

# Economic nationalism, trade and production chains: Trump's tariffs in an interdependent world

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Caporaso James

Department of Political Science, University of Washington,  
Seattle, Washington, USA

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## Abstract

**Purpose** – Trump's tariffs came in two waves, the first in 2018 and the second on April 2, 2025, often called "Liberation Day". While the tariffs were applied to many countries, China was singled out as a major violator in terms of being a disruptor of fair trade, balanced trade and use of trade to enhance the manufacturing sector in China at the expense of other countries. The USA tariffs were designed to correct trade imbalances and to bring back American jobs. The aim of this paper is to examine the effectiveness of the tariffs in terms of these two objectives. There are two crucial parts of this examination. The first is to use trade theory to understand what tariffs can and cannot do. Specifically, bilateralism and multilateralism are examined as trade strategies in a multilateral world characterized by high levels of interdependence and transnational cross-cutting supply chains transnationally. The second aspect of the analysis is to closely examine the empirical record as far as manufacturing jobs are concerned and to compare the importance of trade with other explanations, especially ones based on productivity in the manufacturing sector. The main conclusion of the paper is that Trump's tariffs are not effective in terms of lowering overall trade deficits, even if they have succeeded against specific countries and that jobs in the manufacturing sector have not returned to the USA's shores and are not likely to do so.

**Design/methodology/approach** – This study employs a case study of Trump's tariffs in the context of the United States of America–China relationship, with special attention to the loss of manufacturing jobs in the United States of America.

**Findings** – The findings are that bilateral tariffs don't work because trade among partners is easily changed. Also, the loss of manufacturing jobs in the USA, as in other countries, is due to longer-term structural forces having to do mostly with increasing productivity (which displaces jobs) and changing preferences for consumption of services compared to both manufactured and agricultural goods.

**Research limitations/implications** – The main research implications are that bilateral trade deficits and jobs in the manufacturing sector are not easily changed by the use of tariffs, particularly bilateral tariffs. The standard explanation for this is that overall deficits are due to macroeconomic policy having to do with savings, consumption and investment. China is a high-savings, low-consumption economy and the USA is a low-savings, high-consumption economy.

**Practical implications** – The practical implications are that bilateralism, either with regard to trade or capital flows, is not an effective strategy in a multilateral world. To be effective, tariffs should be negotiated on a multilateral basis. Otherwise, individual countries can easily alter trade patterns. USA tariffs against China have been met by China redirecting its trade to Southeast Asia and to Latin America. Also, it is self-defeating for the USA, or any country by itself, to impose tariffs on countries where there is a large USA multinational presence. That is the significance of tariffs in a world of integrated production chains.

**Social implications** – Social implications imply that it is better to recognize the high levels of interdependence and try to work out problems in a large, multilateral, cooperative setting. The World Trade Organization has dispute resolution mechanisms, which the USA has used in the past, quite successfully.

**Originality/value** – There has been some, but not a lot of work in political science on the use of tariffs and other forms of economic statecraft in a world of complex interdependence. This is one of the first studies to use advanced political economy thinking to address the problems of tariff use with full attention not only to international conflicts but also domestic politics.

**Keywords** Services, Tariffs, Trade deficits, Manufacturing jobs, Bilateral vs multilateral, Trade surplus and trade deficits, Trade surplus

**Paper type** Research article



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## Introduction

In January 2017, in his first week in office, President Trump withdrew the United States of America from the Trans-Pacific Partnership, a 12-nation pact designed to counter China's influence in Asia. He questioned a variety of trade pacts, including the North American Free Trade Agreement (NAFTA, later the USA-Mexico-Canada Agreement) and threatened tariffs on a broad scale. He singled out China for unfair trade policies, violating property rights, coerced technology transfers and abuse of dual use technologies to advance its own defense sectors.

Critics argue that Trump is undermining the international order which the USA helped to create, a rules-based order that includes the North Atlantic Treaty Organization, the European Union (EU) and its predecessors, the Organization for Economic Cooperation and Development (OECD) and international financial and development institutions such as the International Monetary Fund and the World Bank. Unlike the bilateralism of inter-war and wartime Germany associated with Hitler, or Japan's hierarchically organized "Greater East Asia Co-Prospersity Sphere", the post-war USA-led order was based on generalized reciprocity and economic non-discrimination, operationalized by the most favored nation principle, that is, on multilateral principles (Ruggie, 1993). The USA was the undisputed hegemon; it had the raw power, the willingness to lead (unlike the 1930s, where "the British couldn't and the USA wouldn't") and the vision to bring countries together around a common purpose. That vision was based on access to free markets and economic non-discrimination. Distributional conflicts existed, especially over sharing the cost of public goods such as deterrence. However, these conflicts could be seen, in the evocative sub-title of Steven Krasner's article (1991), as "Life Along the Pareto Frontier." Everyone was better off with the agreements, but some were relatively more advantaged than others.

## Purposes of tariffs

A tariff is essentially a tax imposed on the importation of goods or services into a country. Tariffs have multiple uses. They can be used to raise revenue, to protect industries and to foster national security. Who pays for the tariff is a controversial question. Ultimately, the costs could be paid by the exporting company by lowering its prices, by the importing company in the form of lower prices it charges to consumers or by consumers in the form of higher prices. As a first approximation, the tariffs are collected by custom agencies and transferred to the government.

Second, despite the opposition of most economists to tariffs, they are not necessarily economically unsound, in the sense that they necessarily reduce national wealth. Economists endorse optimal tariffs as theoretically possible though the range of empirical application is limited (Conybeare, 1987, pp. 23–26). There is also a limited case for tariffs and other forms of intervention in strategic trade, especially in sectors where there are first mover advantages, economies of scale and path dependencies. In such sectors, "getting there first", establishing market position, developing brand name loyalty and fostering positive network externalities can be important. They may be used to advance or protect certain industries, including "infant" industries or more generally those with strong learning curves, industries with local (positive) externalities and strategic industries, such 5G industries thought to be important for economic growth, competitiveness and national security.

Third, there are national security arguments for protecting certain sectors, ranging from precious (rare earth) metals to computer chips, aluminum and steel critical for defense industries. Arguments for government intervention in areas essential for national security can include everything ranging from food and oil to computer chips, as the important Taiwan Semi-Conductor Manufacturing Company shows. Even Adam Smith, the great liberal economist, argued that "defense is more important than opulence" (2008 [1776], p. 431).

Fourth, and most relevant for this paper, tariffs may be used in an attempt to protect jobs. These jobs may be in strategic sectors, may be important as inputs for other sectors or may simply be politically (electorally) important. Trade analysts implicitly argue that benevolent

governments want to maximize national income but self-interested politicians are more interested in winning office, a goal that imperfectly coincides with the welfare of the country as a whole [1].

Fifth, tariffs arguably can be proposed to correct the balance of trade deficits. Indeed, the Trump administration has proposed a formula for the tariff level required to bring bilateral trade into balance. This policy assumes a number of things which are controversial, among them that relevant trade imbalances are determined by bilateral rather than multilateral relations, that tariffs do the heavy lifting as far as imbalances are concerned and that macroeconomic policies relating to savings, consumption and investment are of no great importance in determining overall trade balances [2].

In this paper, I will examine the relationship between tariffs, jobs and trade. I'll focus on the tariffs imposed by the first (2017–2021) and second (2025 to present) Trump administrations. My argument, based on a great deal of evidence as well as economic theory, is that tariffs do not provide a good mechanism for either balancing trade or preserving manufacturing jobs.

### Trump's tariffs

Trump's first administration started in January of 2017. In January 2018, Trump imposed tariffs of 30–50% on solar panels and washing machines. This was a modest start to a full-fledged trade war. A few months later, Trump imposed tariffs on steel (25%) and aluminum (10%) and then extended tariffs to entire countries, namely Mexico, Canada, and the EU. A comprehensive trade war with China ensued. The progression was from a few specific products, to whole economic sectors and to entire countries and regions.

Tariffs during the second Trump administration starting in 2025 were steeper and more pervasive. On “Liberation Day”, April 2 2025, Trump imposed tariffs of 25% on automobiles and automobile parts, 50% on copper and threats of 100% tariffs on pharmaceuticals. The pharmaceutical threats became operative a year later, in April of 2026. In addition to these specialized, sector-specific tariffs, new baseline tariffs were imposed: a new tariff adding 10% to existing tariffs on most countries and 60% additional tariffs on China. In addition, Trump threatened to revoke China's permanent normal trade relation (PNTR) status. The main legal basis used to justify the new tariffs was the International Emergency Economic Powers Act of 1977, later invalidated by the US Supreme Court in February 2026.

While our focus is on the impact of the 2025 tariffs, it's worth mentioning two things about the 2018 tariffs. The first is that almost all (estimates range from 96% to 100%) of the increased tariffs were passed on to the consumer. One of the earliest studies, after careful research on short-term effects, noted that the prices of imported goods targeted by tariffs did not fall, implying that the full costs of the goods (initial costs plus tariffs) were passed on to consumers (Fajgelbaum *et al.*, 2020, p. 1). In a later study titled “Who's Paying for the US Tariffs”, Amit *et al.* (2020, p. 541) make a concerted effort to assess the longer-term effects of the tariffs, but there was no substantial disagreement with the earlier study, despite the theoretical expectation of a terms of trade effect. The second observation is that while the overall costs of protection were small (about 0.27% of gross domestic product (GDP), or \$51bn in added costs to consumers and importing firms), the major consequence of the tariffs in targeted countries was the realignment of trade partners. China rerouted much of its damaged trade with the USA to other countries, such as Vietnam and Taiwan. As a result, USA trade expanded rapidly with Vietnam and Taiwan, who were quick to exploit the supply chain shifts. The major beneficiaries of this realignment were countries in South and Southeast Asia (India and Vietnam), Asia (Taiwan) and Latin America (Brazil, Argentina and El Salvador).

### Trade and jobs

Trump's tariffs were intended to bring manufacturing jobs back to the USA. The argument was that the cheap labor and loose regulations enabled many countries, China in particular,

to produce a variety of manufactured products of increasing sophistication. Additionally, the flight of USA capital embedded in multinational corporations joined sophisticated technology from the USA to plentiful cheap labor in China. The result was empty manufacturing plants in the USA at the same time that the corporate offices of firms profited by relocation and by restructuring of these firms in the direction of high-end services.

Since Second World War, trade has grown both in absolute terms and as a share of GDP. Inevitably, growing trade has been associated with the loss of jobs and restructuring of employment. One dramatic instance of trade-induced restructuring of employment centers on the so-called “China Shock” (Autor *et al.*, 2016). I first describe the claim that the “China shock” caused job losses in the USA. I then assess the size of the China shock in relation to other factors and ask whether the imposition of tariffs is likely to correct the problem.

In 2001, China entered the World Trade Organization (WTO) with PNTR status. PNTR status enabled both China and USA corporations to plan their relations on a long-term basis, without the obligation of annual renewal by the US Congress. The longer time horizon was especially important to USA-based multinationals since establishing factories in a foreign country was not a decision that could be made on an annual basis. It is worth noting that the major USA corporate interest groups – the National Association of Manufacturers, the US-China Chamber of Commerce and the United States Business Roundtable – lobbied hard for PNTR for China. A variety of agricultural interest groups also lobbied for this status for China. Labor organizations did not lobby for China’s entry into the WTO or for PNTR status (Doshi, 2021).

A team of economists argues that the China trade was responsible for a large share of USA job losses between 2001 and 2019 (Autor *et al.*, 2013, 2016, 2022), that these losses were concentrated in labor-intensive manufacturing and that these effects endured 2 decades beyond the original shock in 2001 (Autor *et al.*, 2022, p. 1). Autor *et al.* (2013) estimated these losses at 2–3 million. Bloom *et al.* (2019) see the job declines in USA manufactures as part of a much larger structural transformation in which firms reorganize, create jobs in services, design and research-intensive areas and export the labor-intensive parts of the overall process abroad. These complex and offsetting processes occur within the same firms as firms export labor-intensive production abroad while concentrating higher value-added service operations domestically, or even abroad in USA-owned multinational corporations. Plants with manufacturing workers close down, but firms survive with a new mix of reduced manual workers and augmented white-collar service workers. “Job destruction from the death of entire firms, by contrast, is minimal” (Bloom *et al.*, 2019, p. 2). The geographic effect of this transformation was to move high value-added economic activity to the coastal areas and away from the interior of the USA, particularly the eastern heartland (Austin *et al.*, 2018), a process that entailed significant polarization in the electorate (Autor *et al.*, 2020).

The onset of these economic dislocations in 2001 was abrupt (see Pierce and Schott, 2016) and the duration of the adjustment was longer than expected. Autor *et al.* (2022, p. 1) report that the adverse impacts of the China shock lasted 2 decades, a relatively long period as far as economic adjustments go. In contrast, USA employment recovered from the 2007–2008 financial crisis in four to five years, while output returned to pre-recession levels even earlier [3]. In comparison to the “lessons from Massachusetts” (Krugman, 2010), there was very little out-migration from adversely affected areas, and such migration as existed was concentrated among young people and the foreign born. There was far less absorption of displaced workers in other sectors. As Autor *et al.* note, “The primary means of adjustment is simply to leave the labor force” (2021, p. 383). A very large number of those unemployed by the China shock remained permanently unemployed. Indeed, Autor *et al.* (2022, p. 2) note that the manufacturing job losses caused by the China shock converted nearly perfectly (one for one) into long-term unemployed. It is somewhat of a mystery that the normal adjustment mechanisms (relocation, retraining and absorption by related sectors) did not work, though this probably reflected the decline of labor mobility in the USA as a whole.

### The China shock in perspective

While trade with China did cause manufacturing unemployment in the USA, we try to put Autor *et al.*'s estimate of 2–3 million lost jobs in perspective. There is little doubt that China's entry into the WTO with PNTR status was associated with job declines in the USA. But to appraise these losses, we have to see this correlation as part of a larger picture. Where does the causality lie, with the China shock itself, with longer term structural factors, or some combination of the two? Structural factors point to a declining share of jobs in manufacturing over a very long period of time, well before China's entry into the WTO. Two of the most important long-term factors are productivity in manufacturing and changing consumption patterns away from manufactured goods toward services. If these are the major causes of the decline in manufacturing jobs, tariffs won't provide a cure, since they don't address the underlying causes.

*Production.* Let us first take a look at the productivity picture. This phenomenon can be examined over time or across countries. The database used by Robert Lawrence in *Behind the Curve* (2024) relies on the top ten countries in terms of manufacturing surpluses as a share of GDP. All of the countries, including Germany, the United Kingdom, France, Sweden and Japan, declined in manufacturing jobs. Manufacturing job shares also declined in countries which had a positive manufacturing trade balance in value-added terms (Lawrence, 2024, p. 52). The timing of onset of decline was different with Italy, Japan, South Korea and Taiwan peaking later than the USA, the UK and Germany, but the functional relationships were remarkably similar. For a while, China seemed to defy this iron law, since it added manufacturing jobs as a share of GDP until 2013, however, after 2013, the share of manufactures started to fall (Lawrence, 2024, p. 37).

The main reason for the coexistence of manufacturing trade surpluses and manufacturing job losses is simply high productivity. It is true that greater productivity creates a comparative advantage in manufactured goods, which is expected to lead to an increase in exports, but the same increases in productivity result in capital-to-labor ratios that employ fewer workers. Simply put, it takes less labor to produce one unit of a good. Which of these two effects (the comparative advantage effect or the reduction of labor needed to produce a good) is stronger determines whether gains in productivity result in more or less jobs. It may be a footrace between two parameters but it's a footrace that is almost always won by the second parameter, i.e. the changing capital-to-labor ratios. In South Korea, for example, output has expanded in high-tech sectors like semi-conductors, but jobs declined relative to other sectors because of automation. The same story can be told for Germany, France, the USA, Sweden, Italy, Taiwan and other countries.

In the preface to Robert Lawrence's book, *Behind the Curve* (2024), the President of the Peterson Institute Adam Posen notes that the trajectory of economic development follows an inverted U-shaped curve, with countries adding manufacturing job shares first, then plateauing, and then declining (in terms of jobs – not output). Shares of USA jobs in manufacturing have been declining since the end of Second World War, well before China entered the USA market (Krugman and Lawrence, 2008, p. 2). Employment in the manufacturing sector has consistently declined from a high during Second World War of 38% to 8% by 2019. Much of this decline occurred during years when US trade was roughly balanced. Even when there were trade deficits, they were not of the magnitude that could explain the loss of jobs (Rose, 2021).

In summary, a number of apparently contradictory trends occurred during the post-war period: shares of manufacturing jobs in the economy dropped; imports of manufactured goods increased; exports of manufactured goods increased too; the USA balance of trade in manufactured goods worsened but not enough to account for job declines in manufacturing; some countries with large trade surpluses in manufacturing saw larger declines in manufacturing employment than countries with manufacturing trade deficits (Lawrence October 7, 2020).

How can we reconcile these apparently contradictory trends? The empirical facts are consistent with a theory that growth rates of output are higher in manufacturing so that job

displacement, trade increases and productivity increases occur at the same time. As productivity increases, countries produce more output with fewer workers. As prices fall, manufacturing exports increase at the same time that employment declines in the manufacturing sector. Since this seems to hold for countries over time or pooled together in a cross-sectional analysis, we are tempted to call this inverted-U pattern an empirical law.

*Consumption.* The propensity to consume at the margins shifts to services at higher levels of income. This is true of almost all advanced capitalist societies. As incomes increase over time, people spend more on services than on goods. Whether this pattern derives from a natural hierarchy of needs or satiety levels that kick in more quickly for goods than for services is difficult to answer purely on theoretical grounds. However, we can easily observe that wealthier people spend relatively more on things like child care, health care, vacation cruises and dining at restaurants, compared to food, television sets, cars and furniture. [Krugman and Lawrence \(2008\)](#) argue that the movement to services has been strong and persistent. In 1970, the USA consumer ([Krugman and Lawrence, 2008](#), p. 3) spent 46% of their income on manufactured goods and 54% on services and construction. In 2025, the figures were 69% for services and construction and 31% for goods, both manufactures and food goods.

The decline of manufacturing jobs and the rise of the service sector are parts of the same process, especially in advanced economies where employment in agriculture declines rapidly in the early stages of development. With agricultural productivity being high and employment low, most of the action is within manufacturing and services. Since we are interested in shares of jobs in the economy, gains (or losses) for one logically imply losses (or gains) for the other. Behind these associations there lies a theory of development in which countries change in phases. In the first phase, countries increase agricultural productivity resulting in the shedding of farm workers and the increase of workers in manufacturing and services. In the second phase, there is continued growth of the manufacturing sector, but the strongest growth is in services. The rise of the service sector happens quickly. In contrast to the three-phase process of agriculture first, followed by manufacturing and then services, growth in the service sector is triggered early as part of the manufacturing spurt.

How does this process unfold and how general is it? The surprising answer to this question is that the growth of services and decline of manufactures – again as shares of jobs in the economy, not as shares of output – are powerful and robust across nearly all countries. The rise in service employment is related to differential productivity rates in agriculture, manufacturing and services. Demand for food is not as elastic as in other sectors, since the floor of consumption is set by biological factors and “ceiling effects” for food come into play sooner. While consumption may increase for all kinds of goods, it increases more for services. However, if “. . . the increased demand for agricultural products . . . [is] insufficient to offset the decline in labor required to produce it, . . . employment in agriculture will fall” ([Lawrence, 2024](#), p. 26). By the same reasoning, if manufacturing productivity growth is higher than service sector growth, manufacturing shares of employment will fall and service will increase.

While prices may explain part of the changing demand for manufactured goods vs services, there is still a residual that may be related to the way preferences change in relation to other economic variables. Take the proposition that as incomes rise, there will be a decrease in demand for food goods. Engel’s law stated that as incomes rise, the income elasticity of demand for food decreases ([Lawrence, 2024](#), p. 23). This argument provides an alternative interpretation to one based solely on changing relative prices since the predictions hold regardless of price changes. The argument is based on changing incomes rather than changing prices.

The lesson we draw from changing productivity rates is that jobs are inversely related to productivity, and other things are equal. The lesson we draw from the elasticity perspective is that consumption preferences change in relation to income, even when price movements are taken into account. In either case, trade is only a small part of the picture ([Krugman and Lawrence, 2008](#), p. 3). The agricultural sector has the fewest job shares, followed by manufacturing and services. The decline of manufacturing jobs is robust over time and across

countries. The pattern remains true regardless of whether countries are manufacturing surplus or manufacturing deficit countries.

The last two sections, on the importance of changing productivity and changing consumption of services, provide an interpretation of the “loss” of manufacturing jobs grounded in economic theory and in the empirics of advanced capitalist societies. The reason I have spent time in the elaboration of these arguments is that if they are true, as I hope I have demonstrated, tariffs will have little to no effect on the “return” of manufacturing jobs to the USA or anywhere else. The dwindling of manufacturing jobs in the USA is a natural part of a process of economic development involving greater relative increases in productivity in the manufacturing sector and to a lesser extent greater elasticities of demand for consumption of services over long periods of time.

### **Global production chains, economic nationalism and bringing back jobs**

What happens when economic nationalism runs up against global production chains? We live in a world where there is a single global economy but almost 200 sovereign, territorially organized nation states. In short, the world is politically decentralized in terms of authority structures but economically global. Economic nationalism puts the state and the national economy at the center, but these same national economies are constrained by the economic structures of the world economy, as the metaphor of the “golden straightjacket” shows. The sovereignty of nation states, their legal right to make decisions valid within the territorial confines of the state, can be misleading since legal sovereignty does not negate the realities of the world market. When state sovereignty runs headlong into these realities, as it does in the case of the dependence of many countries on the delivery of oil from outside their borders, conflicts can lead to war, as is the case today with the war between the USA and Iran.

The language of international politics is still state-centric. “States impose tariffs on other states. National economies engage in sharp-edged competition with other national economies to acquire larger (national) shares of output, jobs and profits.” Gains (and losses) from trade are calculated for the most part on a national basis, an accounting fiction that is made difficult by the complex value chains that cross national lines [4]. The China shock involved USA corporations closing down manufacturing plants located geographically within the USA, the export of capital from these industries to non-USA locations, the utilization of inputs (labor and capital) from other countries and the integration of these activities into complex production chains whose goods and services compete on world markets. The real world requires a disaggregated approach in which numerous actors compete in value-added production processes, sub-contracting and transfer pricing.

Many scholars have already adapted to the paradigm that recognizes the global rather than an international paradigm. [Moran and Oldenski \(2016\)](#) base their analysis on a framework, which takes these complexities into account, while still allowing for assessment of national priorities. The authors note that 80% of all trade takes place within multinational corporation (MNC) networks or within supply and/or exchange networks created by multinationals (2016, p. 2).

There are several consequences of recognizing the importance of global value chains. The first is that tariffs in general and bilateral tariffs in particular will be inefficient. They will be “bilateral solutions for a multilateral world.” Tariffs will be ineffective because most USA imports are from USA subsidiaries abroad or foreign subsidiaries within the borders of the USA. Many USA industries use foreign imports as inputs in the production of goods, which are then sold abroad. The OECD has developed a database for industries that use foreign inputs to produce goods for export ([Moran and Oldenski, 2016](#), p. 2).

Bilateral tariffs in particular will be difficult to enforce. In a world with many possible trading partners and convergent prices, shifting among trade partners becomes relatively easy. If USA tariffs against China are high, it encourages China to search for other trade partners. The closer the prices are, the lower the opportunity cost that arises from switching partners.

Exporting and reexporting are also possible. China can export to countries that have lower tariffs on them and re-export their goods from the new location to the desired end point. Instead of exporting directly to the USA, China could export goods to Mexico for reexport to the USA. Soybean exports from the USA to China have decreased due to retaliatory tariffs (by China in 2025), making USA beans too expensive. As a result, China shifted to Argentina and Brazil as suppliers, leaving USA producers with a glut of soybeans ([Farm Bureau, Market Intel, October 22, 2025](#), accessed on 4/8/2026).

A second consequence is that taxes on the exports of USA subsidiaries abroad will not bring jobs back home. Both presidents, Biden and Trump, made campaign statements that tariffing USA corporations that outsource production will bring back jobs. This is unlikely. Moran and Oldenski argue that such tariffs are more likely to disrupt supply chains and destroy good paying jobs for USA citizens living or not living on USA soil. We often forget that there are USA manufacturing jobs that are due to foreign firms in the USA. Moran and Oldenski estimate that one of five manufacturing jobs in the USA is due to employment by foreign corporations (2016, p. 5).

Some analysts suggest worker retraining and adjustment assistance to encourage workers to move to areas of the economy that are growing. However, this may run into problems from decreasing labor mobility. Labor mobility is decreasing due to aging of the workforce, convergence of incomes across state lines and increasing equality of incomes for men and women. As is often the case in politics, multiple objectives collide and tradeoffs are unavoidable.

A third consequence is that reshoring will be problematic and costly. Reshoring on a large scale is unlikely. The same reasons that attracted domestic capital to go abroad in search of cheaper ways to produce will persuade corporations to stay put. A rational decision-maker will take into account present and future income streams due to investment costs and will ignore water under the bridge. However, the reasons for movement abroad, e.g. cheap labor costs, proximity to markets, often still persist. This is certainly true for cheap labor and a large Chinese market ([Bremmer, 2022](#)). A survey carried out by the US Chamber of Commerce in China found that only 3% of USA businesses in China intended to reshore production in the USA and 60% intended to increase investment in China ([Bremmer, 2022](#), p. 7).

### **Are there better ways to address the issues of Chinese competition, jobs and trade deficits?**

China has exported its domestic difficulties (or imbalances) onto other countries, partly through its Belt and Road Initiative, a program that offers in excess of \$1 trillion for investment and infrastructure projects to create a China-centric economic order in Central, South and Southeast Asia ([Beckley, 2018](#), p. 109). China's high rate of savings and low consumption on the part of its own working class, have necessitated high levels of exports just as the high level of consumption and low savings of the USA necessitate imports. China's size and external projection of domestic policies have created a web of dependencies that provide a structural basis for influence around the world ([Caporaso, 2024](#)).

Underhill criticizes tariffs against China not because they violate liberal arguments about free markets and gains from trade but because they are inefficient and they hurt the imposing as well as the target country ([Underhill, 2026](#), p. 34). He identifies a leverage point for countries wishing to influence China. China's export orientation still relies on inward investment to support its trade strategy ([Underhill, 2026](#), pp. 34–36). His overall suggestion is to shift from a trade strategy to a capital strategy, i.e. to cut back on investments and capital flows to China as a way to reduce their capacity to subsidize the export sector. Since the USA enjoys a relative advantage in capital more than goods (or services), it makes sense to exploit this tool.

This suggestion may fit well with the transition from private corporations to state-owned enterprises (SOEs) chronicled by Nicholas Lardy in his two books, *Markets Over Mao* (2014) and *The State Strikes Back* (2019). China's early move to privatization and world market

integration (1978 and after) led by Deng Xiaoping was later (2013) reversed by Xi Jinping to emphasize SOEs. However, the SOEs were not as productive as private firms, which cut into China's capacity to save and invest. They continue to be a high saving country, but the tradeoffs are steeper.

The economic rivalry between the USA and China has to take into account that China is a major power, economically as well as militarily. As Beckley argues, China is big but inefficient. It has relied heavily on expansion of factor inputs (labor and physical capital) for growth and until recently has neglected the potential of human capital (Beckley, 2018, pp. 34–42). Yet, most of the world's wealth is locked up in skilled labor or knowledge intensive production capacity (Beckley, 2018, pp. 34–35). China is well behind the advanced capitalist countries on this score. China invests heavily in physical capital and relatively less in human capital, as measured by expenditures on education and/or GDP, new patents and university education.

It is possible to recognize Chinese foreign economic policy as disruptive without relying on tariffs as the cudgel. Tariffs are blunt instruments both with regard to countries and sectors. The first step is to take a disaggregated approach and to recognize that much of the problem from the USA perspective is China and not the other 165 members of the WTO. Thus, the 10% tariff on other countries makes no sense, especially when combined with additional tariffs on steel, aluminum and autos. On sectoral grounds, the tariffs don't distinguish between upstream and downstream sectors, ignoring the fact that trade is organized into complex production chains. A tariff on a natural resource or unprocessed steel would hurt workers in downstream industries. As Beckley shows, the imposition of a tariff on "Chinese steel might help the 147,000 Americans who have jobs in steel but hurt the 6.5 million who work in industries who use steel as inputs" (Beckley, 2018, p. 152).

Second, one can recognize that China's behavior is problematic from the standpoint of intellectual property rights, high technology exports and dual-use technologies, areas where the USA has had legitimate grievances with China. As such, the responses of the USA and others should focus on these problems and not on penalizing all aspects of China's economy. The point is not to punish China but to create a more level playing field for all countries. China has a poor record of enforcing intellectual property rights, and the USA would probably have many Allies if it focused on this issue [5].

Third, as part of the broader response of the international community, countries should encourage China to move away from the model of high-savings export orientation. While this model produces high levels of growth and trade surpluses, it comes with the costs of squeezing China's own workers and reducing consumption among the middle and lower classes. The domestic face of China's growth model is low wages for workers, and the foreign face is persistent trade surpluses. Klein and Pettis (2020, p. 111) report that as of 2020, Chinese households consumed less than 40% of Chinese output, the lowest of any major economy in the world. Part of the way China did this was through financial repression (Klein and Pettis, 2020, p. 112), keeping rates of financial returns low (banks), limiting access to domestic stocks and controlling access to foreign stocks.

China's trade surplus is the real problem (Prasad, 2026, pp. 21–22), and this, in turn, is based on a very high rate of domestic savings. China should be encouraged to increase expenditures on wages or health care and to lower taxes on consumption. Though this would be seen as interfering in China's domestic politics, it would be doing a favor to Chinese workers, consumers and the elderly in need of health care.

## Conclusion

The main conclusions of this study are that USA tariffs are not likely to achieve their main objectives. They have little to no chance of repatriating manufacturing jobs in the USA. The decline of manufacturing jobs in the USA and elsewhere is due to long-term structural forces having to do with relative productivity of manufacturing and changing consumption patterns.

Related, advanced post-industrial societies are characterized by changing consumption patterns in favor of services and away (relatively) from goods. This implies that manufacturing jobs will decline as a share of all jobs. The second objective of Trump's tariffs is to correct the balance of trade deficits. However, rebalancing is unlikely to occur via the tariff mechanism. It may happen that trade can be rebalanced with specific trade partners, but a reduction of deficits with one country is likely to show up elsewhere in the current account. Overall (not bilateral) trade balances are driven by macroeconomic factors such as savings, consumption and investments. The USA deficits reflect a low rate of savings just as China's surpluses reflect its high rate of savings and low consumption.

Despite these trends and despite severe trade conflicts, it is doubtful that China and the USA will decouple. The interdependencies are great, comparative cost differences are high, relative factor endowments are very different and change slowly (think of the stock of labor and human capital) and MNCs and integrated production chains have brought the respective markets closer together. If we think of the gravity model of trade as the base case, China and the USA will continue to have strong, if strained, economic relations. Perhaps greater global fragmentation will result, as [Bremmer \(2022\)](#) argues, but it is not likely that we are entering a new period of autarky similar to the inter-war period.

The tariffs have already caused significant economic damages and not only to the USA and China. The damage to growth prospects has been serious at the global level, though much less so for larger entities like the USA and the EU. Countries in Asia and Africa with close ties to China and the USA are being forced to seek new alliances and to diversify regionally. The rules-based WTO with its presumption of multilateral solutions is being replaced by bilateralism and power-based negotiations often on a country-specific basis. This entails an enormous acceleration of transaction costs. This new framework is obviously more detrimental to smaller and weaker countries, who have more concentrated relations in terms of partners and commodities. More serious damage has been done to the trust and stability of economic relations across the globe.

Take the EU as an example of a trade bloc. The EU is composed of 27 countries, and its most outstanding achievements are an integrated market, a single currency for 21 countries and a common commercial bloc. This trade bloc together with the USA constitutes 30% of global trade. When Trump instituted his tariffs in April 2025, the trade commissioner Maros Sefcovic threatened even higher tariffs. The EU blamed Trump for violating previous trade deals and prepared countermeasures to avoid a full-scale trade war.

I conclude by suggesting that many countries, not just the USA, have legitimate trade grievances with China. However, the Trump tariffs cast the net too wide by targeting many countries and sectors and by undermining the post-war economic order. A good case can be made for targeting specific countries and specific issues. The USA should forget the overall balance of trade deficits and focus on areas where there are legitimate concerns, e.g. enforcing USA patents, respect for intellectual property laws, controlling exports in dual use technology and regulating more carefully the exports of chips from the USA and Taiwan. Lastly, it should focus on the root causes of the USA–China trade conflict, which are largely the outcome of domestic macroeconomic policies that set them inevitably on the road to conflict.

## Notes

1. One example is provided by textiles and apparel, which employed a lot of voters during the sixties and seventies but was economically marginal in the sense that goods produced in these industries could be imported more cheaply from other countries.
2. In an earlier article in *International Trade, Politics and Development* (2024), I argued that USA–China trade imbalances were reflections of their respective domestic macroeconomic policies.
3. I emphasize that we are talking about output at pre-crisis levels – not “expected output”, which would take growth into account.

4. In 1990, Robert Reich wrote an article for the *Harvard Business Review* titled “Who is Us?” He raised the question does the “us” refer to all those working within the territorial borders of the USA or to USA corporate entities and USA citizens working anywhere in the world?
5. The USA won all cases where there were USA–China conflicts and where these conflicts were adjudicated in the WTO, up to 2021 (Mavroidis and Sapir, 2021, p. 52).

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### Corresponding author

Caporaso James can be contacted at: [caporaso@uw.edu](mailto:caporaso@uw.edu)