

## Foreign Affairs

### **Tell Me How This Trade War Ends The Right Way to Build a New Global Economic Order**

**By Emily Kilcrease and Geoffrey Gertz**

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On April 2, a day he dubbed “Liberation Day,” President Donald Trump stood in the White House Rose Garden and announced a sweeping new program of tariffs intended to rebalance U.S. trade. Trump’s tariff rates were shockingly high, triggering a stock market selloff and a flight away from U.S. assets, rare rebukes from some Republicans in Congress, and diplomatic outrage around the world. After a week of mounting backlash, the president announced a 90-day pause on most of the country-specific tariffs, leading foreign counterparts to scramble for deals that would allow them to escape the levies before the clock ran out. U.S. court rulings questioning the legality of the president’s tariffs have added further uncertainty.

The Trump administration’s trade policy chaos has already caused harm, slowing growth, raising prices, and sparking dire predictions about the fate of the world economy. Yet there is a kernel of truth in the president’s insistence that the international trade system needs a reset. Distrust of free trade has been rising in both political parties in the [United States](#). Governments around the world are more and more willing to intervene in their economies to safeguard national interests. The U.S.-led global trading order, constructed over eight decades following World War II, has frayed.

What comes next is uncertain. But there is no going back to a time when the United States championed ever freer trade. Although many of the targets of Trump’s tariffs, including businesses and foreign states, may pine for such a world, structural geopolitical changes have made it untenable. Instead of trying to turn back time, these actors should push the administration to usher in the needed transformation of the global trading order.

Disruptive tariffs, then, can create an opportunity. And despite the president’s erratic behavior, the United States retains deep-rooted structural advantages that give it the power to lead a new trade effort. Many countries are dependent on the U.S. market, and few see [China](#) as a viable alternative. Most major economies will seek accommodation with the United States, even after being beaten up by heavy U.S. tariffs. Washington can therefore leverage its trade wars to achieve a productive restructuring of the international economic system.

To do so, however, the [Trump administration](#) must look beyond securing simple, short-term wins—such as one-off purchase agreements of U.S. commodities or temporary

tariff truces—and cease bullying the United States’ trade partners. It must instead build a new set of rules and norms that facilitate integration among like-minded states and that disentangle them from adversarial ones, especially China. A better path is possible, one that leads to gains for the United States and its allies. But they need to leverage the current chaos, rather than letting it consume them.

## **ORDER OVER CHAOS**

In the aftermath of [World War II](#), the United States led a process to create a set of economic rules that promoted an open, multilateral trading order. The country struck bilateral and multilateral free trade and investment deals. It set up institutions to help govern commerce, such as the General Agreement on Tariffs and Trade and, later, the World Trade Organization. These bodies and rules provided economic and political stability, encouraged trade and investment flows, and offered trading partners reliable, peaceful, legal mechanisms to resolve their disputes. The resulting system, which favored openness and integration, was well suited to a geopolitical era marked by American hegemony. Washington viewed the rules-based economic order as vital to its own prosperity and strategic interests, and it had every reason to uphold it.

But the United States is no longer the sole superpower. As of last year, China is the world’s largest trading nation in terms of goods, having clawed its way up by diverging from market principles and creating enormous friction in the global economic order. Many countries, including the United States, practice industrial policy, but China’s systemic abuse of the open trading system is in a category by itself. And Beijing has used its economic growth to enhance its military power and expand its territorial ambitions in the Indo-Pacific, raising concerns in Washington and other governments. Meanwhile, new shocks and crises, such as the COVID-19 pandemic, have highlighted vulnerabilities associated with deep economic interdependence. Rather than a unipolar order premised on U.S. leadership, the global economic landscape is now characterized by emerging alternative power centers and, for many countries, a privileging of security concerns over economic efficiencies. If a rules-based economic order is to persist, governments will need to adapt the rules to meet today’s strategic interests.

At its core, the current trading system prioritizes nondiscrimination and the “most favored nation” principle that trading partners should treat each other alike. But economic and national security concerns differ by trading partner: trade with close allies can strengthen a country’s security, while trade with adversaries can make it more vulnerable. It thus makes little sense to require countries to treat all trade partners as “most favored.” The trading system allows members to break with this universalist ethos on national security grounds, but it provides little guidance on what conditions must be met to take advantage of this exception. In the past, this mattered little as states acted with a presumption of openness and minimal restrictions. But over the last decade,

increasing geopolitical competition has compelled more and more countries to impose export controls, sanctions, and other economic restrictions on trading partners. Such recurring deviations from the rules, even when justified, have bred disorder and uncertainty.

Against this backdrop, Trump has turned the United States into a revisionist power seeking to shatter what remains of the economic order. Thus far, his approach has been needlessly chaotic. But there is still an opportunity to wrest a positive outcome from the current tumult. The president's willingness to take bold action has set in motion ambitious trade negotiations, which normally proceed at a snail's pace. And there is reason to think they could yield favorable results for the United States and its allies. There is truth in Trump's insistence that the trade system needs a reset.

In March, the Center for a New American Security ran a simulation of a trade war to examine how foreign governments might respond to sharply increased U.S. tariffs. Participants included experienced trade negotiators from the United States and several foreign capitals, as well as regional experts and security analysts. In the trade war simulation, the team representing the United States introduced expansive levies on all major trading partners but remained open to negotiating alternative arrangements. Teams playing the roles of foreign governments had to choose to negotiate with or retaliate against the United States. The simulation was designed to create complex and hostile negotiating conditions, including U.S. provocations on nontrade issues, such as the status of Greenland and the sovereignty of Canada. But by the end of the game, the U.S. team had unexpectedly succeeded in laying the foundation for a highly integrated democratic trading bloc that shut out China.

This process was hardly seamless. Teams representing traditional U.S. trade partners such as Canada, Mexico, and Europe bristled at Washington's bullying. But even as they recognized that the United States might not be a reliable partner, they concluded that they needed to work with American officials to mitigate the tariffs' damage. A trade war version of the classic prisoner's dilemma played out: country teams recognized the value of coordinating to form a coalition to counter the United States, but each still prioritized its own access to the American market. Most country teams tried to sprint to the front of the line to negotiate with Washington.

In the game, the Chinese team's attempted charm offensive mostly fell flat. As long as the U.S. team signaled an openness to dealmaking, the players representing major advanced economies did not view deepening economic integration with China as a sensible option. In fact, many agreed to align with the U.S. team on counter-China measures. In the real world, Beijing is working hard to take advantage of Washington's plunging global standing, courting foreign governments with a message that China, not the United States, is the reliable partner committed to the rules-based trading system.

But to date, that message hasn't stuck. Rather than pursuing deeper integration with China, many countries are scrambling to ensure that the incipient trade war does not bring a flood of cheap Chinese exports into their markets.

The insights from the trade war simulation show how American policymakers might salvage Trump's tariff chaos. But real-life success is far from guaranteed. Multiple contingencies could propel the world trading system in a different direction. Foreign governments, for example, might face intense domestic political pressure to push back against the United States. Even in the absence of popular outrage, U.S. provocations on nontrade issues could tank any talks. To achieve a positive outcome, Trump will have to prioritize good-faith trade negotiations and tamp down the more chaotic aspects of his trade policy, such as imposing tariffs so extreme that he is forced to roll them back once it becomes painfully obvious that they are unsustainable.

## **A DURABLE RESET?**

If the Trump administration hopes to salvage a victory from its trade wars, Washington must use tariffs as leverage in pursuit of clear and achievable trade objectives rather than as a blunt tool wielded in pursuit of myriad and mutually incompatible ones. The administration has offered an array of rationales for the tariffs: that they will reindustrialize the United States, raise revenue for the U.S. government, lower trade deficits, and induce other countries to take actions that benefit the United States. Targeted tariffs could help the administration realize some of these objectives, but not all of them, and certainly not all of them at once. The administration was always going to have to prioritize its aims; the sooner it does so, the better.

Perhaps the biggest challenge for the administration is to establish credibility that it will honor any future commitments. After all the chaos Trump has unleashed, foreign governments rightfully worry that a U.S. promise to lift tariffs today will not protect them tomorrow. Trump's trade wars with Canada and Mexico highlight this point acutely, as the president's tariffs violate the rules that he himself negotiated in his first term under the 2020 U.S.-Mexico-Canada Agreement.

There is no simple solution to the credibility problem. The Trump administration came to power determined to demonstrate that it would be a disruptive force not bound by existing norms, and it has done just that. The president's early moves to impose tariffs primarily relied on emergency powers, since these allow for speedy action unencumbered by routine democratic processes (such as soliciting public comment on the potential impact of his policies). This erratic approach has already led to outcomes that are plainly ridiculous, such as the administration's punitive tariffs on the Heard and McDonald Islands, which are inhabited largely by penguins. Actions that were meant to seem aggressive have instead come off as uninformed and unsustainable.

But the Trump administration can still improve U.S. credibility, if not rescue it entirely, by bringing more order and predictability into the trade policymaking process. Trade policy, after all, does not need to be this chaotic. The president has a variety of legal avenues to pursue his objectives. The administration could use instruments such as Section 301 of the Trade Act of 1974, which addresses unfair trade practices, and Section 232 of the Trade Expansion Act, which allows the United States to impose tariffs or take other remedial actions on national security grounds. These mechanisms require fact-based investigations by the administration and input from the public, which are at odds with Trump's unilateral style. But they give the government a chance to uncover and address unintended consequences. The slow and steady pace of these trade tools also affords the private sector time to prepare and adjust rather than throw their supply chains into disarray overnight.

Washington must also clarify what it expects of allies. At present, the United States' trading partners don't even know what they can do to secure tariff relief. Foreign governments leave meetings with the Trump administration confused about the American president's endgame. Trump may believe that keeping trade partners on their toes is a smart negotiating strategy. But in reality, the administration's opacity stands in its own way. A durable reset of the trading system is possible, but only if the administration views allies as part of the solution rather than part of the problem.

Trump has demonstrated little interest in adopting a more deliberate, methodical approach to negotiations or to recalibrating his means to meet more achievable ends. But the chaos unleashed by his trade policies is already bumping up against external constraints. Such backlash could nudge the administration toward a more moderate path. The U.S. courts, for example, are weighing in on the administration's actions. Congress, too, may opt to rein in some of the executive's tariff authorities. American consumers are souring on the president's tariff obsession and anticipating higher inflation. And if government bond holders panic again, as they did in April, Trump may once more be forced to announce a tariff pause.

The Trump administration would be wise to get ahead of these mounting external pressures by adopting a more predictable approach. Continually rejiggering the tariffs signals incoherence, perhaps even weakness, to allies and adversaries alike. Meanwhile, many trade partners, having witnessed the whims of Trump's on-again-off-again approach, may now believe they should simply wait out the president rather than come to the table with substantive offers.

## **A NEW ARCHITECTURE**

Even if Trump could be convinced to implement a more deliberate strategy in the trade

wars, the question remains—to what end? At present, the administration appears focused on negotiating shallow “framework agreements,” which provide some partial relief from tariffs in return for modest trade concessions and purchase agreements but gesture only vaguely at possible future cooperation. If the trade wars end in a series of such deals, the United States will merely paper over the flaws in the existing trading system while burning valuable leverage.

There is an alternative, even more worrisome path the trade wars could take. After tearing up the existing global trade rules, the United States could advance a more nakedly transactional approach in its international economic relations, eschewing any rules or shared norms that might constrain U.S. action. As the world’s largest economy turns inward and adopts beggar-thy-neighbor policies, other countries would respond in kind, adopting regressive protectionist policies, as happened during the Great Depression. In such a scenario, disorder would prevail.

Yet a third path is also possible. Having used tariffs to shake trading partners out of their complacency, the United States can work with these countries to negotiate a reset of the trading system—one that preserves many of the advantages of the old system while rectifying its shortcomings. The starting point should be relaxing the principle of nondiscrimination and accepting that trade policy will differentiate among trade partners and allow democracies to favor one another. Indeed, this would simply reflect the fact that the United States already treats China, its principal geopolitical adversary, differently from other trading partners.

The United States should continue to trade with China in low-end manufacturing, agriculture, and a handful of other areas. But in more strategic sectors, such as chips and pharmaceuticals, Trump should prioritize “de-risking” from China, as he did in his first term. The administration should maintain targeted tariffs that would allow the United States to build capacity in these critical industries. Additionally, Washington should make significant investments in domestic manufacturing and research and design, coordinating with other major economies wherever possible.

There is an opportunity to wrest a positive outcome from the current tumult. Should China and the United States partially decouple, Americans could feel some economic pain. To offset the loss in trade, Washington will have to deepen economic integration with like-minded partners and allies. Doing so will help the United States and its partners replace what has been lost and scale up production in sectors essential to a strong defense, technology, and innovation base—which will be required for long-term competition with China. To that end, they should coordinate their use of export controls, investment screening, and data security measures. They will also need to address China’s overcapacity and unfair trade practices in key industries, such as steel and aluminum. These steps will help build shared expectations about when trade and investment

restrictions are legitimate for national security concerns, fostering predictability and stability in the new economic security order.

Ultimately, Trump should aim for a future order made up of the following concentric circles: deep economic and security integration for close allies and partners; predictable, rules-based exchange among most countries; and careful de-risking from competitors. Such an order would provide a more stable framework for the world as it is. To realize that order, Washington should seek to establish legally binding commitments with its close partners that provide the clarity, consistency, and credibility that businesses and governments require. The 90-day framework agreements the Trump administration has been negotiating should be exactly that: frameworks for more concrete rules to be hammered out in the months ahead. If the framework agreements are instead treated as ends in themselves, without any ambitious follow-through, the tariff pain will not be worth the very modest resulting benefits.

The United States' trading partners correctly fear that Trump is breaking an economic order that cannot be rebuilt, and their near-term objective is tariff relief. But they must also look further ahead. They must see this as an opportunity to work alongside the United States in building a new architecture that addresses their shared challenges. Whether they like it or not, geopolitics has shifted in ways that make the previous rules-based order unsustainable. Trump's shock to the system may not be pretty. But it could open the way for a much better system.

*Emily Kilcrease is a Senior Fellow and Director of the Energy, Economics, and Security Program at the Center for a New American Security. From 2019 to 2021, first in the Trump administration and then in the Biden administration, she was Deputy Assistant U.S. Trade Representative for Investment.*

*Geoffrey Gertz is a Senior Fellow in the Energy, Economics, and Security Program at the Center for a New American Security. From 2022 to 2023, he was Director for International Economics on the U.S. National Security Council.*