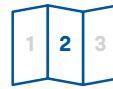




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Everything on the Table

US security and trade policy under Trump 2.0

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Making Sense of Trump's Trade Policy

This policy brief examines the logic, objectives, and implications of U.S. trade policy under the second Trump administration. It argues that, despite its apparent volatility, Trump's trade policy reflects a coherent set of economic and geopolitical goals that mark a sharp break from the post-war rules-based trading order. Tariffs are central to this approach and are used simultaneously as a source of government revenue, a tool to promote reindustrialisation and onshoring, and an instrument of geopolitical competition, particularly vis-à-vis China.

Rather than seeking to reform or uphold multilateral trade rules, the administration favours a system of bilateral, transactional agreements focused on concrete outcomes such as investment commitments, production location, and supply chain control. The brief also highlights Trump's growing use of tariffs as a substitute for sanctions in pursuit of non-trade geopolitical objectives.

While the durability of this model remains uncertain, the analysis suggests that a return to the pre-Trump global trade regime is unlikely. Instead, U.S. trade policy is moving toward a more fragmented, outcome-driven, and politicised trading order with lasting implications for allies and the global economy.

Since his inauguration in January 2025, President Trump has pursued the most dramatic shift in U.S. trade policy since the U.S., U.K. and major European countries established the Bretton Woods system in the aftermath of the Second World War. Using a mix of U.S. legal tools, Trump has hiked U.S. tariff rates to the highest level since the aftermath of WWII and used the leverage of even higher rates to bludgeon U.S. trade partners, including the European Union, to grudgingly accept U.S.

tariff rates that are both much higher than they had been prior to 2025 and significantly higher than the tariff rates trade partners impose on U.S. products. Trump is also increasingly using the leverage of tariffs to strike deals that his administration assesses will foster increased investment in the U.S. These include deals with countries such as Japan as well as with individual countries such as electronics manufacturer Apple and pharmaceutical company Pfizer, which have committed to making U.S. investments in exchange for company-specific tariff relief. Trump has also used tariffs for geopolitical goals unrelated to trade, in many ways deploying tariffs in a manner

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in which previous U.S. Presidents have deployed sanctions. In late July, he issued an Executive Order imposing new tariffs on Brazil over alleged Brazilian attacks on free speech rights and over the alleged “persecution” of former Brazilian President Jair Bolsonaro.

Trump has frequently pursued his trade policy impulsively, threatening crippling tariffs before quickly backing off, as he did in October 2025 when he renewed his threat of 100% tariffs on China before appearing to pivot to seek a de-escalatory negotiated *détente* with Beijing. The repeated threats and on-again, off-again nature of Trump’s tariffs has been undeniably chaotic and has certainly spooked both markets and U.S. trade partners. But beneath the headline chaos, a logic is emerging to Trump’s trade policy. It is a trade policy at odds with many of the policy objectives that the U.S. pursued between the end of World War II and the late 2010s, and is also at odds with the views of many economists and U.S. foreign policy professionals. It is, however, a trade policy that reflects a set of U.S. economic and geopolitical objectives as well as Trump’s own, often idiosyncratic worldview. In short, Trump is seeking a trade policy defined by his objectives of raising revenue; onshoring U.S. manufacturing and, to some degree, balancing the U.S. trade deficit; and strengthening America’s competitive position vis-à-vis China. Trump is also pursuing a fundamentally different vision for how the global trading system should be governed, rejecting the idea of a global system of trade rules in favor of a set of bilateral contracts in which the U.S. and its trading partners agree to specific terms to govern bilateral trade.

The Objectives of Trump’s Trade Policy

Understanding the way in which Trump is using tariffs for U.S. trade policy first requires understanding his trade policy objectives. These are conceptually distinct from Trump’s use of tariffs for geopolitical purposes, which will be considered in a separate section below.

The fact that the U.S. is pursuing different objectives in its trade policy should not, in and of itself, be a surprise: U.S. trade policy objectives have long reflected a combination of domestic economic and geopolitical policy preferences, and have periodically shifted in response to changes in America’s underlying economic and geopolitical situation.

Take the GATT-dominated trading order that the U.S. helped build after the Second World War. From an economic perspective, the U.S. came out of WWII with a large surplus of manufacturing capacity and sought to open foreign markets to U.S. manufactured products. From a geopolitical perspective, the U.S. wanted to strengthen alliances during the Cold War. The GATT served both these objectives: lowering tariff and non-tariff barriers to U.S. manufactured goods and commodities while encouraging trade among western Allies, and, later, a handful of Eastern Block countries during the *détente* period.

By the late 1980s and early 1990s, changes to both the U.S. economy and to the global geopolitical picture resulted in a shift in U.S. trade policy preferences. By the 1980s, America’s economy had shifted to be services-oriented, with the services share of GDP nearly 2.5 times as large as the manufacturing share of GDP. IP had become essential to the bottom lines of drug companies, movie studios, and other IP-intensive industries. The 1980s saw the consolidation of *laissez-faire* economics in Washington policy circles. Meanwhile, the geopolitical situation shifted with the end of the Cold War: instead of trade defined by geopolitical blocks, U.S. and other Western policymakers held out hope that a freer trade regime would not only encourage growth but would encourage economic and political liberalization in former Eastern Block countries and in China. This confluence of economic and geopolitical factors drove U.S. support for the Uruguay Round and the creation of the WTO (World Trade Organization) as a new global trading order in the 1990s.

Today, however, U.S. economic policy preferences have again shifted, as has the global geopolitical landscape. From an economic perspective, not only President Trump, but policymakers across the U.S. political spectrum have become relatively less focused on U.S. aggregate GDP growth and, to some extent, on consumer costs, and relatively more focused on the long-term stagnation of middle-class incomes and the social harms that arise when communities lose major economic drivers such as factories. (Even if, in recent years, middle income wages have risen). U.S. policymakers have embraced industrial policy to an extent not seen since at least the 1960s, including President Biden's large subsidies for green energy manufacturing and bipartisan support to subsidize semiconductor manufacturing, shipbuilding, and other so-called strategic industries. A set of traditional trade rules designed to foster open markets and constrain government intervention in the economy is difficult to reconcile with these new domestic economic policy preferences.

President Trump has also embraced using tariffs as a source of revenue for the federal government that can be used to offset tax reductions elsewhere or to fund domestic policy priorities. Although tariffs have not played a significant role in the U.S. budget in recent decades, there is ample historical precedent for this: In the 18th and early 19th centuries, for example, tariffs comprised a large majority of U.S. government revenues. Today, U.S. budget officials estimate that Trump's tariffs may be able to raise \$3.3 trillion over a decade in federal revenues. While most U.S. economists view tariffs as a regressive tax that falls harder on lower and middle income Americans, that analysis does not alter Trump's support for tariffs as a source of tax revenue.

U.S. geopolitical preferences have shifted as well. China's emergence as a great power competitor to the U.S. is reshaping American geopolitical views of trade policy, away from views that sought to anchor China as a "responsible stakeholder" in a liberal international order as a way of encouraging

China to reform and open up and towards a more *realpolitik* view of China. In this view, trade policy cannot be expected to change China, and instead the objective of trade policy vis-à-vis China should be to limit China's ability to use its role in the global economy to exert geopolitical influence over the U.S. and its allies. Repeated spats between the U.S. and Beijing over China's dominant position in processing a variety of critical minerals have only reinforced Washington's consensus that, regardless of whether the U.S. retains significant trade with China in products like toys, garments, foodstuffs, and household goods, the U.S. cannot be dependent on China for critical products that play an important role in the U.S. industrial base.

Aligning Trump's Trade Policies Against These Objectives

Against a backdrop of economic policy preferences that seek to use tariffs for revenue, *onshoring*, and deficit reduction and geopolitical policy preferences that aim to reduce China's global economic clout, it becomes possible to align different Trump tariff and trade policies against different policy objectives.

First, the President's "universal" and "reciprocal tariffs," which have generally settled in the range of 15% to 20% for most major trading partners, serve principally as a source of revenue for the federal government. Many of America's most important industrial imports, such as cars, car parts, and semiconductors, are excluded from these tariffs because they are covered separately under the "Section 232" tariffs that affect particular sets of products. Moreover, trade framework agreements with the European Union commit to excluding from new tariffs a variety of key industrial inputs. For the goods that the 15%-20% tariffs do cover, including many foodstuffs, garments, and consumer and household goods, a 15%-20% rate is unlikely to drive much U.S. *onshoring*. Instead, U.S. consumers and U.S. companies will simply pay a majority of these tariffs as a tax somewhat akin to a sales tax of VAT.

Second, the President's Section 232 tariffs – the tariffs that cover specific products, such as automobiles and steel and aluminum – and the investment and purchase commitments that Trump has struck as part of his trade deals, support his goal of reindustrialization and blue-collar wage growth. Trump is not particularly concerned about whether these tariffs drive onshoring by providing domestic producers with a price advantage, or whether foreign producers strike deals in which they get a tariff waiver in exchange for committing to make manufacturing investments in the U.S. But these tariffs are designed principally to boost U.S. production.

Many Trump officials also see U.S. higher tariff rates and new foreign purchase commitments as a tool to close America's chronic trade deficit, although few economists expect that Trump's current strategy will succeed in that objective. If the U.S. trade deficit does not begin to close over the next 12-18 months, it will be interesting to see if the Trump Administration pursues additional measures as a future tool, as pressure to reduce the relative value of the dollar.

Third, the President is pursuing his goal of geopolitical pressure relative to China. He has imposed substantially the highest tariff rates on China, particularly counting his Term 1 tariffs. Even if Trump strikes a deal with Beijing in the coming months, the headline China rate, currently about 55% including his Term 1 and Term 2 tariffs (albeit the average applied rate is substantially lower, given that the U.S. has reduced imports of products subject to the highest headline rates), will almost certainly remain higher than most other countries.

Moreover, Trump is including so-called economic security provisions in some of his trade framework agreements. For example, in the summer of 2025 the E.U. committed to imposing new export controls on China as a condition for liberalized access to U.S. AI chips. The U.K. agreement includes commitments on investment screening. Other deals contain economic security provisions of their own.

A Different Approach to The Global Trade “Order”

In addition to pursuing different policy objectives, President Trump is pursuing a different approach to the ordering of the global trading system. Between the 1990s and 2010s, American policymakers, joined by policymakers in Europe and elsewhere, sought to develop a global system of rules that would govern trade, generally adopted via multilateral trading frameworks. The strategic concept was that a set of global rules would create a level playing field on which individual companies could compete and win, driving innovation and economic growth. Even during President Biden's administration, the strategic objective, as identified in multiple G7 Statements and other documents, was to ensure reform of the multilateral trading system while modernizing the “rulebook.”

President Trump rejects the concept of a rules-based trading order. Rather pursuing a modernized global system of trade rules, President Trump is pursuing a trading order defined by a set of contracts to regulate bilateral trade relationships.

The trade framework agreements that Trump has struck make no effort to impose coherent rules across America's trade relationships. Tariff rates, market access provisions, and purchase and investment commitments all vary by country. There are no coherent rules regarding subsidies, anti-corruption, currency issues, environmental provisions, or even labor rights, although several individual framework agreements reference environmental and labor issues. The Trump Administration has said that it will develop rules of origin for the deals, but it is unclear whether those will be coherent across different agreements.

Moreover, Trump has approached individual trade negotiations like complex real estate deals, not as negotiations to set global rules: Everything is negotiable. For example, Trump has said that Japan had “bought down” the U.S. tariff rate by committing to up-front investments in the U.S.

This Trumpian preference for contracts over rules reflects a deeper view that that U.S. should be more focused on trade outcomes than on trade rules. Trump is not particularly interested in rules that create a level playing field on which companies can compete and win. Indeed, Trump would likely say he wants a playing field tilted in America's favor. Instead of focusing on rules, he is focused on trade outcomes: Is the U.S. manufacturing the products he wants it to manufacture? Are blue collar wages in fact increasing? How many tariff dollars are in fact being deposited in the Treasury's vault? Is the U.S. in fact becoming less dependent on China for rare earths?

Will Trump's Trading Order Prove Durable?

It remains an open question whether Trump's policies towards tariffs and a new governing order for America's trading relationships will prove durable over time. While Trump remains deeply committed to his tariffs, polling suggests that they are broadly unpopular and several of the tariffs also face legal challenge in U.S. courts. Manufacturers, farmers, and other constituencies are raising objections to Trump's trade policies and consumer price impacts will increase in the coming months as importers pass on a larger share of tariff costs. While Trump has recently taken steps to reduce some of the most economically and politically painful aspects of his trade policy, those steps are unlikely to address the full unintended costs of his measures.

That said, it also appears unlikely that the U.S. will seek a return to the type of trade policies it pursued between the 1990s and Trump's first term. One of the lessons of the Biden Administration is that tariffs prove sticky: Although Biden had criticized Trump's Term 1 tariffs on the campaign trail, he ended up keeping most of them, and even expanded tariffs on China in 2024. This is not to say that a future President will keep all of Trump's tariffs, but the U.S. is far more likely to reduce tariffs on "non-strategic" consumer goods than it is to adopt an across-the-board elimination. Given bipartisan U.S. support for industrial policy and

a more active role for the government in the U.S. domestic economy, it is also difficult to see the U.S. re-embracing all of the substantive tenets of the trade policy it pursued between the 1990s and the 2010s.

That is not, however, to say that there is no room for trade deals. The deals that Trump has struck in recent months show that he is certainly willing to strike deals, and a future President is likely to continue that trend on terms of his (or her) own. These deals may well not be the type of comprehensive deals that defined past American preferences, but, as with Trump's deals, there will be room to cooperate on specific issues such as critical minerals and other key supply chains, collective actions against China, and headline tariff rates. There might also be more opportunity for both the U.S. and allies to integrate additional tools into trade talks: instead of focusing solely on tariff reductions and regulatory issues, governments could blend development finance tools and other instruments of policy into trade discussions. Trump, for example, recently included investment announcements by the U.S. Department of Defense and the U.S. Ex-Im Bank in an announcement with Australia for a deal to secure critical minerals supply chains.

These types of more limited and more transactional deals may not be what Washington's traditional allies would like. But as former U.S. Trade Representative Mike Froman has recently argued, the world is likely entering a "polyamorous" phase to the global trading order, in which countries develop multiple overlapping trade arrangements. The U.S.'s transactional approach will fit within that framework.

Tariffs as a Geopolitical Tool:

The final way in which President Trump has deployed tariffs has been as a geopolitical tool, conceptually similar to the way that his predecessors have used sanctions and embargoes going back to at least the First World War and the inter-war period of the 1920s and 1930s. So far, Trump has deployed tariffs as a geopolitical tool in at least three circumstances, and threatened geopolitical tariffs in several others.

First, in February of this year President Trump began imposing tariffs on Canada, Mexico, and China purportedly over their role in enabling America's fentanyl crisis. This use of tariffs in some respects resembled past U.S. sanctions against narco-trafficking groups, albeit it was directed at foreign governments, seeking to create leverage to encourage them to crack down on the fentanyl trade, rather than being directed specifically at drug trafficking organizations. Second, in July President Trump imposed 40% tariffs on Brazil, in addition to other U.S. tariffs, over Brazil's alleged interference in the free speech rights of U.S. technology platform companies and its purported persecution of former Brazilian President Jair Bolsonaro, who is serving a 27 year-long prison sentence after being found guilty of plotting a coup. This action in certain respects resembled past U.S. uses of sanctions against governments that engaged in political repression. Third, in August Trump imposed an additional 25% tariff on India over that country's ongoing imports of Russia from oil, resembling past U.S. use of secondary sanctions on purchasers of Iranian and Venezuelan oil, among other targets. Trump has also threatened tariffs on purchasers of Venezuelan oil and as well as tariffs on countries that object to his policies regarding the deportation of immigrants unlawfully present in the U.S.

Trump's use of tariffs for the sort of geopolitical purposes for which past U.S. presidents would have deployed sanctions is best understood as conceptually distinct from Trump's use of tariffs for trade policy purposes. It appears to reflect views what he stated during his 2024 presidential campaign that sanctions should be used "as little as possible" and expressing concern that sanctions could drive countries away from their reliance on the dollar. It is also consistent with his apparent general perspective that the size of the U.S. market ranks among the largest sources of U.S. economic leverage globally. Finally, although Trump has never directly articulated this, it may reflect a view that tariffs are a "win-win" tool where sanctions are "win-lose": If Trump imposes sanctions, a country may capitulate to Trump's desires, but if the country does not







capitulate, Trump's use of sanctions imposes costs on the U.S. and global economy (albeit in most cases larger costs on the sanctions target than on the U.S.), without achieving Trump's desired outcome. Whereas if Trump imposes tariffs, he can win either way: either the country capitulates, or, if the country does not and the tariffs remain in place, Trump succeeds in raising revenue for the federal government.

Sanctions experts generally view Trump's use of tariffs in lieu of sanctions as a relatively weak weapon, noting that a country such as India is far more reliant on the dollar, which can be weaponized with sanctions, than on the U.S. market, which is weaponized with trade. Trump's proclivity for tariffs as a geopolitical tool has yet to receive much support beyond Trump, though several of his allies in the U.S. Congress have embraced his idea of tariffs (in addition to sanctions) as a tool to deal with Russian oil sales. As a result, it remains unclear whether tariffs will become a more regular part of U.S. economic statecraft, or whether, post-Trump, they will refer to their traditional role as a tool of U.S. trade policy.

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