US trade policy and the new wave of de-Globalization

▷ Luca De Benedictis, *Universitas Mercatorum* and *Luiss*

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Bertinoro
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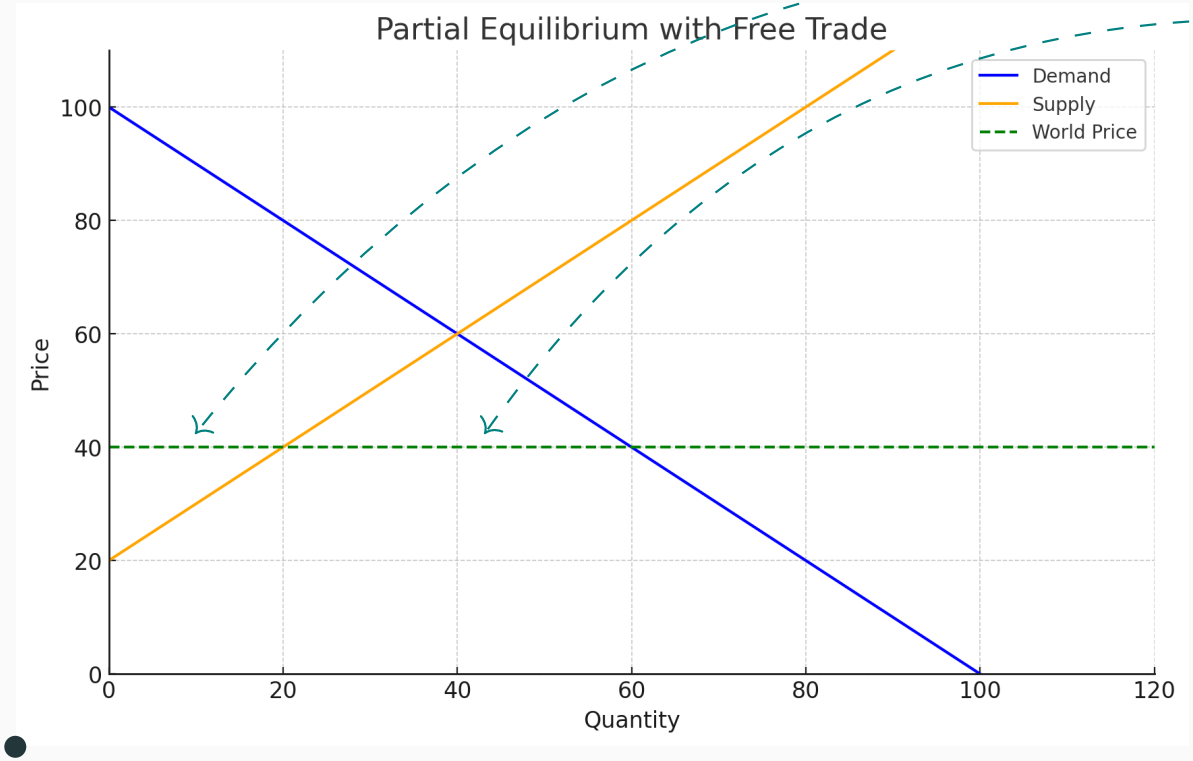
Overview of the talk

Outline

- Tariffs: A Primer
- Trump's tariffs 2.0
- POTUS, TACO and Tt2.0 consequences
  - Uncertainty
  - Financial markets
  - The dollar and long terms US government bonds
  - The Grievance doctrine and the US Current Account
  - CA = S - I
  - Productivity
  - Openness
- What's next
  - What trade economists have to say?
  - Best strategies
  - Multi-level games and Geoeconomics
  - Rules of law
  - The end of multilateralism?
  - de-Globalization?
- Open discussion

Tariffs: A Primer

Free trade: Partial equilibrium



domestic production

imports

autarky

conversion year

jewish partner

religion$_{judaism}$

religion$_{christianity}$

religion$_{irreligeous}$

parents alive

income

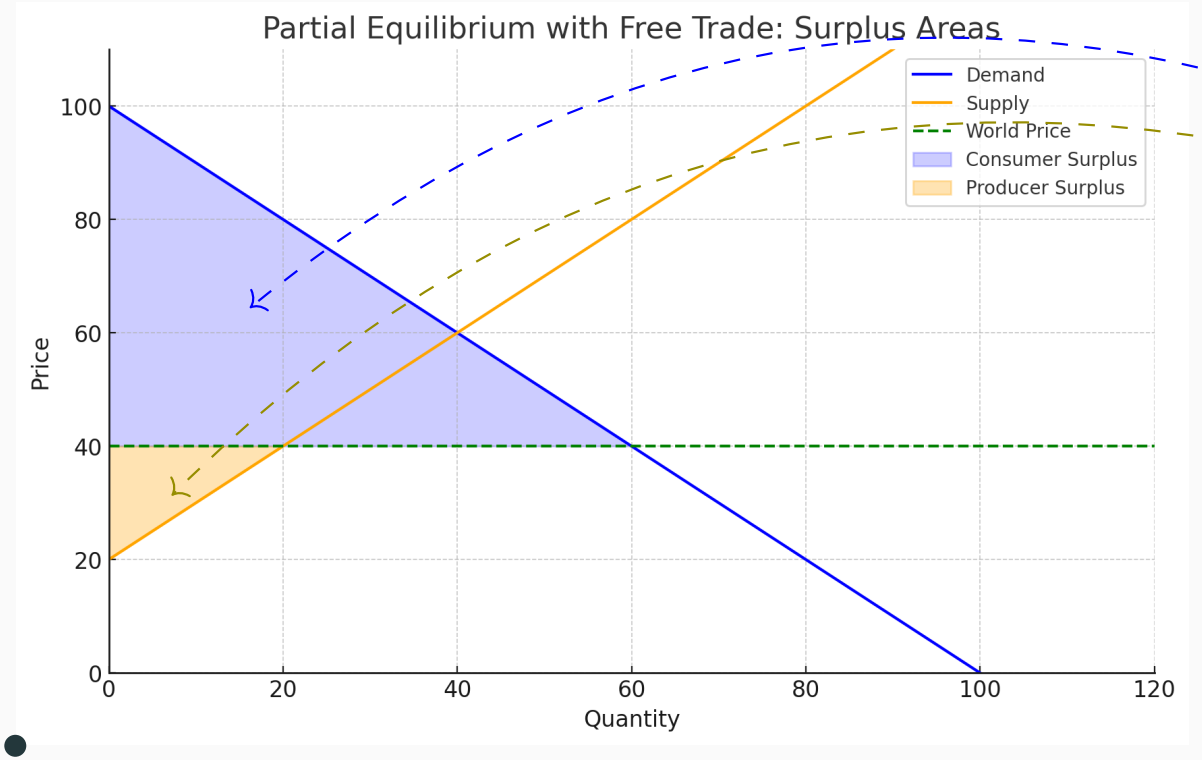
wealth

merits

domestic reputation

international reputation

Free trade: Welfare maximization



domestic production
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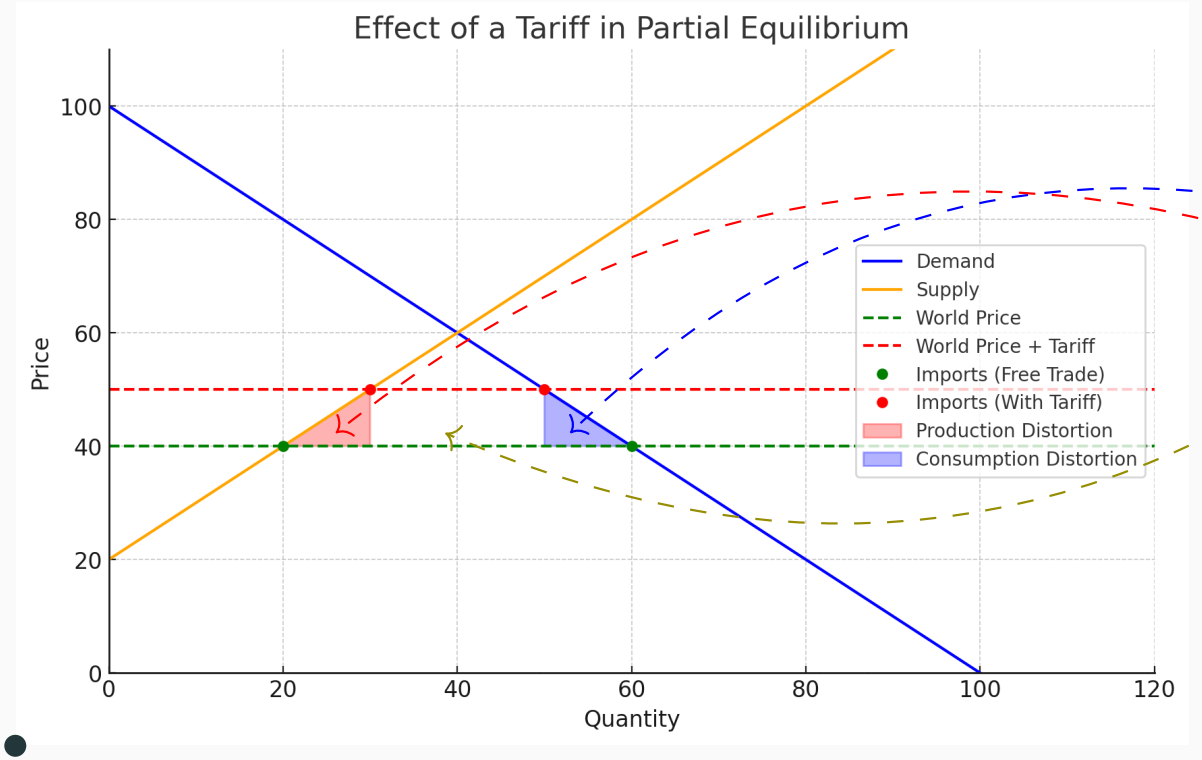
Tariff: Small country case



domestic production

imports

autarky

consumer surplus

producer surplus

consumer distortion

producer distortion

tariff revenue

parents alive

income

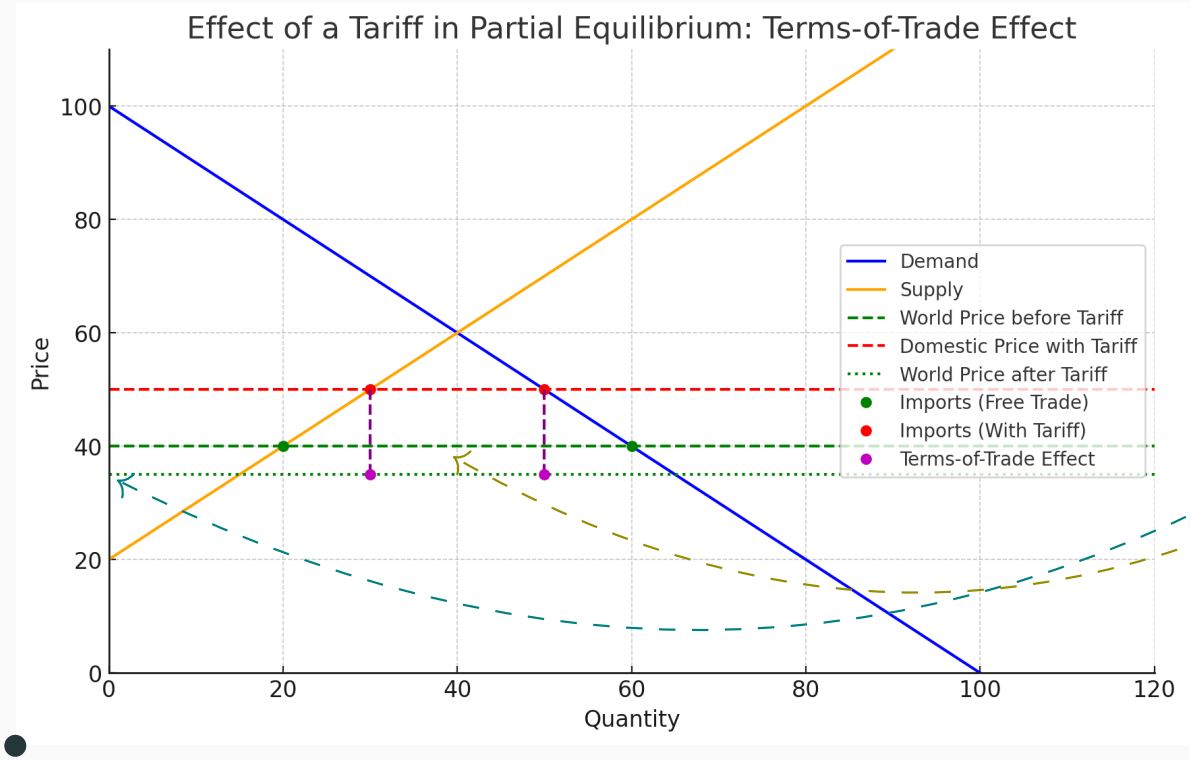
wealth

merits

domestic reputation

international reputation

Tariff: Large country case

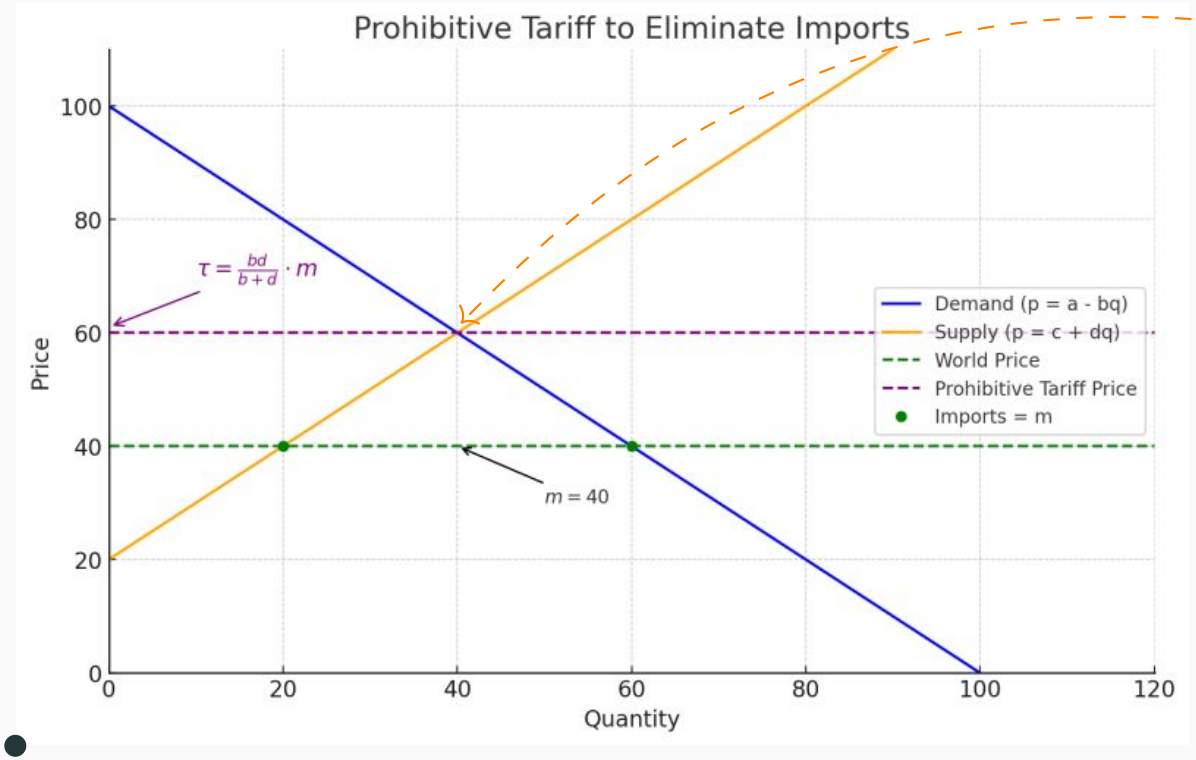


domestic production
imports
autarky
consumer surplus
producer surplus
consumer distortion
producer distortion
tariff revenue
income

world price reduction
+ terms of trade

wealth
merits
domestic reputation
international reputation

Tariff: A Prohibitive tariff leads to Autarky



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Tariff: extra stuff

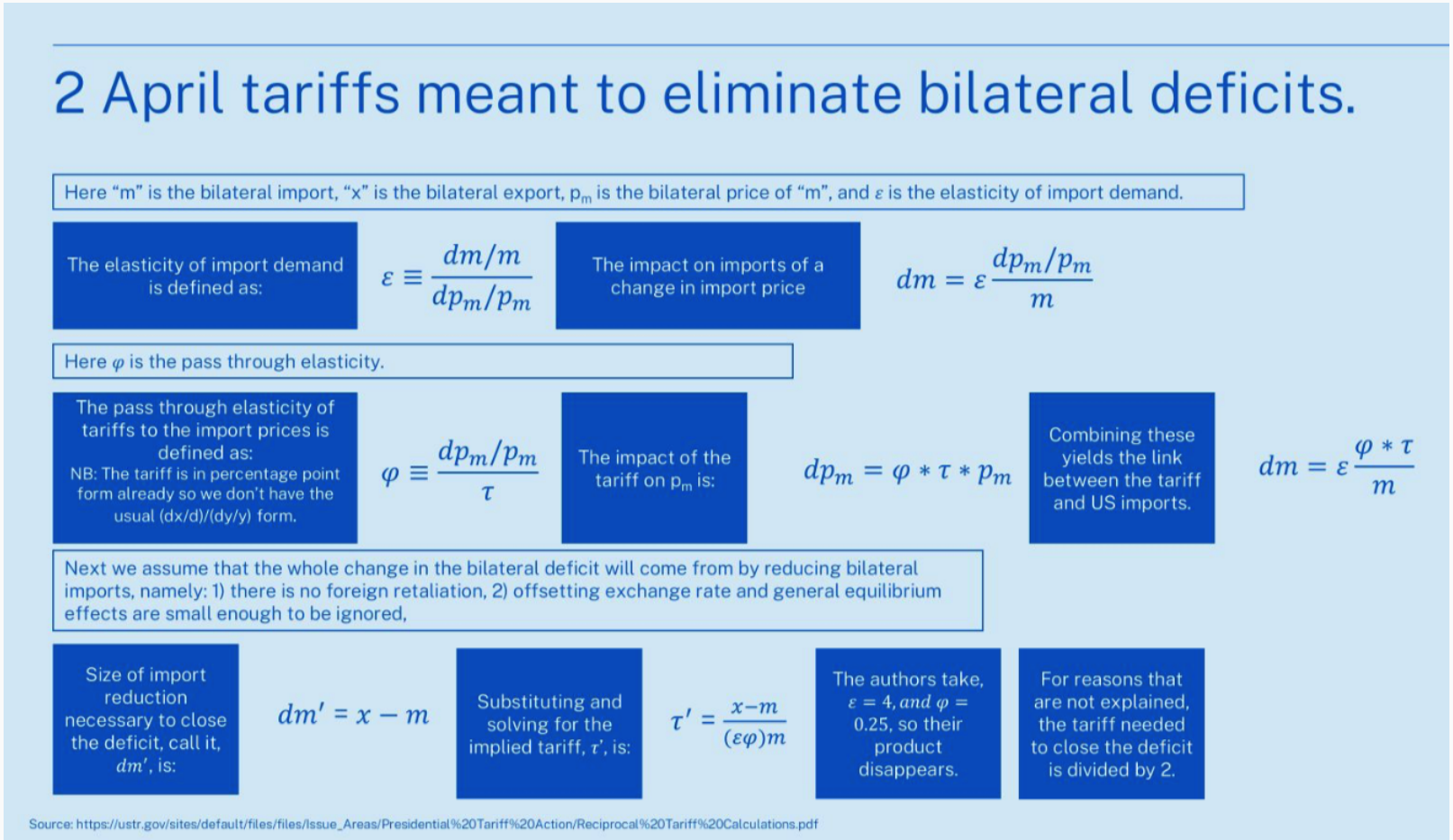
- Partial equilibrium results can be generalized to General equilibrium
- Exceptions: (1) optimal tariff with no retaliation; (2) infant industry
- Relevant elements:
  - Intermediate goods and I-O linkages
  - Elasticities of substitution
  - Pass-through, mark-ups and inflation
  - Fragmentation of production and FDI
  - Delocalization and Third country effect
  - Trade and Services
  - Long-term consequences of de-specialization (e.i. innovation)
  - Selection effect and market concentration (e.i. small firms exit)
  - Tariffs as regressive taxes
- Policy space
  - Violations of WTO rules: sectoral and country discrimination
  - Potential violation of domestic rules: International Emergency Economic Powers Act (IEEPA) vs Articles 201, 232, 301
  - Retaliation

Trump's tariffs 2.0

April 2nd, 2025: "Liberation day" and "Reciprocal Tariffs."

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon \cdot \varphi \cdot m_i}$$

April 2nd, 2025: Where do "Reciprocal Tariffs" come from?

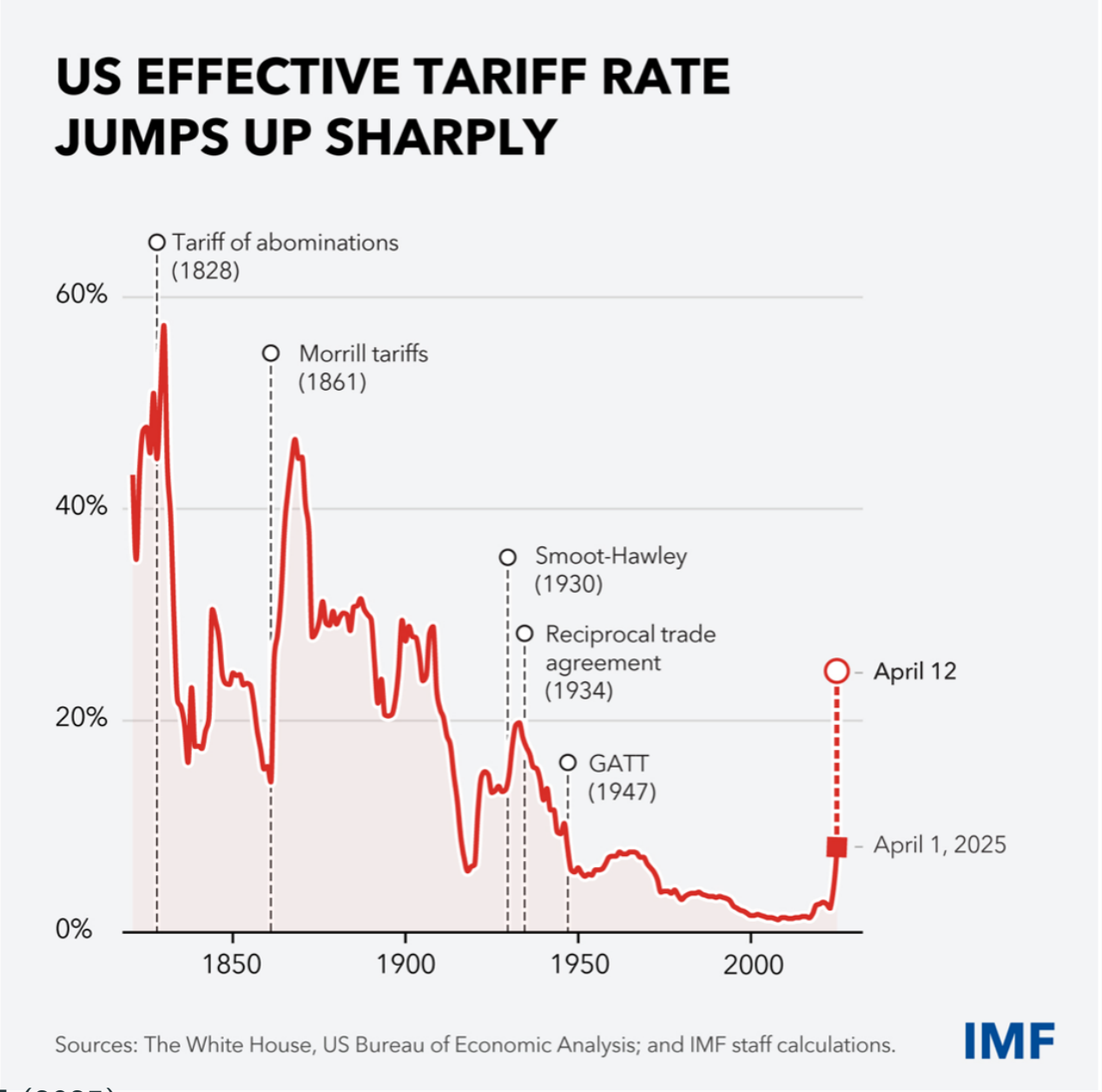


April 2nd, 2025: The algebra of "Reciprocal Tariffs."

A	B	C	D	E	F	G
Country	Claimed Tariffs	U.S. Reciprocal Tariffs	TRUMP MATH = (Trade Balance/Import)/2	Imported to U.S. in 2024	Trade Balance in 2024	NOTES
China	67%	34%	-33.64886726	$ 438,947,386,145.00	$ (295,401,646,638.00)	
Vietnam	90%	46%	-45.20428959	$ 136,561,155,809.00	$ (123,463,000,688.00)	
Taiwan	64%	32%	-31.79279415	$ 116,264,026,887.00	$ (73,927,165,468.00)	
Japan	46%	24%	-23.09843575	$ 148,208,566,623.00	$ (68,467,721,077.00)	
India	52%	26%	-26.11852881	$ 87,416,448,578.00	$ (45,663,780,610.00)	
South Korea	50%	25%	-25.08848521	$ 131,549,187,120.00	$ (66,007,396,702.00)	
Thailand	72%	36%	-36.00998053	$ 63,328,180,222.00	$ (45,608,930,737.00)	
Switzerland	61%	31%	-30.32174889	$ 63,425,318,602.00	$ (38,463,331,684.00)	
Indonesia	64%	32%	-31.83693976	$ 28,084,737,884.00	$ (17,882,642,164.00)	
Malaysia	47%	24%	-23.63202531	$ 52,534,847,955.00	$ (24,830,097,128.00)	
Cambodia	97%	49%	-48.72992225	$ 12,661,806,815.00	$ (12,340,177,232.00)	
United Kingdom	10%	10%	8.707473754	$ 68,084,468,332.00	$ 11,856,874,421.00	FLAT 10%
South Africa	60%	30%	-30.14777679	$ 14,655,786,588.00	$ (8,836,787,656.00)	
Bangladesh	74%	37%	-36.76771466	$ 8,365,766,327.00	$ (6,151,802,185.00)	
Singapore	10%	10%	3.273934373	$ 43,203,722,903.00	$ 2,828,923,069.00	FLAT 10%
Israel	33%	17%	-16.71082469	$ 22,217,484,849.00	$ (7,425,449,889.00)	
Philippines	34%	17%	-17.21132388	$ 14,177,628,116.00	$ (4,880,314,987.00)	
Chile	10%	10%	5.155941309	$ 16,469,479,956.00	$ 1,698,313,441.00	FLAT 10%
Australia	10%	10%	53.66284539	$ 16,685,509,840.00	$ 17,907,838,697.00	FLAT 10%
Turkey	10%	10%	-4.337494067	$ 16,745,664,057.00	$ (1,452,684,370.00)	FLAT 10%
Colombia	10%	10%	3.807908049	$ 17,690,348,963.00	$ 1,347,264,444.00	FLAT 10%
Peru	10%	10%	9.935769707	$ 9,363,192,761.00	$ 1,860,610,540.00	FLAT 10%
Nicaragua	36%	18%	-18.18716968	$ 4,622,325,539.00	$ (1,681,340,378.00)	
Costa Rica	17%	10%	-8.414839327	$ 11,634,905,331.00	$ (1,958,117,179.00)	FLAT 10%
Dominican Republic	10%	10%	37.14796895	$ 7,505,430,838.00	$ 5,576,230,234.00	FLAT 10%
United Arab Emirates	10%	10%	130.4104093	$ 7,474,432,624.00	$ 19,494,876,354.00	FLAT 10%
Argentina	10%	10%	14.65587194	$ 7,092,161,169.00	$ 2,078,836,117.00	FLAT 10%
Ecuador	12%	10%	-5.822482671	$ 8,524,306,263.00	$ (992,652,510.00)	FLAT 10%
Tunisia	55%	28%	-27.58274504	$ 1,123,215,612.00	$ (619,627,397.00)	
Kazakhstan	54%	27%	-26.89375868	$ 2,330,749,420.00	$ (1,253,652,249.00)	
Serbia	74%	37%	-37.11494015	$ 814,350,544.00	$ (604,491,434.00)	
Egypt	10%	10%	69.63908361	$ 2,546,000,141.00	$ 3,546,022,334.00	FLAT 10%
El Salvador	10%	10%	48.5706179	$ 2,311,212,791.00	$ 2,245,140,667.00	FLAT 10%
Côte d'Ivoire	41%	21%	-20.60301149	$ 1,014,676,411.00	$ (418,107,795.00)	
Laos	95%	48%	-47.48635132	$ 803,320,155.00	$ (762,934,862.00)	
Botswana	74%	37%	-37.12399908	$ 405,123,674.00	$ (300,796,218.00)	
Trinidad and Tobago	12%	10%	-5.805883986	$ 3,325,877,971.00	$ (386,193,233.00)	FLAT 10%
Morocco	10%	10%	88.29306392	$ 1,904,884,441.00	$ 3,363,761,674.00	FLAT 10%

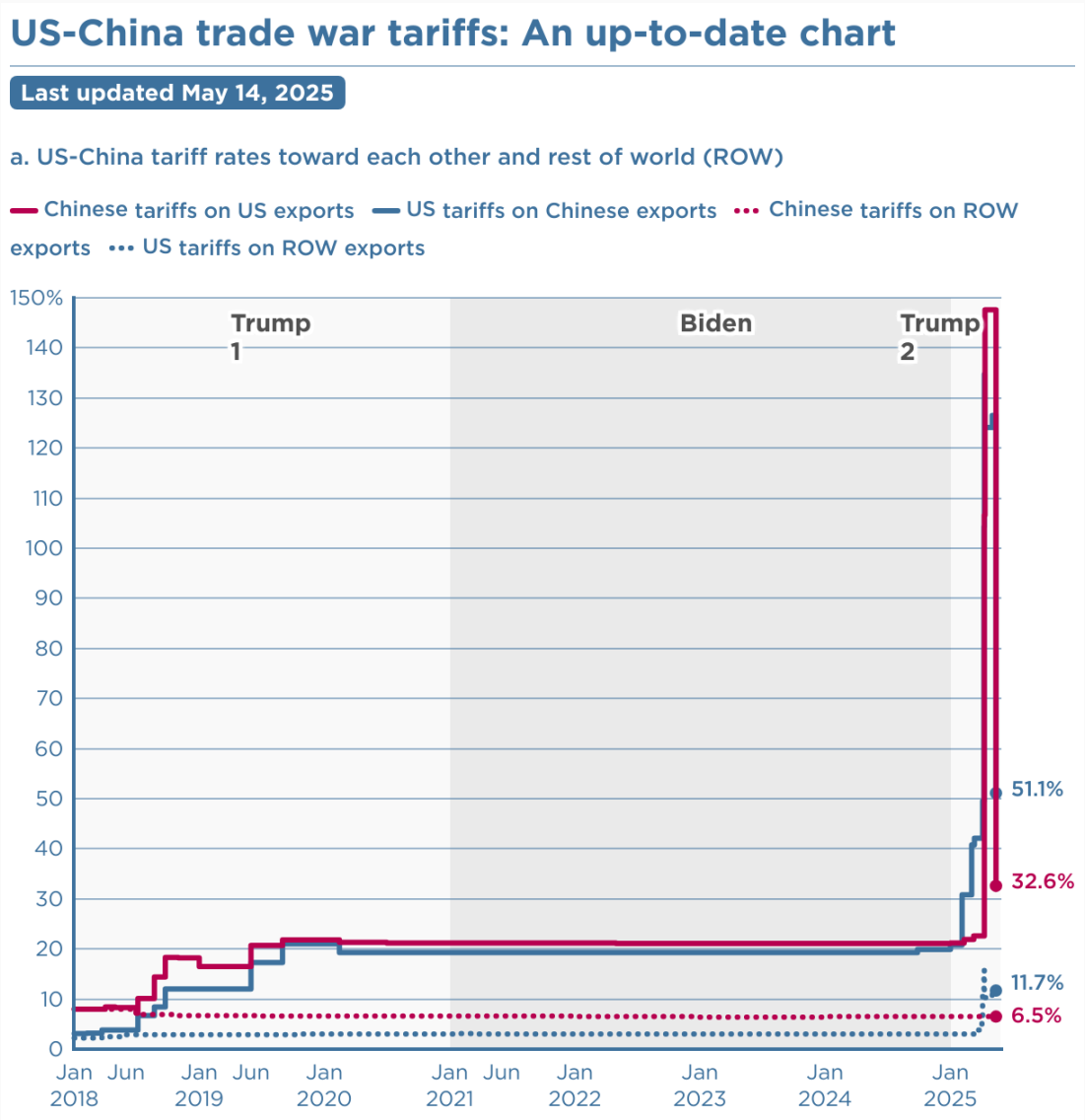
April 2nd, 2025: Directionality in "Reciprocal Tariffs."

Tt2.0 in historical context



Source: IMF (2025).

US-China tariffs ping pong announcements

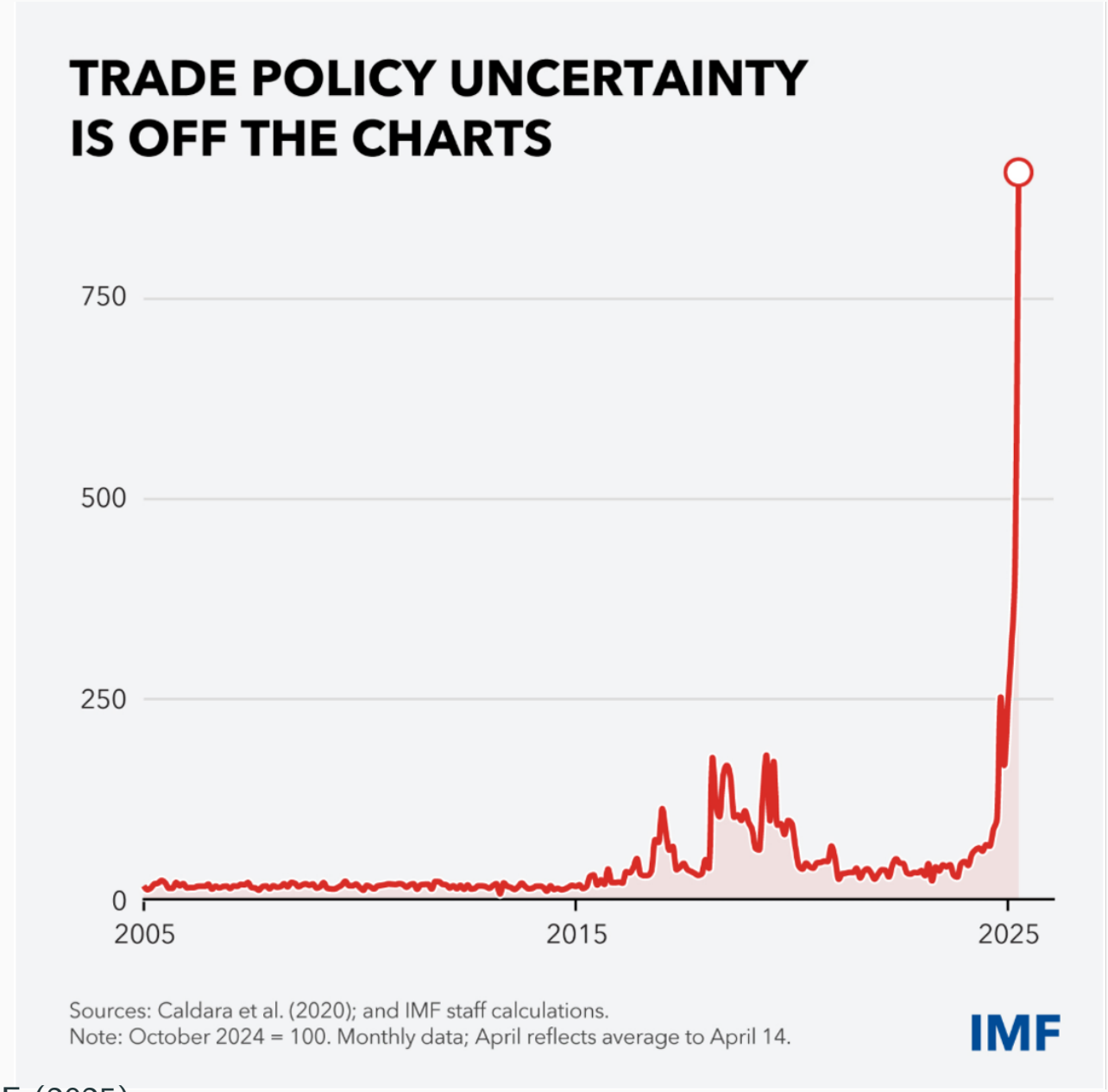


Source: PIIE (2025); Chad Bown: https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart.

POTUS, TACO and Tt2

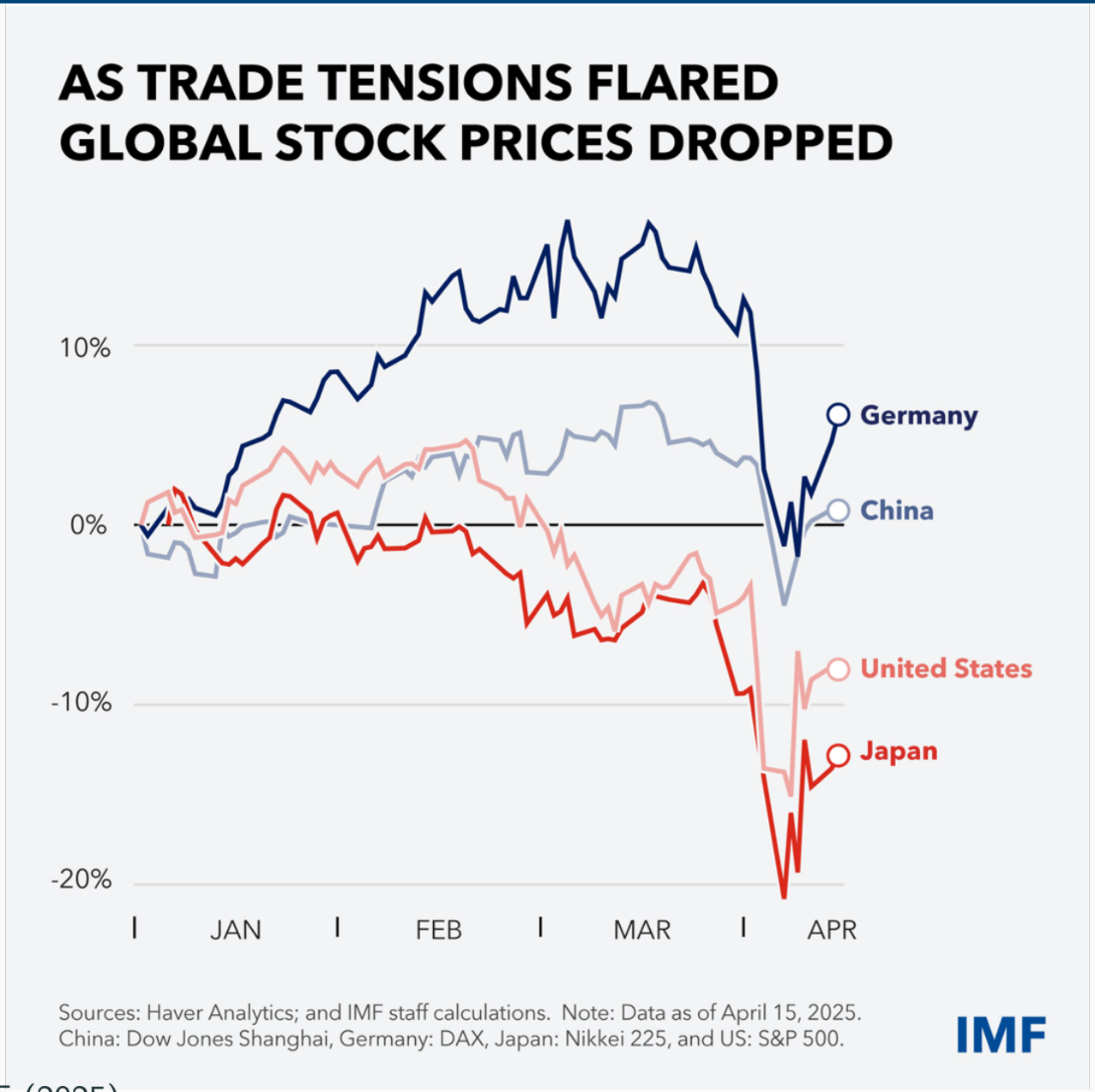
consequences

Uncertainty



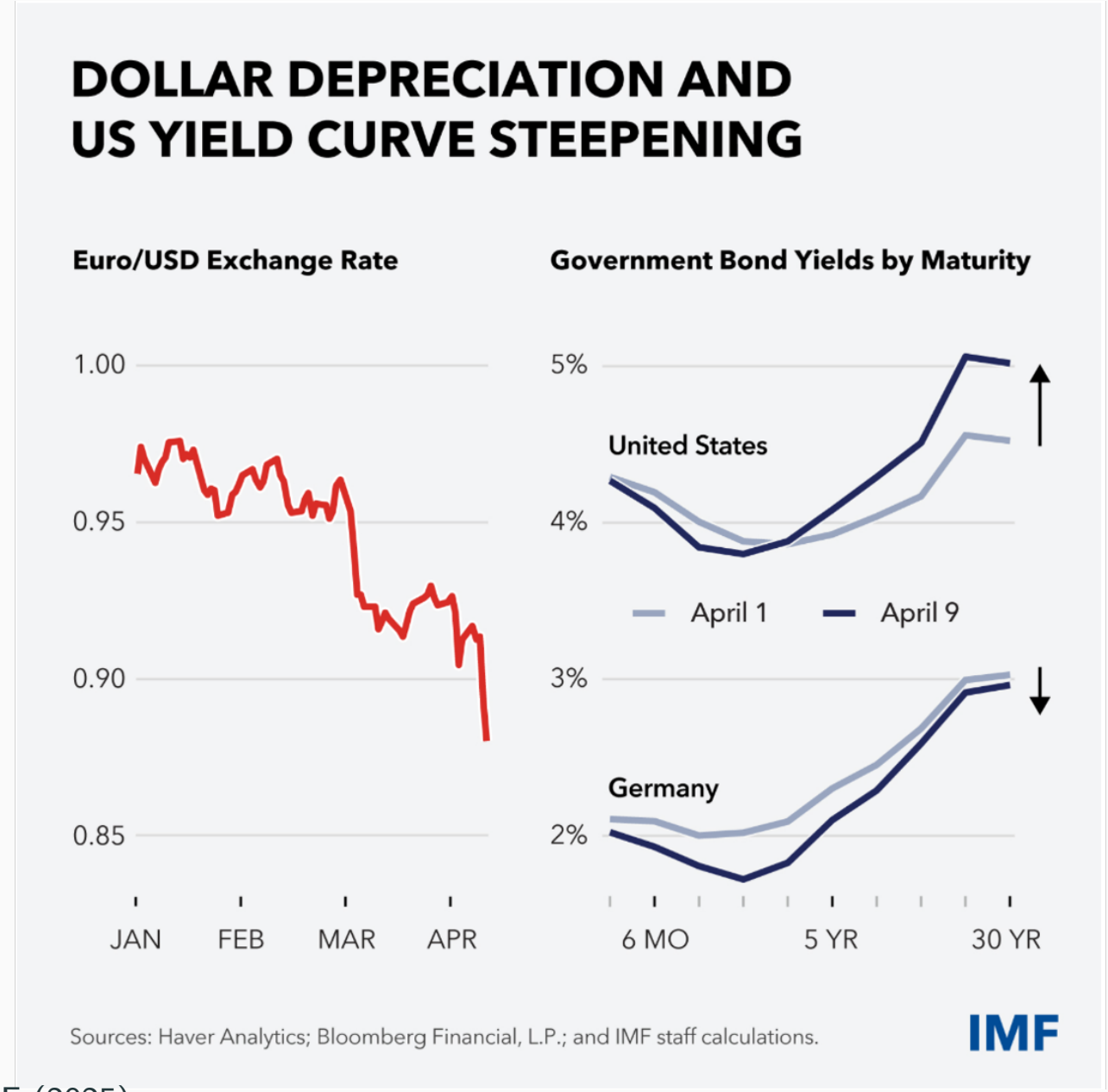
Source: IMF (2025).

Financial markets



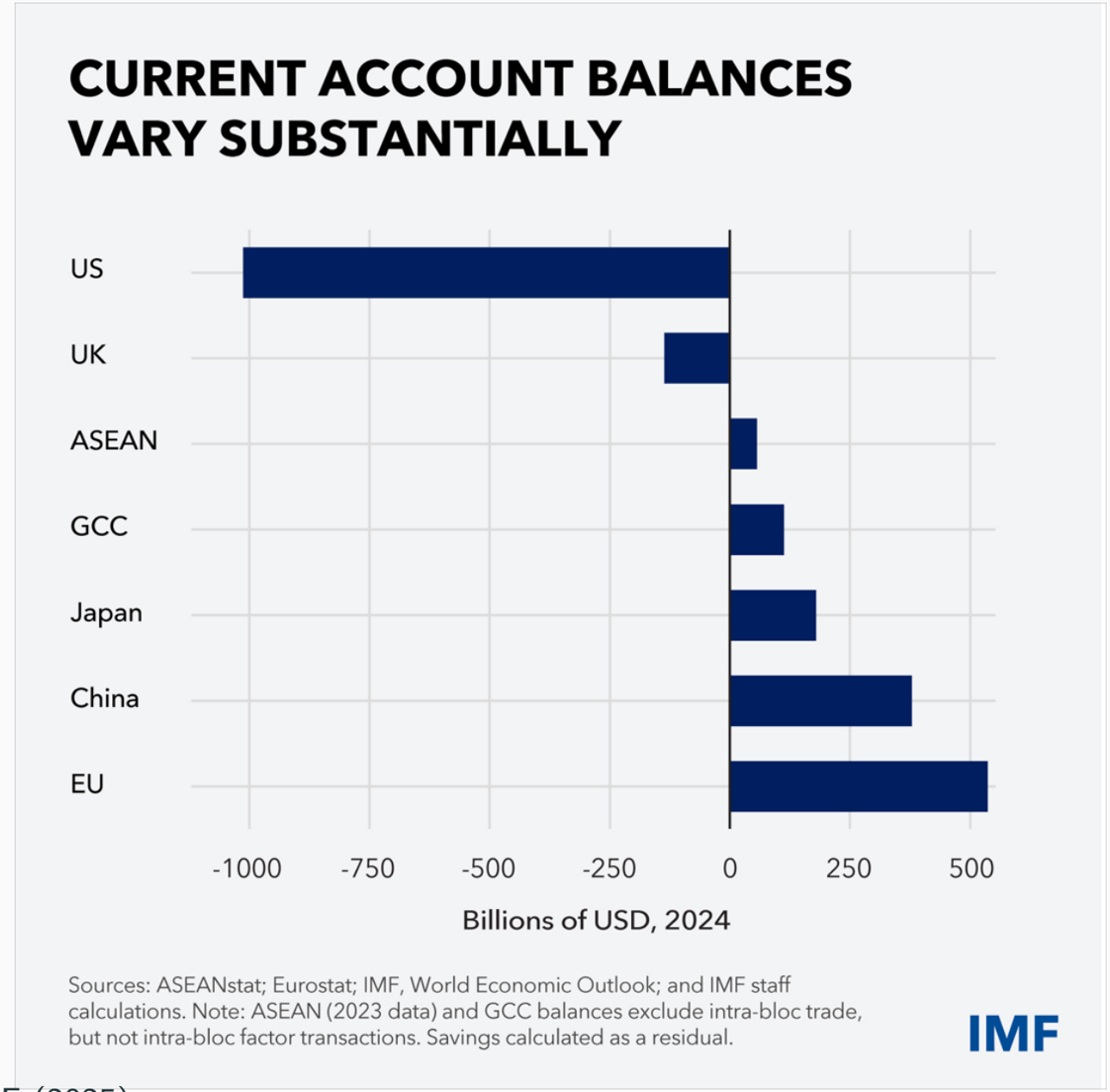
Source: IMF (2025).

The dollar and long term US government bonds



Source: IMF (2025).

The Grievance doctrine and the US Current Account



Source: IMF (2025).

CA = S - I

The fundamental **identity** in macroeconomics links the **current account (CA)** to **national saving (S)** and **investment (I)**. This identity is derived from the national income identity in an open economy:

$$Y = C + I + G + CA \tag{1}$$

where: Y = national income (GDP), C = consumption, I = investment, G = government spending, CA = net exports (exports − imports).

National saving is defined as:

$$S = Y - C - G \tag{2}$$

Substituting this into the income identity:

$$Y - C - G = I + CA \tag{3}$$

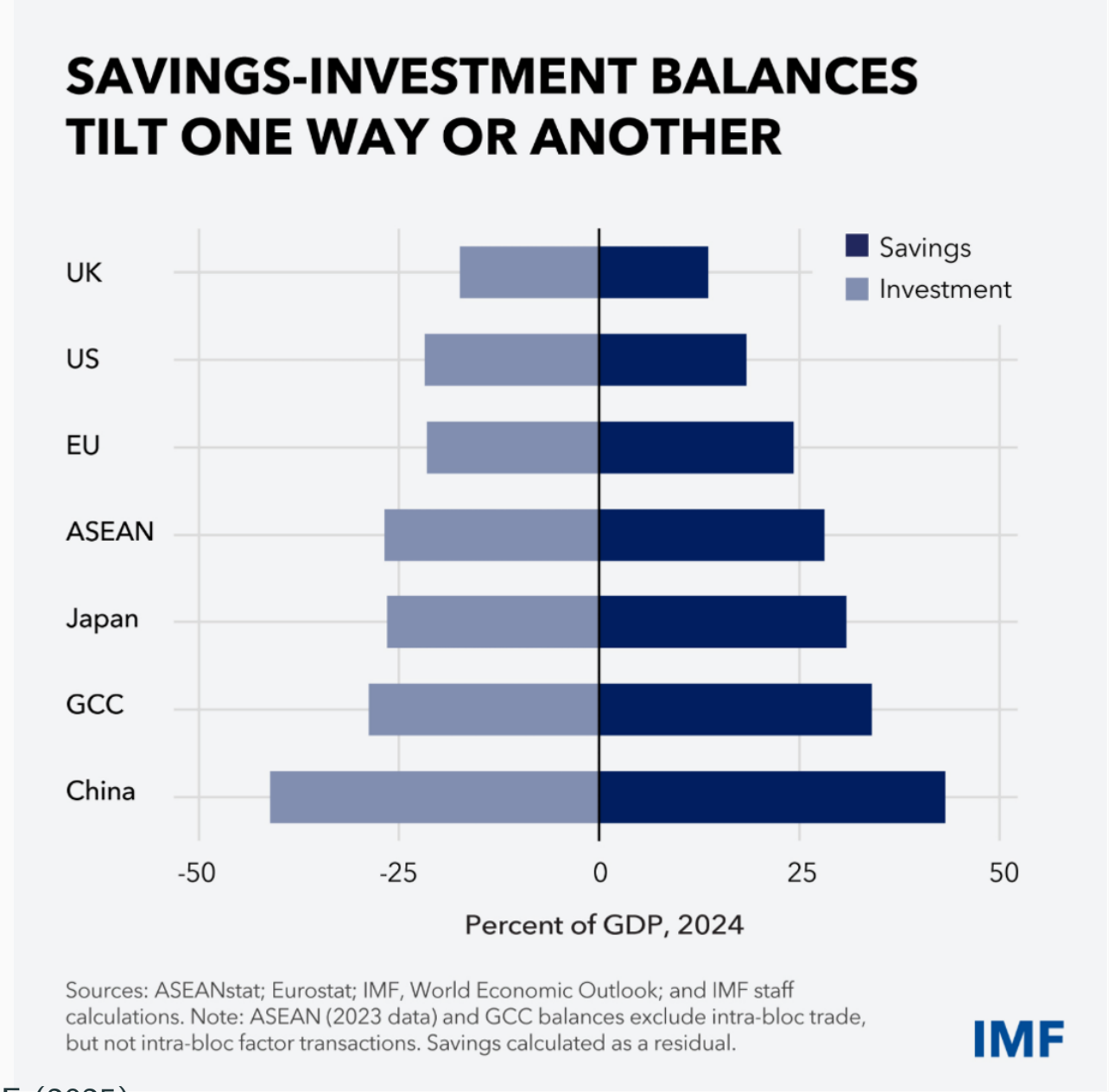
$$S = I + CA \tag{4}$$

$$\Rightarrow CA = S - I \tag{5}$$

US case:

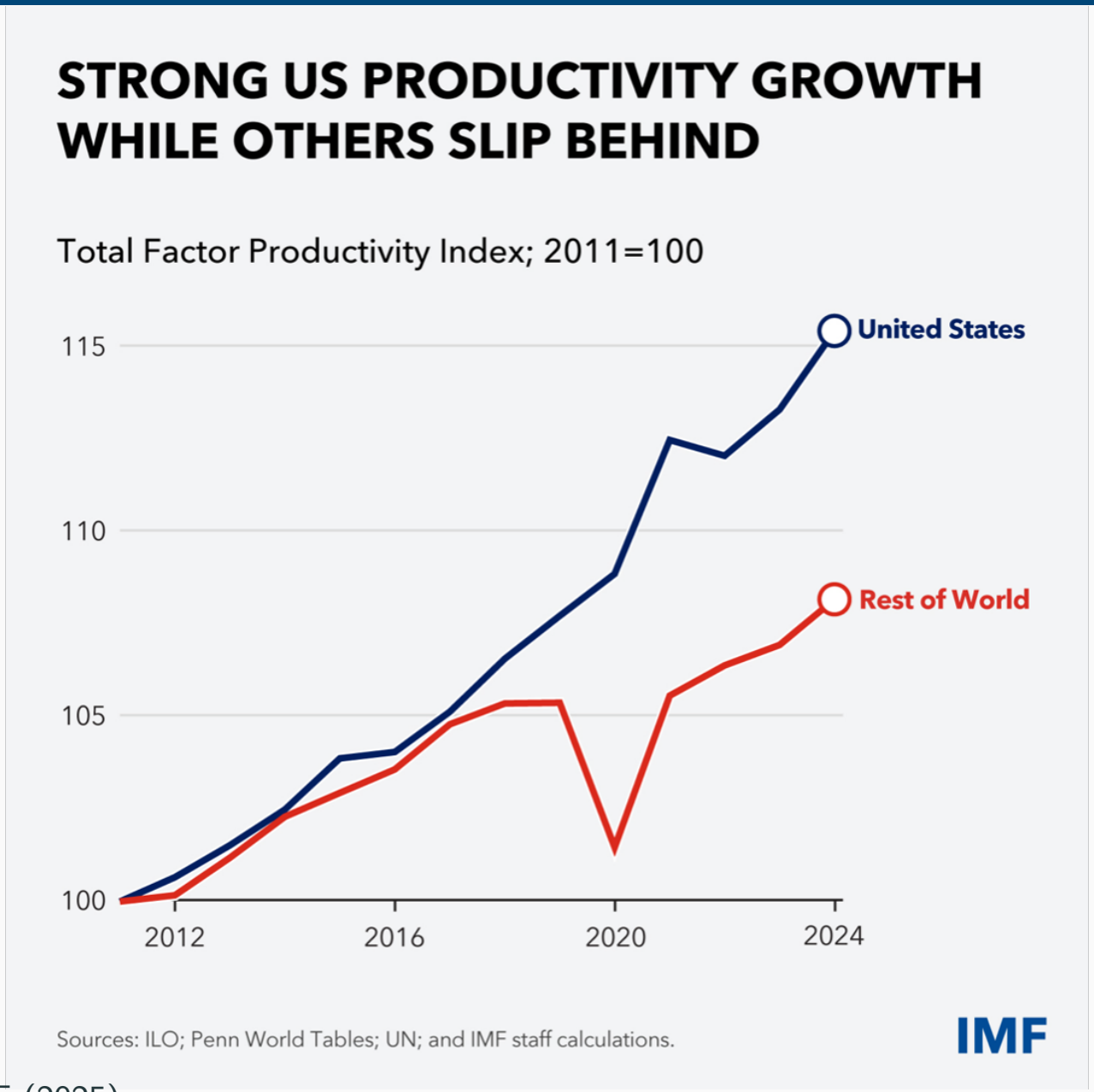
- If the country is a **net borrower** from the rest of the world ($S < I$), it runs a current account **deficit**.

CA = S -I



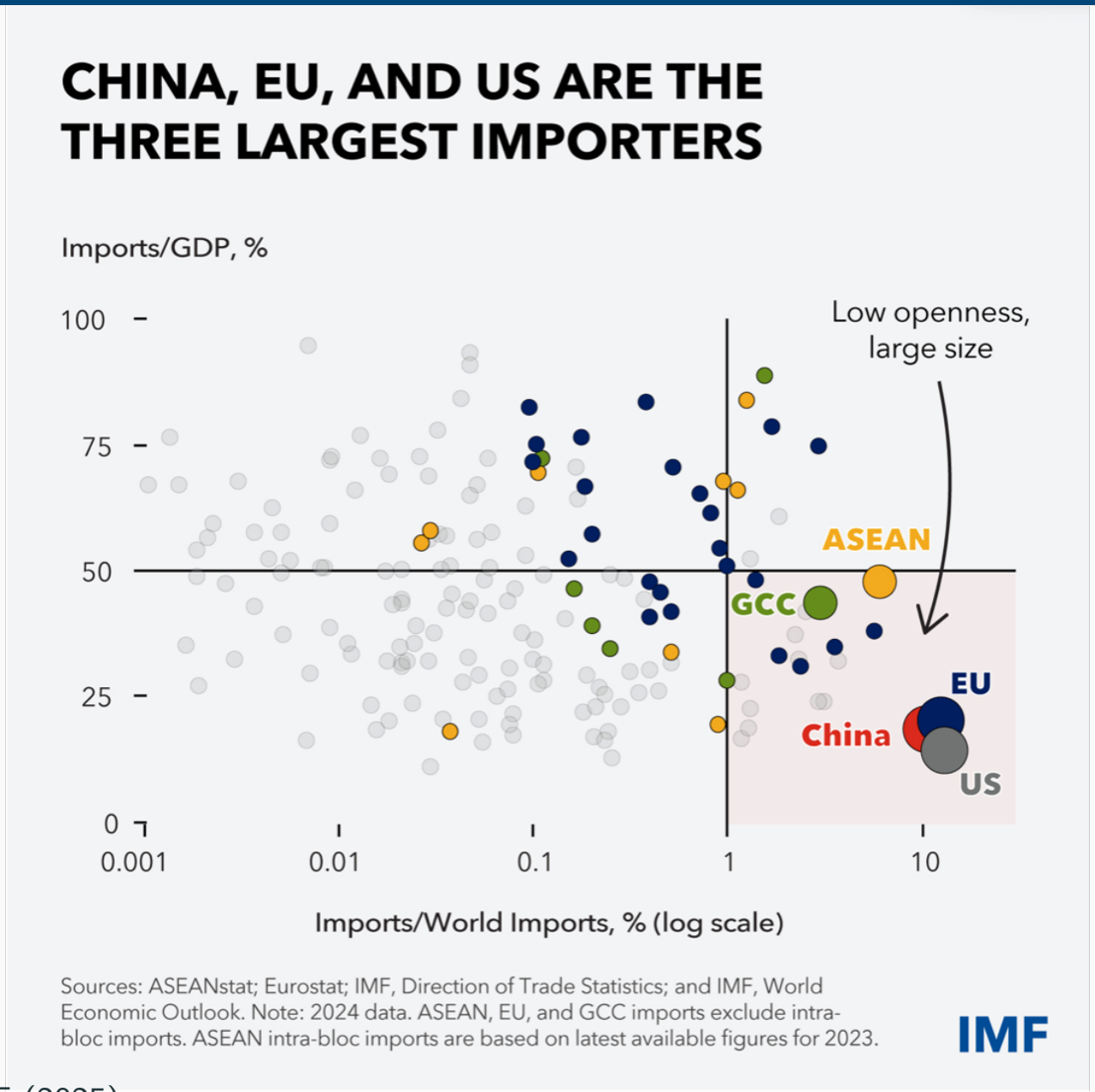
Source: IMF (2025).

Productivity



Source: IMF (2025).

Openness



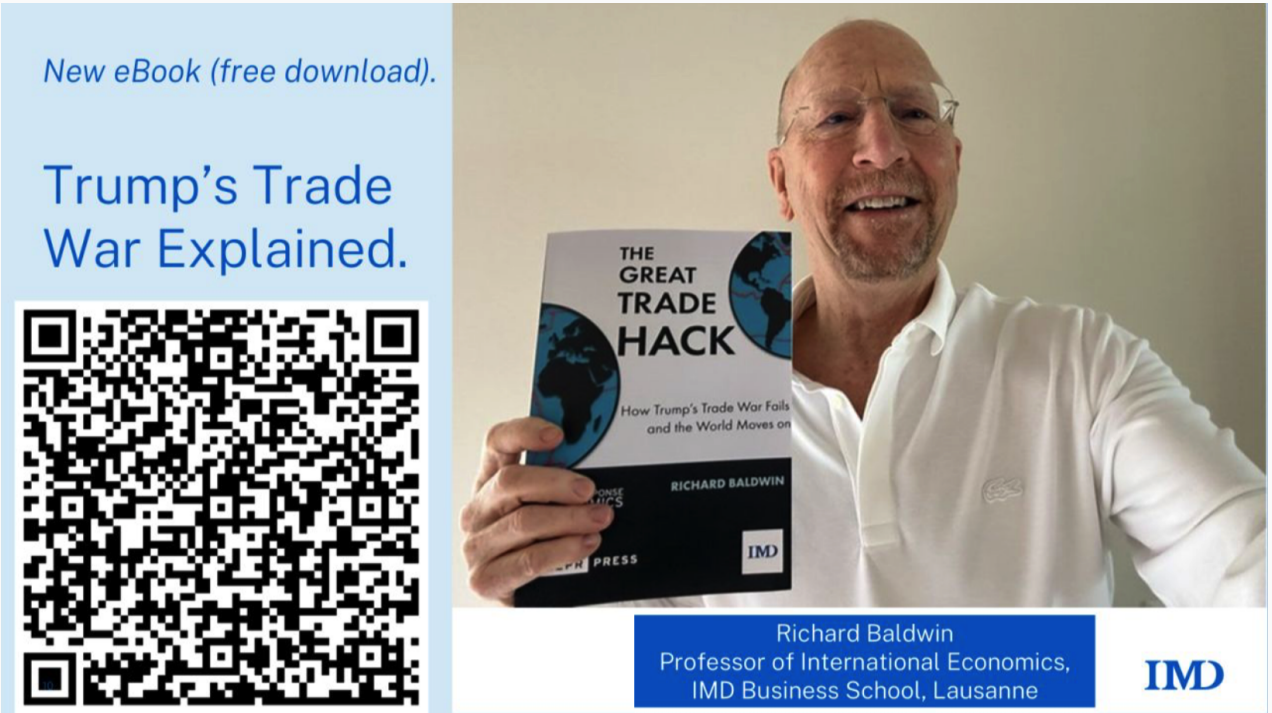
Source: IMF (2025).

What's next

What's next

- What's next
  - What trade economists have to say?
  - Best strategies
  - Multi-level games and Geoeconomics
  - Rules of law
  - The end of multilateralism?
  - de-Globalization?

What trade economists have to say? Richard Baldwin



Source: https://www.linkedin.com/in/richard-baldwin-imd/.

What trade economists have to say? Caliendo, Kortum and Parro

Tariffs and Trade Deficits
Lorenzo Caliendo, Samuel S. Kortum, and Fernando Parro
NBER Working Paper No. 34003
July 2025
JEL No. F10, F11, F13, F40

ABSTRACT

We develop a dynamic multi-country Ricardian trade model with aggregate uncertainty, where countries trade goods and assets, leading to trade imbalances. We introduce a method for computing counterfactuals in this setting without specifying the stochastic process of shocks or solving for asset prices. Applying the model to tariff shocks, we quantify their effects on prices, income, expenditure, and trade imbalances. We find that higher U.S. tariffs reduce the U.S. trade deficit through general equilibrium adjustments, but raise domestic prices and lower real consumption. Our findings highlight that movements in trade imbalances are shaped by the structure of global trade and finance, and that attempts to influence external balances through changes in trade barriers carry significant implications for real economic outcomes.

Lorenzo Caliendo
Yale University
and NBER
lorenzo.caliendo@yale.edu

Fernando Parro
University of Rochester
Department of Economics
and NBER
fernando.parro@rochester.edu

Samuel S. Kortum
Yale University
Department of Economics
samuel.kortum@yale.edu

Source: NBER.

What's that next generation of economist can do

- What's next
  - What trade economists have to say?
- Topics for future research
  - Political uncertainty in economic models: theory and empirics
  - Best strategies
  - Pareto optimality and relative gains
  - Multi-level games and Geoeconomics
  - The end of multilateralism (rules of law)
    - Global public goods and fairness
    - Global issues: environment and global warming; migration; pandemics; AI and technological shocks; anti-trust
  - de-Globalization? Winners and losers (and measurement).
    - China
    - A trade regime without the US
    - EU: cohesion, leadership and the role of the Euro
    - Emerging countries and LDCs
    - Services
    - Shocks: Financial crisis, Covid19, International conflicts

Open discussion