trade deficits between the US and each of our trading partners. This calculation assumes that persistent trade deficits are due to a combination of tariff and non-tariff factors that prevent trade from balancing.

- $((X - M)/M)/2$

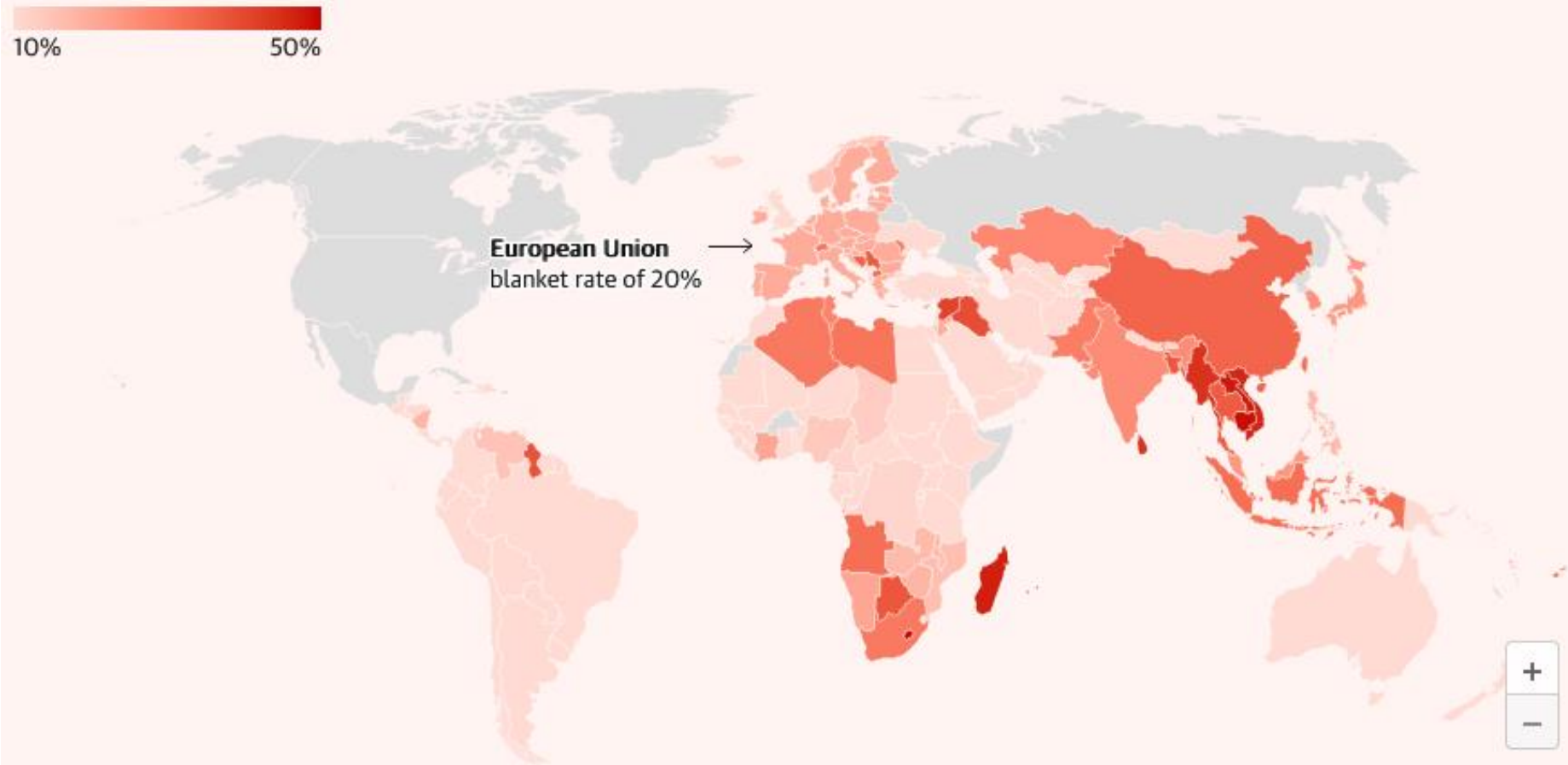
For example, take the [figures for China](#):

- Goods trade deficit: \$291.9bn
- Total goods imports: \$438.9bn
- Those figures divided = 0.67, or 67%
- And halved = 34%

Source: Richard Partington, “[Trump’s ‘idiotic’ and flawed tariff calculations stun economist](#)”, *The Guardian*, 3 April 2025.

See also Office of the United States Trade Representative, “[Reciprocal Tariff Calculations](#)”, retrieved, 4 April 2025.

'Reciprocal' tariff rates announced by Donald Trump on 2 April



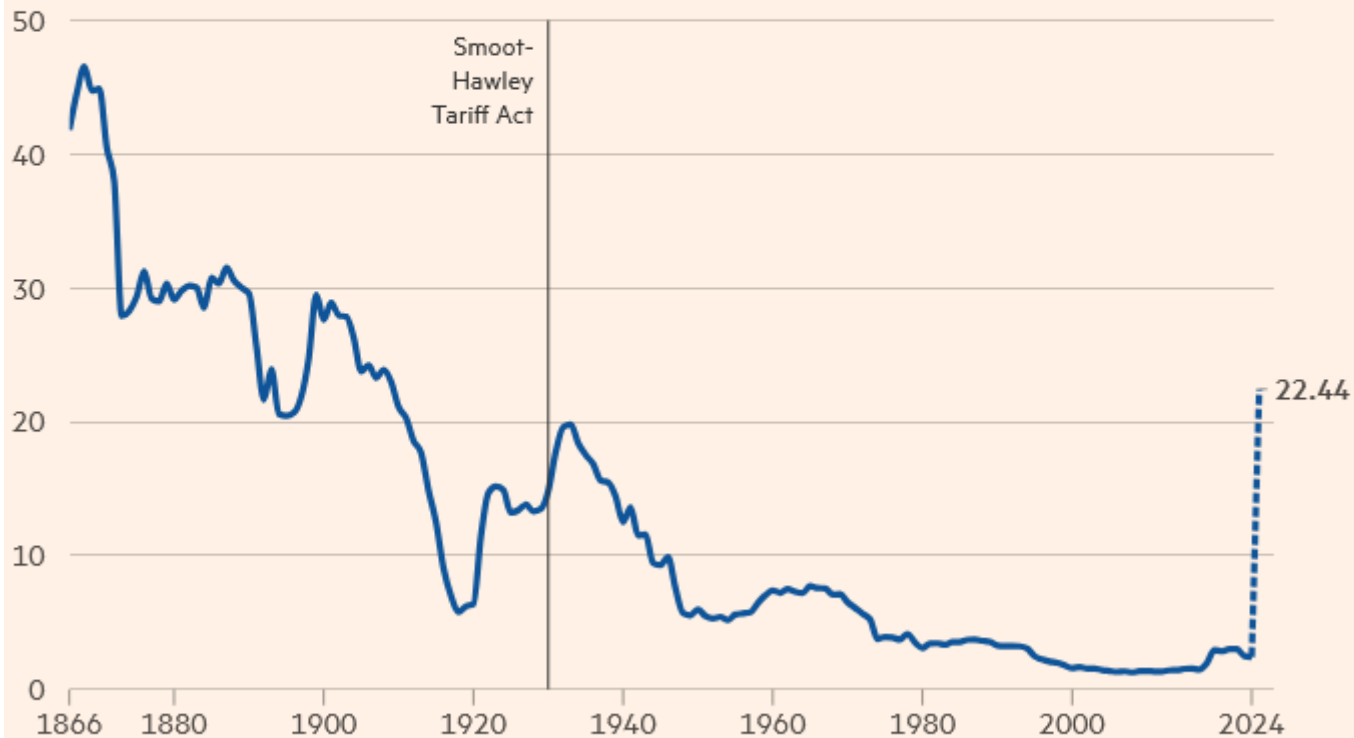
Guardian graphic. Source: The White House. Note: excludes tariffs previously announced for Canada and Mexico and universal 10% tariff applied to remaining countries not covered by 'reciprocal' rates. Some small island territories have been excluded from the map

Source: Ibid, Partington, *The Guardian*.

The US's new effective tariff rate is estimated to be the highest in a century

Effective tariff rate* (%), historic and estimated

Dotted line indicates estimate



© FT Source: Yale Budget Lab • *effective tariff rate = customs duty revenue as a proportion of goods imports

FT reporters, "[Donald Trump and the long history of 'sticky' US tariffs](#)",
The Financial Times, April 6, 2025.



“What has the globalist economy gotten the United States of America? And the answer is, it’s fundamentally based on two principles. Incurring a huge amount of debt to buy things that other countries make for us. And to make it a little bit more crystal clear: we borrow money from Chinese peasants to buy the things those Chinese peasants manufacture...”

[JD Vance and Lawrence Jones on “Fox & Friends”, April 3, 2025.](#)

Markets crashing – including US government bond prices (higher interest rates)



9 April 2025 Trump announces U-Turn

www.foxnews.com/video/6371278551112

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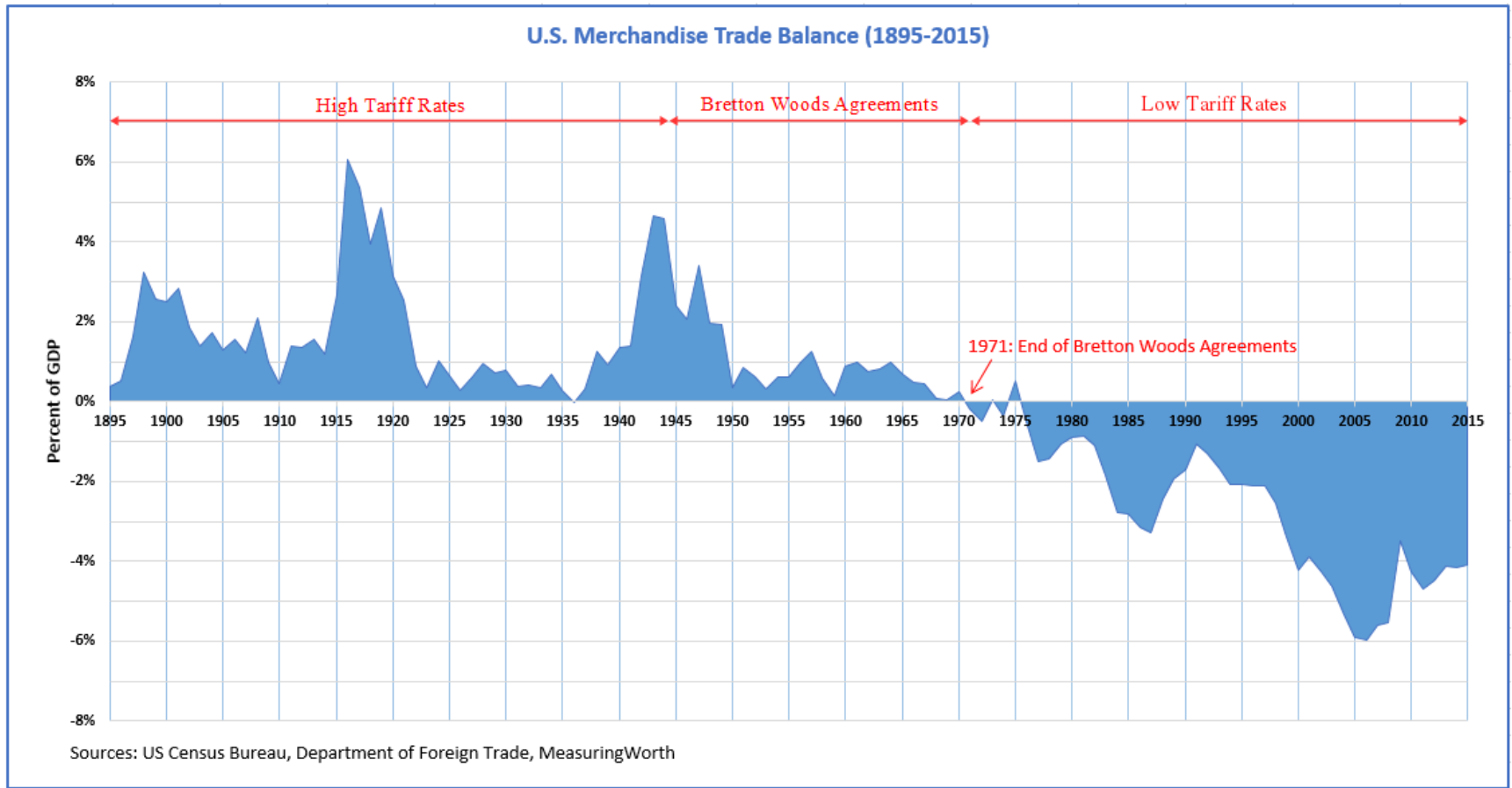
Trump explains tariff hike on China, 90-day pause for others

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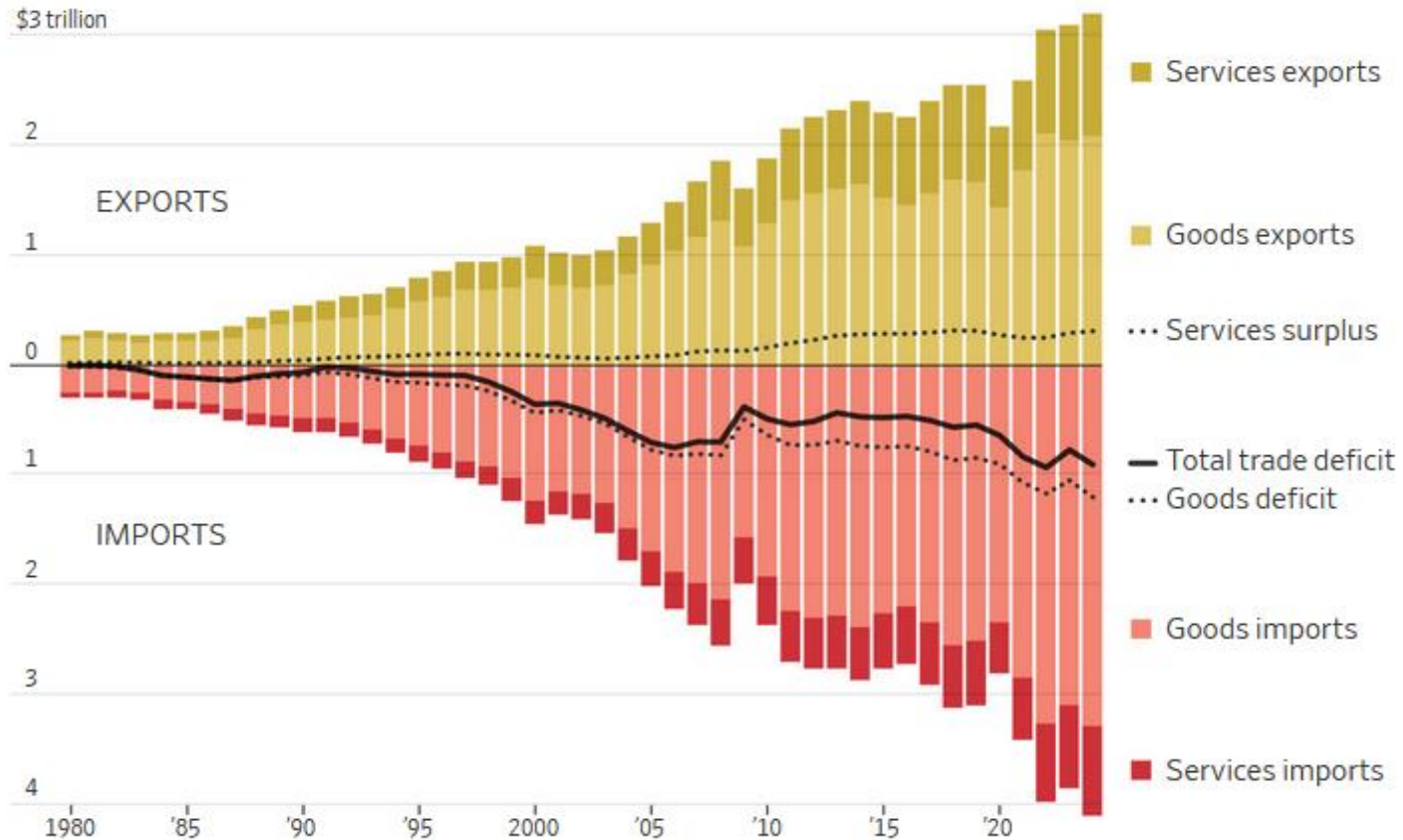
Source: Foxnews, <https://www.foxnews.com/video/6371278551112>,retrived 10 April 2025

Trade in merchandise goods



Current Account Deficit

U.S. trade balance



Source: Commerce Department

By [Alana Pipe](#) [Follow](#), [Drew An-Pham](#) [Follow](#) and [Jeanne Whalen](#) [Follow](#)

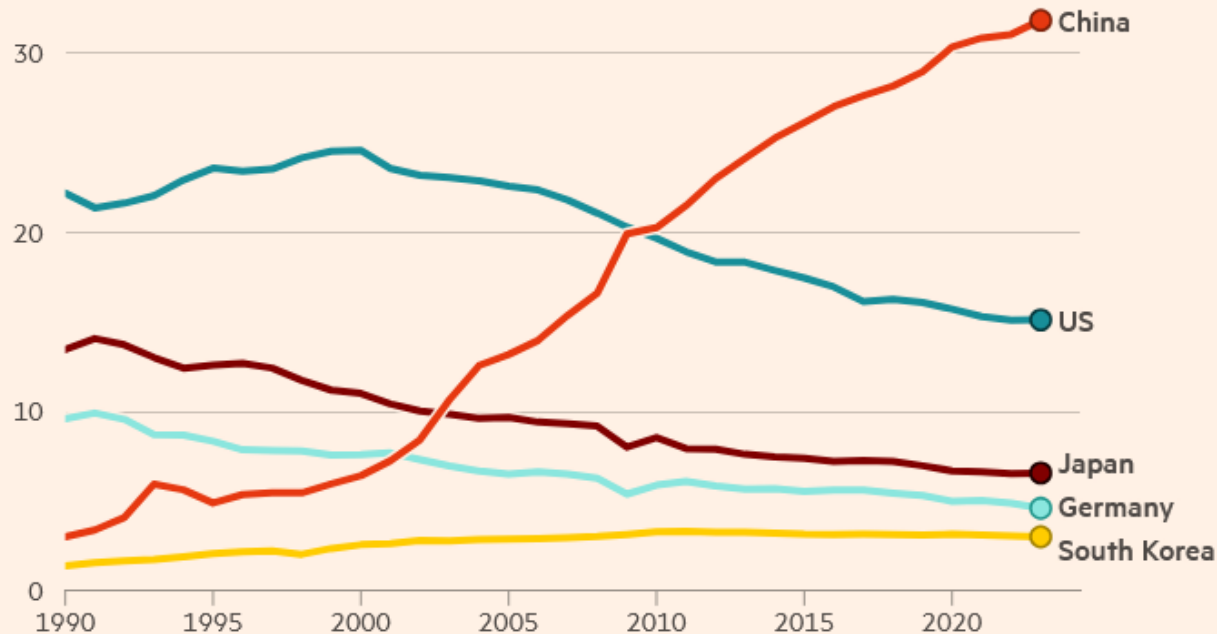
Updated April 3, 2025 10:04 am ET

Source: [The Wall Street Journal](#), April 2025, retrieved 10 April 2025.

China's weight in global manufacturing

China makes almost a third of all manufactured goods — more than the US, Japan, Germany and South Korea combined

Share of global manufacturing, %



Source: United Nations Industrial Development Organization (UNIDO)

Source: Joe Leahy in Beijing, William Langley in Guangzhou, Edward White in Shanghai and Nassos Stylianou, Dan Clark, Irene de la Torre Arenas and Sam Joiner in London, "[How China's record trade surplus helped spark Trump's tariff war](#)", *The Financial Times*, 9 April 2025.

The falling openness of the US economy: yet growth relatively good

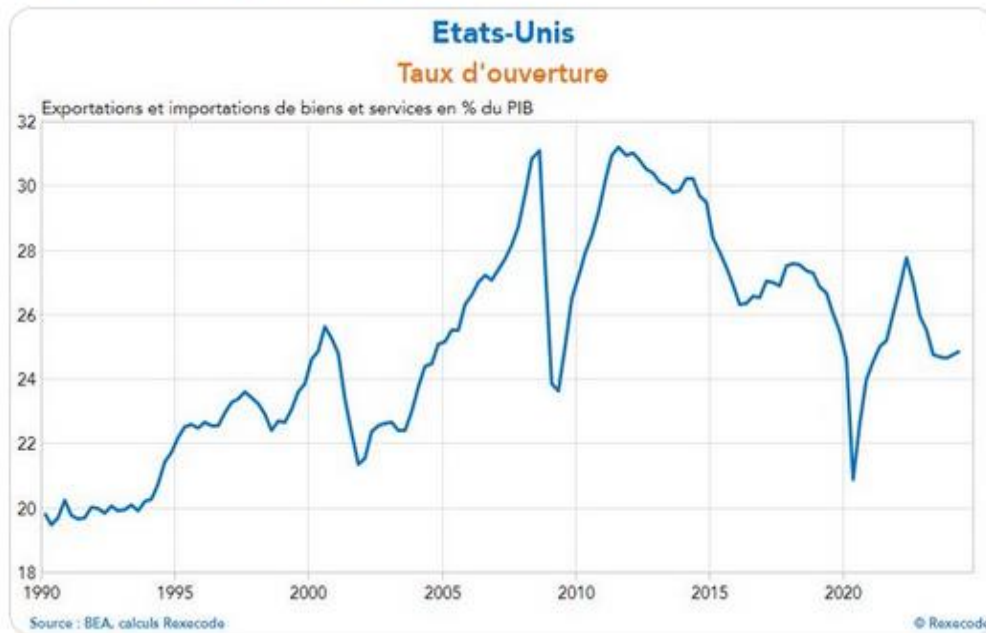


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Très frappant de constater que le taux d'ouverture américain est passé de 31 % du PIB à moins de 25 % en l'espace de dix ans sans entraver la dynamique de croissance, bien au contraire



$$(X - M)/Y \times 100$$

Jeremy Ghez, « [Les États-Unis ne croient plus en la mondialisation, et leur économie se porte bien malgré tout](#) », The Conversation, 28 octobre 2024, 17:01 CET

Tim Smith, ["How The Triffin Dilemma Affects Currencies"](#),
Investopedia, May 19, 2024

- Robert Triffin believed the dollar could not survive as the world's reserve currency without requiring the United States to run ever-growing deficits.
- A popular reserve currency lifts its exchange rate, which hurts the currency-issuing country's exports, leading to a trade deficit.
- A country that issues a reserve currency must balance its interests with the responsibility to make monetary decisions that benefit other countries.
- Another reserve currency replacing the dollar would increase borrowing costs, which could impact the United States' ability to repay debt.
- A new international monetary system could potentially help countries maintain a reserve currency status.

The real issue is how to bargain

- Most tariffs are very low across the world
- NTB are complicated (VAT not really and NTB)
- Nor are taxes on US internet companies
- Usually trade negotiations are long.

Dani Rodrik, *The Globalisation Paradox*, 2011

Rodrik challenges the deeply held belief in economics that trade is obviously beneficial.

In particular, he notes that the **redistribution** of income from trade is huge compared to the efficiency gain!

E.g. if average tariffs are 5% (as in the US) then a move to complete free trade reshuffles more than \$50 of income for each \$1 of efficiency.

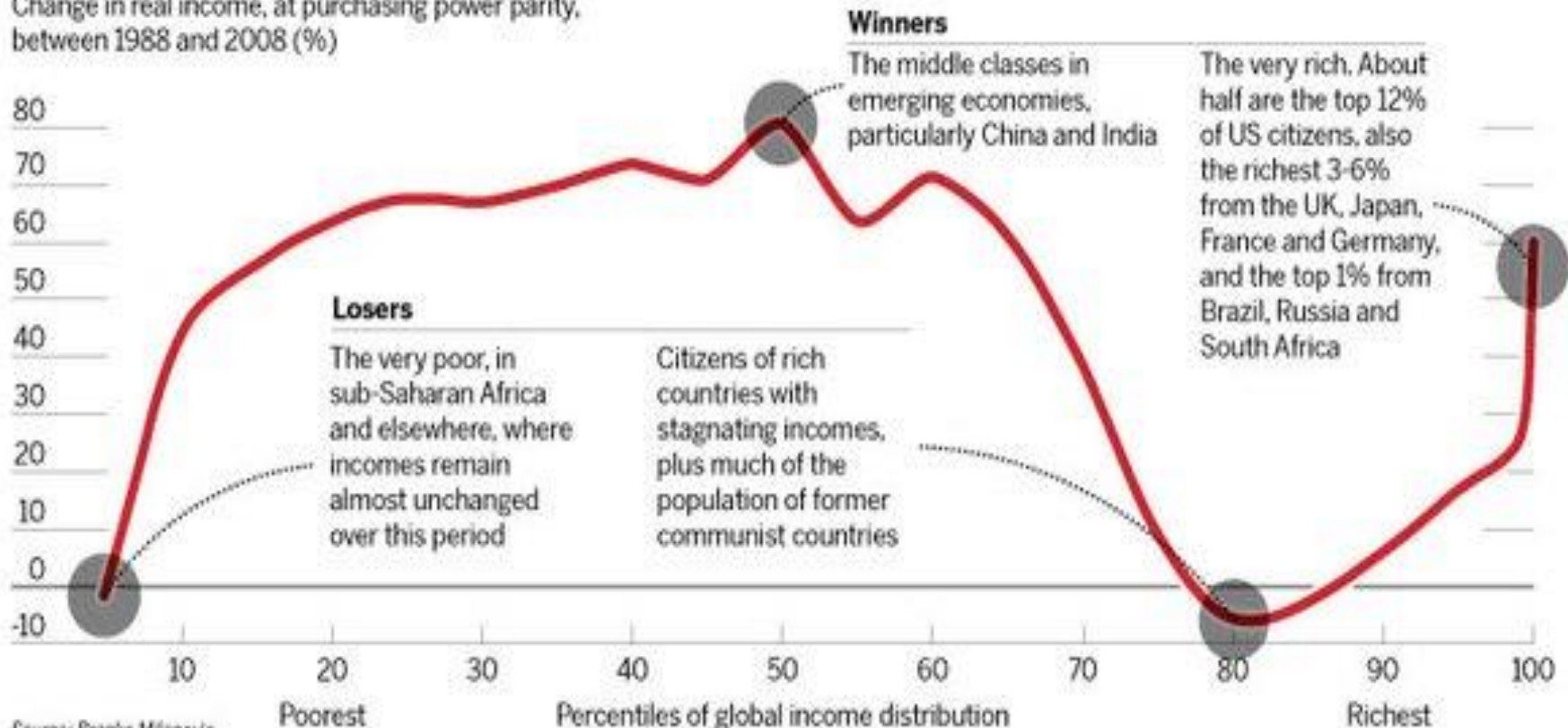
The lower tariffs are, the greater the redistribution effect of further tariff reductions.

For low skilled workers, international trade has been bad news throughout their lives.

Branko Milanovic's Elephant Curve

Winners and losers

Change in real income, at purchasing power parity, between 1988 and 2008 (%)



The Lost World of Hard, Manly, Well-Paid Industrial Jobs

In 1970, the federal minimum wage was \$1.60 per hour: steel workers earned \$3.50 to \$4.00 p/h. Average cost of a car around \$3,500; and of a home \$23,000 nationally and between \$20,000 to \$25,000 in Western Pennsylvania (ChatGPT 4o, 10/4/2025)



Steel Mill scene in 1968



End of Shift at the Steel Mill

The Deer Hunter (1978) – first film about the Vietnam War with Robert De Niro and Christopher Walken as steel workers from Western Pennsylvania who go to war

Table 4.1 Two Models of Interest-Group Competition over Trade Policy

Source: Thomas Oatley, *International Political Economy: Sixth Edition*, Routledge, 2019.

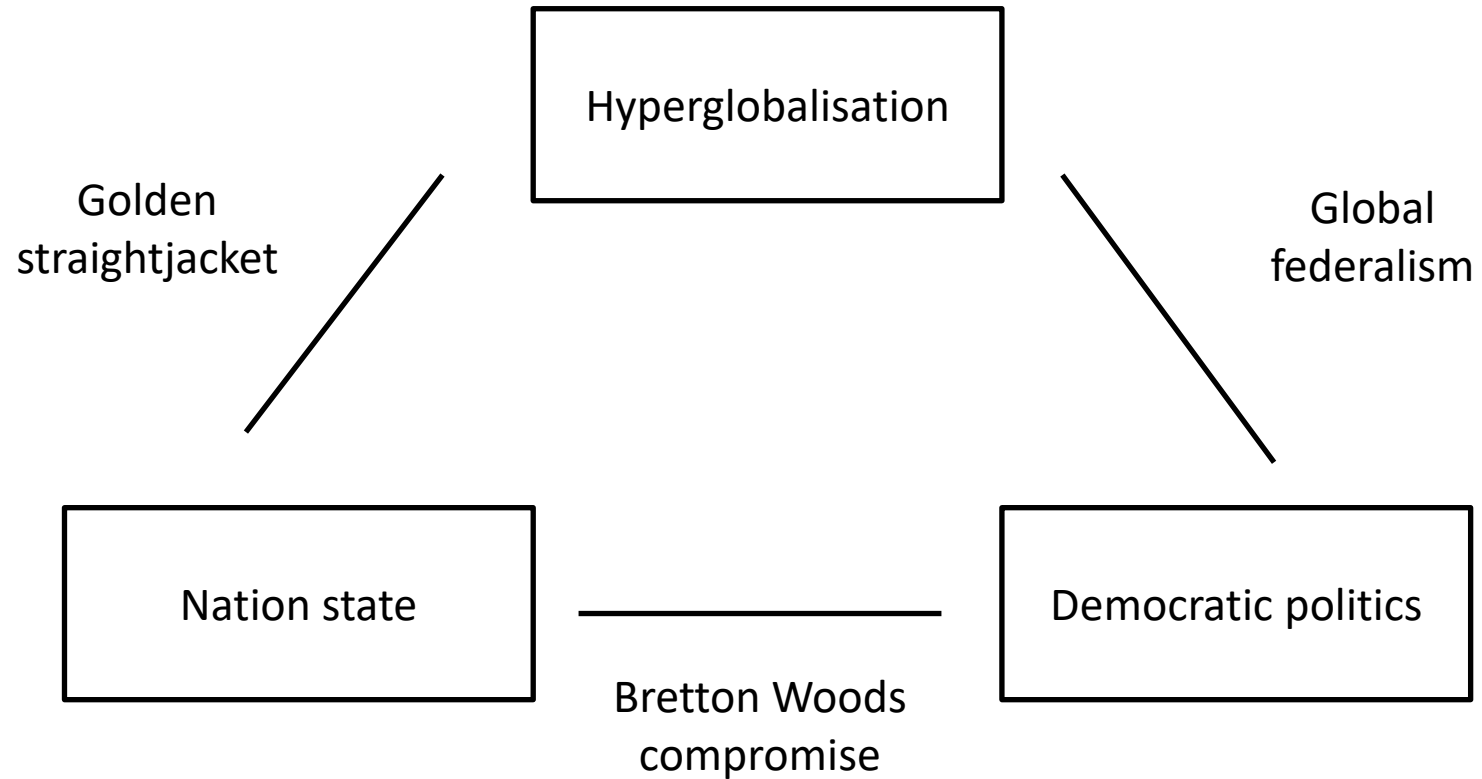
	The Factor Model	The Sector Model
The principal actors	Factors of production or classes	Industries or sectors
How mobile are factors of production?	Perfectly mobile across sectors of the economy	Immobile across sectors of the economy
Who wins and who loses from international trade?	<i>Winners</i> : abundant factor - capital in the advanced industrialised countries	<i>Winners</i> : labour and capital employed in export-oriented industries
	<i>Losers</i> : scarce factor – labour in advanced industrialised countries	<i>Losers</i> : labour and capital employed in import-competing sectors
Central dimension of competition over trade policy	Protectionist labour versus liberalising capital	Protectionist import-competing industries versus liberalising export-oriented industries

Correlation between openness and size of public sector

- Yale teacher David Cameron (1978):
Nations with open economies were far more likely to experience an increase in the scope of public funding than were nations with relatively closed economies.

Rodrik confirms relationship: to preserve legitimacy of markets and trade, governments expand social insurance to protect people.

The Political Trilemma of the World Economy



The Political Trilemma of the World Economy

- How do we manage tension between national democracy and global markets?

1/ restrict democracy, to minimize international transaction costs, disregard economic and social whiplash global economy occasionally produces. The “Golden straightjacket” of gold standard before World War I.

The Political Trilemma of the World Economy (continued)

2/ global governance – global democracy

Perhaps this could grow out of today's international networks of policy makers.

Rodrik: skeptical on substantive grounds – there is simply too much diversity; global standards and regulations not just impractical, but undesirable.

Weak government would result from lowest common denominator of global governance.

Nations have a right to divergence.

The Political Trilemma of the World Economy (continued)

- **3/ sacrificing hyperglobalisation**
 - The “Bretton Woods compromise” – some restrictions on trade removed.
 - But capital controls possible (even encouraged)
 - And national policies possible.

Financial globalization undermines national divergence

The end of trade multilateralism
through the GATT/WTO – the end of
the international liberal order

The end of multilateral liberalisation

- International trade liberalisation 1947-1994
 - GATT – trade rounds – mainly liberalisation of manufactured goods
 - Uruguay Round 1986-1994
 - Extended to textiles, services and agriculture (to some extent), investment and intellectual property protection
 - Creation of WTO: dispute settlement procedures

Failures to launch the “Millenium Round” in Seattle (disagreements & mass protests)

Doha Round launched end 2001, after 9/11 (far away)

Public push-back 2000 > Doha after 9/11

The “Millenium Round” in Seattle: disagreement and public protest



Doha Round began end 2001 – away from it all.



Is multilateral liberalisation over? (continued)

- The WTO Doha Round collapsed 2008
- The US refused to accept Chinese and Indian demands for safeguards to protect poor farmers from surge in agricultural imports
- Major **failed** regional negotiations – “Outside options”?:
 - Free Trade Area of the Americas (1994 to 2006), ended in failure.
 - Trans-Pacific Partnership/TPP (2005-2016) led by US to offset rise of China in Asia. Agreed, but Trump withdrew in January 2017 (see below). UK has joined – after Brexit.
 - Transatlantic Trade and Investment Partnership (TTIP): 2013 onwards – very controversial with civil society; negotiations suspended after election of Trump – for the moment

The prisoners' dilemma in trade negotiations (source Oakley)

		European Union	
		Liberalize	Protect
G-20	Liberalize	L, L <i>I</i>	L, P <i>II</i>
	Protect	P, L <i>IV</i>	P, P <i>III</i>

Preference Orders:

G-20: $P, L > L, L > P, P > L, P$

European Union: $L, P > L, L > P, P > P, L$

Both the G20 and the EU have a dominant strategy: a single strategy that always returns a higher payoff than all other strategies, namely *protect*.

If the EU plays *liberalise*, the G20's best response is *protect*.

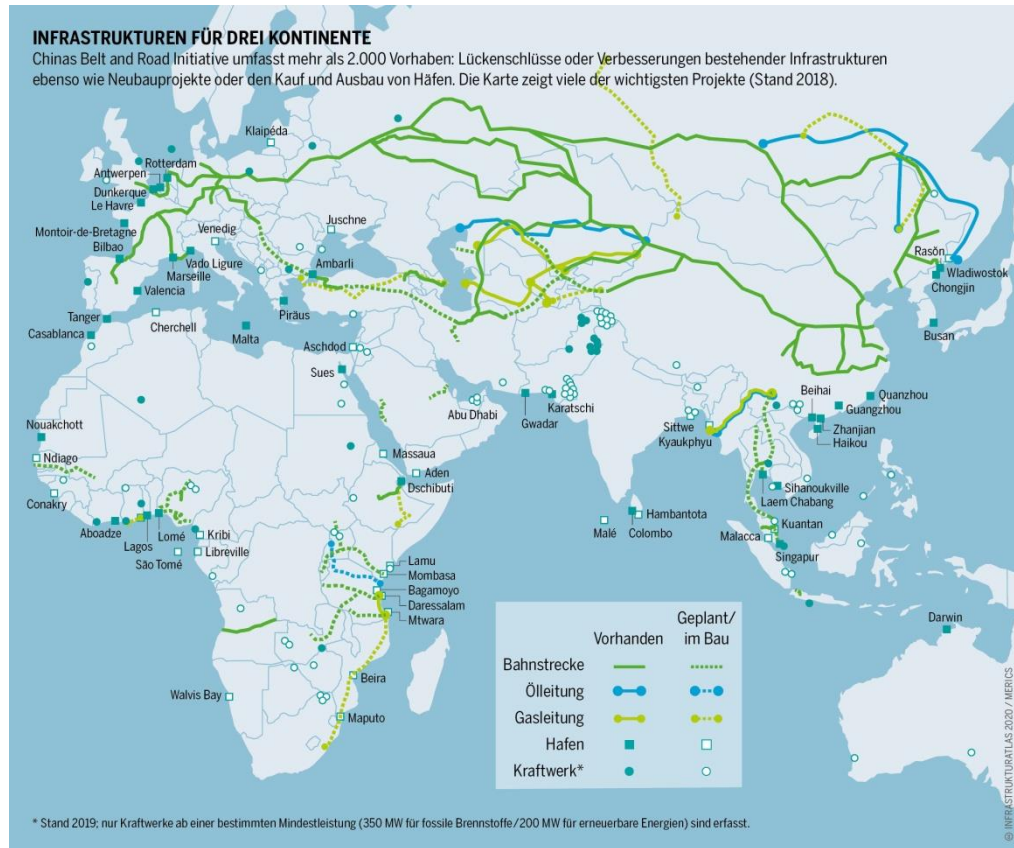
If the EU plays *protect*, if the G20 plays *liberalise*, it faces its worst outcome.

Protect "dominates" *liberalise* for the G20 (and vice-versa). So P, P is the outcome.

But it is **Pareto suboptimal** and it is a **Nash equilibrium** (i.e. neither player has an incentive to change unilaterally).

The rise of China (and India?)

China – Belt and Road Initiative (2013) - Asian Infrastructure Investment Bank (AIIB)



India – more a policy of non-alignment?

The retreat from globalisation?

1/ The stagnating share of global trade in GDP

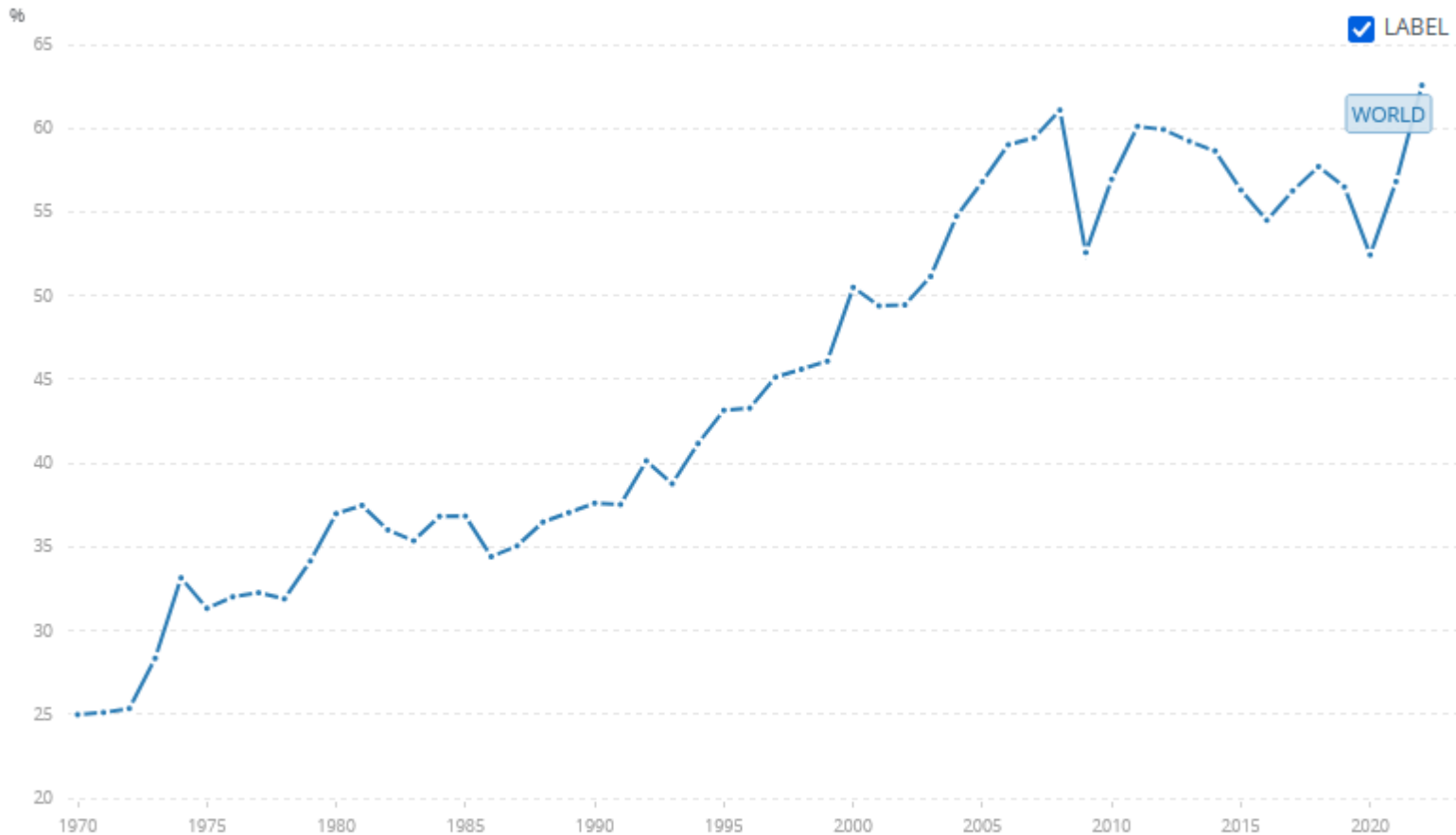
1/ GFC > Brexit and Trumpism

2/ the ambiguities of Covid-19

3/ the war in Ukraine and the end of globalisation (Larry Fink)

4/ The war in Gaza: 7 October 2023

Trade (% of GDP): 1970 - 2022



Source: World Bank national accounts data, and OECD National Accounts data files,
World Bank: <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS> (accessed 18/4/2024)

Brexit Referendum 23 June 2016:

Britain/Ricardo – originators of “free trade”

- 52 percent vote to Leave EU? But why?
- EU became focal point of discontent after financial crisis, and pressure on public spending --> welfare cuts
- Significant immigration into UK: 300,000 per year 2014-2015 (from EU and elsewhere)
- “Take back control” – slogan of Leave campaign found much support

Nostalgia “Global Britain” or “Empire 2.0”

In extremis Trade and Cooperation Agreement, 24/12/2020

- End January 2020, UK leaves EU politically
- End Dec 2020, UK leaves Customs Union and Single Market > TCA
 - No tariffs and quotas (self-certification rules of origin)
 - But customs formalities (phyto-sanitary declarations) and VAT
 - Trade in services, building on WTO rules: no deal on financial services; no 5th freedom in air transport
- Issues still unresolved
 - UK customs controls (food – checks & levies start end April 2024) > less choice and higher food inflation

Election of Donald Trump & Trumpism?

- Trump elected on a nationalist platform: Make America Great Again – America First
- In January 2017 – pulled out of TPP (but US may now re-enter)
- NAFTA > USMCA US Mexico Canada Agreement (75% content for cars; US dairy producers access to Canada; end to investor-dispute settlement; sunset clause, 15 years)
- Steel tariffs announced March 2018
- Reciprocal threats by US and China on trade war...???
- Trade threats to Europe – protection of car industry as a strategic sector
- Trump administration has not appointed members to the WTO trade disputes body, effectively paralyzing it.

Trump to Biden

- Apparent support for international institutions, and rules-based international relations.
- But, Inflation Reduction Act (2022) > govt support for greening economy > trade tensions with EU

A nationalist industrial policy

([FT video – The End of Globalisation?](#))

- Strategic rivalry with China
- Covid vaccine diplomacy

Covid-19 pandemic: exploded March 2020

- Response mainly nation-state based: though there is some essential cooperation
- Policies in some way chaotic
- Major, global – and successful – push on vaccines
- But vaccines rollout is vastly unequal
- Hard to detect an overall global strategy so far – in contrast to G20 after GFC
- Absence of US leadership

24 February 2022 – War in Ukraine and the end of globalisation?

- (Apart from the terrible human tragedy), some significant short-term shocks: mainly food supplies (possibly serious in Africa)
- Big hit to energy supplies to Europe – prices and possibly quantities of fossil fuels (gas)
- Some significant investment losses in Russia
- Huge material destruction in Ukraine

“Normalised” longer term consequences

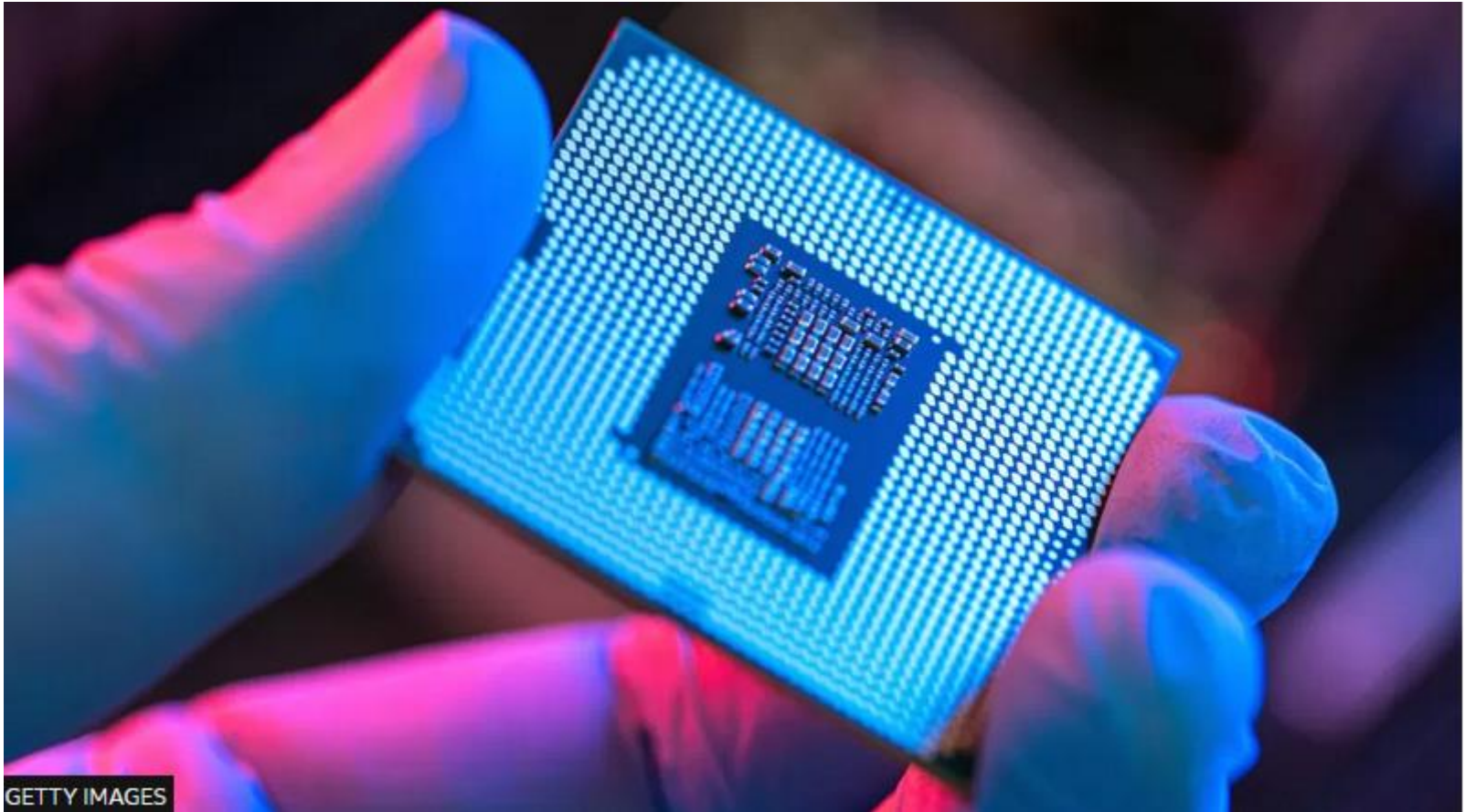
- Fragmentation of global economy into blocs
- US – China rivalry
- The Global South – non-aligned (at present)
- Dollar dominance underpins the post-WWII international economic order

US – China trade war > decoupling

- **6 July 2018** – US puts 25% duties on around \$34 billion of imports (cars, hard disks, aircraft parts). China retaliates 25% on 545 US goods worth \$34 billion (agri-products, cars, aquatic products)
- 24 Sept 2018: US tariffs on \$200 billion worth of imports, China puts duties on \$60 billion.
- 1 Dec 2018: truce
- 15 May 2019: US adds Huawei to “entity list”

Source: Andrew Mullen, “[US-China trade war: timeline of key dates and events since July 2018](#)”, *South China Morning Post*, 15 May 2022.

October 2022: US announces controls on exports of chips to China, etc.



US Official Data Show Trade Decoupling From China

Change might be exaggerated by re-routing and invoicing avoidance

Value of US imports from China as a share of total imports

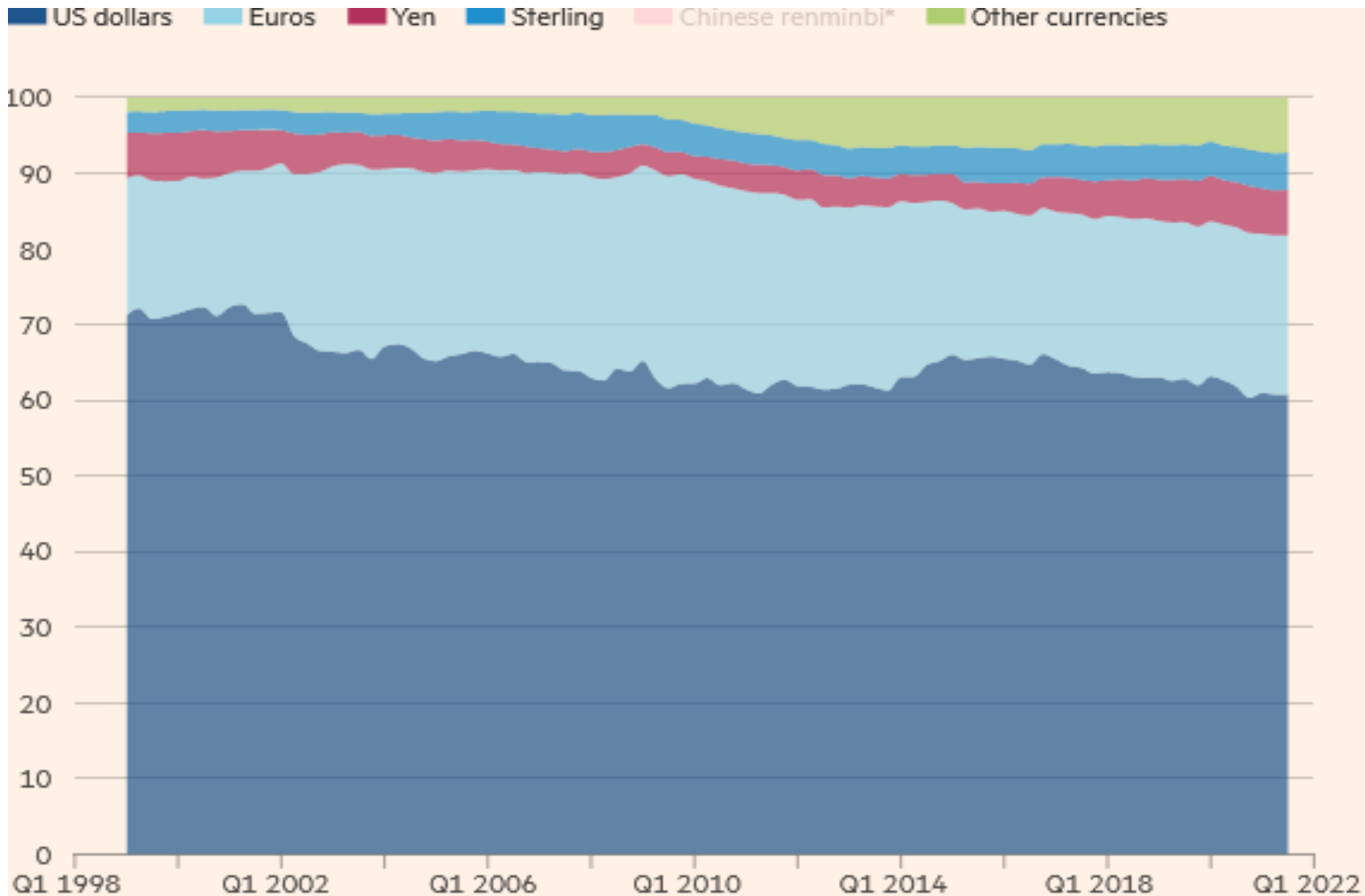


Source: US Census Bureau; Bloomberg

Bloomberg

Source: Tom Hancock, "US Trade Data Overstates Decoupling From China, Report Says" *Bloomberg*, October 12, 2023 (from [Yahoo News](#)).

Currency composition globally allocated foreign reserves (FT 7 April 2022)



“Thucydides’ Trap” Case Studies

	Period		Ruling Power	Rising Power		Result
1	First half of 16th century		France	Hapsburgs		War
2	16th–17th centuries		Hapsburgs	Ottoman Empire		War
3	17th century		Hapsburgs	Sweden		War
4	17th century		Dutch Republic	England		War
5	Late 17th–early 18th centuries		France	Great Britain		War
6	Late 18th–early 19th centuries		United Kingdom	France		War
7	Mid-19th century		United Kingdom, France	Russia		War
8	19th century		France	Germany		War
9	Late 19th–early 20th centuries		Russia, China	Japan		War
10	Early 20th century		United Kingdom	United States		No war
11	Early 20th century		Russia, U.K., France	Germany		War
12	Mid-20th century		Soviet Union, U.K., France	Germany		War
13	Mid-20th century		United States	Japan		War
14	1970s–1980s		Soviet Union	Japan		No war
15	1940s–1980s		United States	Soviet Union		No war
16	1990s–present		United Kingdom, France	Germany		No war

Source: Graham Allison, “[The Thucydides Trap: Are the US and China Headed for War?](#)” *The Atlantic*, September 24, 2015.

The unravelling of the rules-based international community

- No one stopped Rwanda genocide in 1994.
- NATO bombed Serbia to stop the Serbian war in Kosovo (after previous Serbian massacres in Bosnia-Herzegovina): contravening “non-intervention”.
- After 9/11/2001 – war in Afghanistan (illegal but widely supported). The war in Iraq (2003) by the US and UK was illegal and widely criticised – “rendition”.
- Russia invades Ukraine: 24 February 2024
- Hamas attacks Israel: 7 October 2023, provoking massively exaggerated Israeli response (with a danger of genocide).
- Iran attacks Israel on 13/14 April 2024 (in response to consulate attack)

The Outlook of the US Bond Market

- The US bond market is at the heart of the global financial system

Will Trump destabilise it?

- Trump wants the dollar to remain the lead global currency – yet devalue.
- A Mar-a-Lago accord on debt swaps?
- A Bigger Bang in finance than the GFC?



[The Stones, 2005](#)

Take Outs

- Globalisation creates angry losers (Michael Sandel, *The Tyranny of Merit*, 2021)
- Covid > the “revenge” of nation-states?
- Identity is stronger than economic rationality
- New super-power rivalry – a splintered world
- The new wars and collapse of international law
- Threats to global cooperation (climate change, pandemics, plastics, etc.)