MEKETA

# Trade wars: rough seas ahead?

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**Trade wars, once a relatively dormant issue in an era of globalization, have re-emerged as a force shaping the economic landscape. International trade can be a powerful engine of growth, but it also becomes a battleground when countries engage in trade wars. Economists generally agree that free trade tends to benefit the greatest number of people, while trade barriers shrink the overall economic "pie." Even so, nations periodically resort to protectionist measures such as tariffs, quotas, subsidies, and more that can trigger retaliatory actions and escalate into trade wars.**

**This primer provides an overview of what trade wars are, how they operate, and their historical and economic context, with a focus on the United States. It examines major US-involved trade conflicts (from the infamous Smoot-Hawley Tariff of 1930 to recent US-China tensions), discusses key protectionist policy tools, and analyzes the economic impacts of trade wars on GDP, jobs, inflation, trade balances, and specific industries.**

## Key takeaways

- → Trade wars are economic conflicts driven by escalating trade barriers, often initiated by tariffs or restrictions that provoke retaliatory actions from affected countries.
- → While trade wars aim to protect domestic industries, they frequently lead to distorted supply chains, higher consumer costs, and reduced bilateral trade flows.
- → Protectionist measures such as tariffs, import quotas, and subsidies are commonly employed tools in trade wars, impacting both domestic and global economies.
- → Historical examples, such as the Smoot-Hawley Tariff Act of 1930, illustrate the long-term economic consequences of trade disputes arising from protectionist policies.
- → Institutions like the World Trade Organization are intended to mitigate trade wars, but rising political pressures may lead nations to adopt unilateral protectionist policies.

## What are trade wars?

A trade war is essentially an economic conflict in which countries impose escalating trade barriers against each other in a tit-for-tat fashion. Typically, one country will levy new tariffs or other restrictions on imports from another country, often alleging unfair trade practices or seeking to protect domestic industries. The targeted country then retaliates with its own tariffs or barriers. This back-and-forth escalation can continue, affecting a widening range of goods and services. In a full trade war, both sides implement protectionist policies against each other, harming (or even halting) bilateral trade flows.

Trade wars often begin with a grievance: one nation's government believes a trading partner is gaining an unfair advantage or hurting its domestic producers. For example, it might accuse the partner of dumping goods below cost, subsidizing industries, artificially suppressing their currency, or running large trade surpluses. In response, the aggrieved nation may retaliate in kind, potentially leading to a cycle of retaliation. This dynamic is the hallmark of a trade war. Each round of measures tends to escalate tensions, and as barriers pile up, the dispute can spill over into multiple industries and diplomatic relations.

## How do trade wars operate?

The mechanics of a trade war usually involve increasing levels of trade barriers. A common trigger is a tariff hike by one country, which immediately makes the targeted imports more expensive in that country's market. This can provide short-term relief to domestic producers who compete with those imports, but it raises costs for downstream industries and consumers. The other country may then answer with its own tariffs of similar scale. Both sides might also deploy non-tariff measures: for example, import quotas (hard limits on quantities), licensing delays, stricter regulatory standards on foreign goods, or state subsidies to prop up domestic exporters. In some cases, countries allow their currency to weaken (making their exports cheaper and imports dearer) as an indirect trade weapon. Over time, if neither side backs down, a broad range of products can become subject to high tariffs or restrictions, distorting trade flows and business supply chains.

Trade wars are distinct from normal trade negotiations in that they involve active harm (e.g., through barriers) rather than mutual concessions. Many modern trade agreements and institutions like the World Trade Organization ("WTO") aim to prevent such escalations. However, when diplomatic solutions fail or political pressures rise, even WTO members have engaged in unilateral tariff increases or quotas, risking retaliatory spirals. In short, a trade war operates through "beggar-thy-neighbor" policies—each country tries to protect its own economy at the expense of others, often leading to losses on both sides.[1]

[1] A beggar-thy-neighbor policy is an economic strategy where a country attempts to improve its own economic situation by actions that negatively impact other countries.

## Protectionist policy tools in trade wars

Trade wars are waged with an array of protectionist policy tools. The US government, like others, has used various instruments to restrict imports or promote exports. The main tools include tariffs, import quotas, and subsidies (along with related measures like local content rules or export incentives). Each tool operates differently.

### Tariffs

A tariff is a tax on imported goods. Tariffs raise the cost of imports, helping domestic producers compete by making foreign products more expensive. They also generate revenue for the government. In the context of a trade war, tariffs are typically the first volley. For example, the Smoot-Hawley Act raised US import duties across the board to record levels in 1930, inviting retaliation.[2] The first Trump administration's Section 301 tariffs on Chinese goods taxed imports ranging from electronics to apparel. During his second term, the Trump administration announced tariffs of varying levels against nearly all of the country's trading partners.

[2] Source: "What Is the Smoot-Hawley Tariff Act?", investopedia.com.

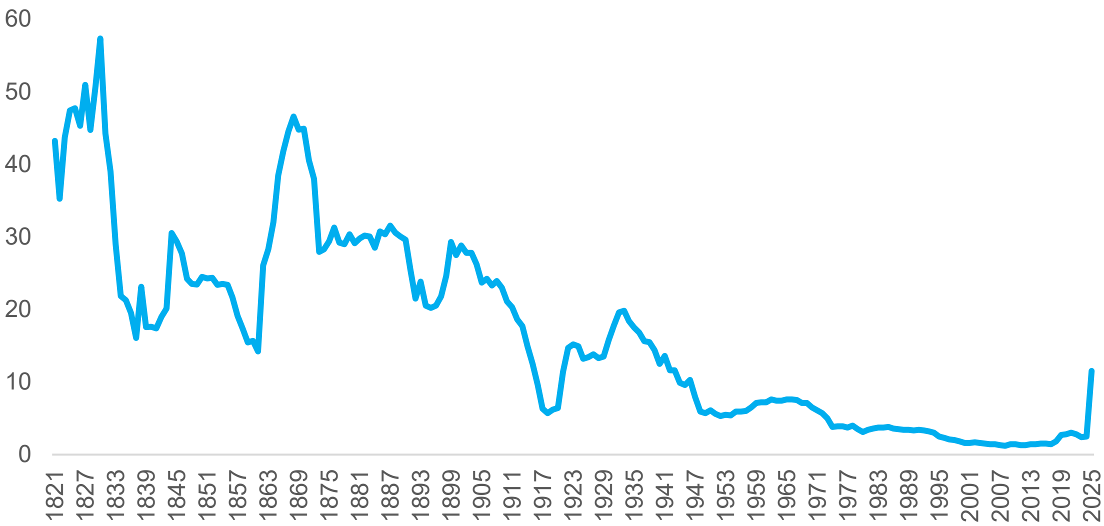


**FIGURE 1**

**Average Import Tariff for the US, 1821-2024** (%)

Source: Tax Foundation data as of April 14, 2025. Average tariff is a weighted average based on the value and size of import goods.

Tariffs can provide short-term relief to sectors struggling against import competition (e.g., the steel and aluminum industries saw higher prices and output after the 2018 US tariffs on metal imports).[3] However, tariffs also increase costs for downstream industries and consumers. In the long run, they often lead to higher prices and efficiency losses. Many studies of US tariff protection in the mid-20th century, for instance, found that the consumer costs far exceeded the jobs "saved" in protected industries.[4]

[3] Source: Reuters, V. Sachdev et al., "What Happened the Last Time Trump Imposed Tariffs," March 2, 2025.

[4] Source: "Doomed to Repeat It: The Long History of America's Protectionist Failures", Scott Lincicome, Cato Institute, August 2017.

### Import quotas

A quota is a direct limit on the quantity of a good that can be imported. Unlike tariffs, quotas do not generate revenue for the government; instead, they restrict supply. The US has used quotas in industries from sugar to textiles. A notable example was the Voluntary Export Restraint ("VER") on Japanese automobiles in the early 1980s, where Japan "voluntarily" limited car exports to avoid harsher US action.[5]

[5] Source: "Do trade restrictions work? Lessons from trade with Japan in the 1980s", Lee Branstetter, PBS.org, November 2017.

In trade wars, quotas are sometimes used as a retaliation tool or negotiated settlement. For instance, after the first Trump administration's steel tariffs, some trading partners (e.g., South Korea and Brazil) agreed to quota limits on their steel exports to the US in exchange for exemption from the tariff. Quotas effectively guarantee domestic producers a minimum market share, but they can create supply shortages or higher prices. Because they strictly limit volume, quotas can be even more protectionist than tariffs (which at least allow more imports if buyers are willing to pay the tax). While many modern trade agreements (and WTO rules) generally prohibit outright quotas, exceptions do exist (such as safeguards or voluntary arrangements).

### Subsidies

Subsidies involve direct or indirect financial support from the government to domestic industries or exporters. By lowering producers' costs or boosting their revenues, subsidies make local goods more competitive against imports or help them gain market share abroad. The US has a long history of using subsidies, particularly in agriculture. More recently, China has used subsidies to support the growth of its solar and electric vehicle industries (see Figure 2).[6]

[6] Source: "Foul Play? On the Scale and Scope of Industrial Subsidies in China", Wan-Hsin Liu, Rolf J. Langhammer, Dirk Dohse & Frank Bickenbach, Kiel Institute for the World Economy, April 2024.

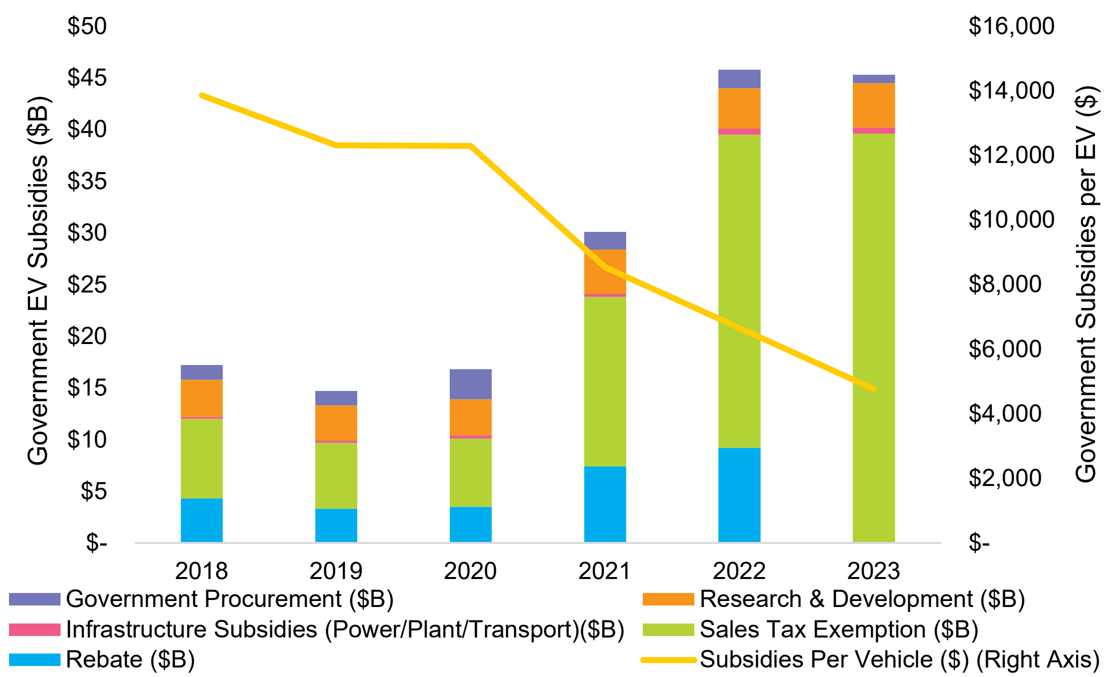


**FIGURE 2**
**Chinese Government Subsidies to EV Industry (2018-2023)**

Source: CSIS, S. Kennedy, "The Chinese EV Dilemma: Subsidized Yet Striking," June 28, 2024.

In a trade war, subsidies might be used as a defensive response. During the US-China trade war of the first Trump administration, the US government paid subsidies to American soybean farmers who lost sales due to Chinese tariffs, effectively compensating them for the trade war's impact.[7] Subsidies can also be offensive or strategic – the government may subsidize key industries to bolster them against foreign competition. However, trading partners often view such subsidies as unfair. While subsidies can help domestic industries in the short term, they can invite retaliation and may lead to inefficient allocation of resources if industries rely on government support rather than improving competitiveness.

[7] Source: American Soy Bean Association, "Tariffs Are Not Fun & Farmers Are Frustrated," March 4, 2025.

### Currency management

A country can devalue its currency as a way to make its exports cheaper and imports pricier, thus providing a competitive edge to domestic producers. The US has accused countries like China of manipulating its currency, the yuan, to keep it artificially low in the past (see Figure 3). The US itself has typically not used currency devaluation as a deliberate trade strategy in modern times as the dollar's value is largely market-determined.

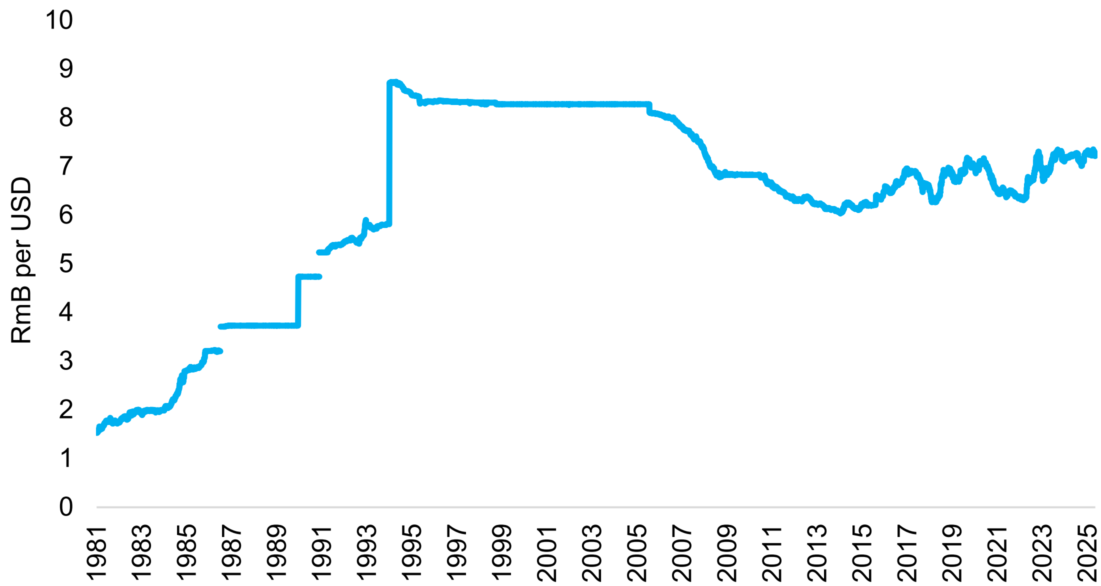


**FIGURE 3**

**Chinese Yuan Renminbi to US Dollar Spot Exchange Rate**

Source: FRED. Chinese Yuan Renminbi to One US Dollar, Not Seasonally Adjusted. FRED data includes breaks in pricing data.

In a trade war, a country may use reserves of foreign currency to influence exchange rates and stabilize or devalue its own currency. Today, most countries have open capital accounts where capital can enter and leave the country freely. And most countries have a free-floating exchange rate that adjusts automatically to a variety of indicators such as trade deficits or surpluses, short-term and long-term foreign investment, and economic growth. These countries cannot directly manage the value of their currencies. However, they may attempt to influence their exchange rates through central bank forward guidance on rates, controlling the sale of foreign currencies in domestic markets, or managing the supply of money in the banking system. However, none of these measures tend to be effective over the long run. Rather, countries with a closed or tightly managed capital account can directly manage their exchange rate.[8] This requires tight institutional control of capital inflows and outflows. For example, China has a closed capital account, and its exchange rate is set by the central government's policymakers and not by market forces.

[8] A closed capital account is an economic policy where a country restricts or prohibits the flow of financial capital and investments into or out of its borders, limiting foreign exchange and cross-border financial transactions.

### Other policy tools

Other protectionist policy tools include antidumping duties, local content requirements, sanctions and even embargos. Antidumping duties are tariffs imposed to counter foreign firms selling below cost or at artificially low prices (e.g., due to state subsidies). Local content requirements are rules that certain products must contain a given percentage of domestically made components (e.g., cars must contain at least 20% domestically made parts). Lastly, a nation can take extreme measures like trade embargos or sanctions, which are banning trade entirely with a nation on specific products or with the entire country.

The protectionist toolkit is varied. Tariffs, quotas, and subsidies each have played roles in US trade disputes. The choice of tool depends on the situation. Tariffs are relatively quick to implement and straightforward; quotas offer certainty of limiting import volumes; subsidies work by bolstering the home country rather than directly blocking imports. Often, multiple tools are used in combination. Understanding these policy instruments is key to interpreting the progress and potential impact of any trade war.

## Historical overview of major US trade wars

While full-blown trade wars have been rare in recent decades, the United States has experienced several notable episodes of trade conflict. Below is a brief overview of major trade wars or protectionist showdowns involving the US, illustrating how they unfolded and their consequences.

### The Smoot-Hawley tariff and the great depression (1930s)

One of the most famous (or infamous) trade wars was ignited by the US Smoot-Hawley Tariff Act of 1930. Enacted at the start of the Great Depression, this law dramatically raised US tariffs on over 20,000 imported goods – roughly a 20% increase in import duties on average.[9] The intent was to protect American farmers and industries suffering from falling prices. However, Smoot-Hawley kicked off a wave of global retaliation. More than 25 countries responded by raising their own tariffs against American exports, and international trade ground nearly to a halt (see Figure 4). US imports from Europe fell from $1.3 billion in 1929 to just $390 million in 1932, while US exports to Europe collapsed from $2.3 billion to $784 million in the same period.[10] Overall, world trade declined by roughly 66% between 1929 and 1934, a catastrophic contraction that worsened the Great Depression's impact.[11]

[9] Source: "What Is the Smoot-Hawley Tariff Act?", investopedia.com.

[10] Source: "Protectionism in the Interwar Period", Milestones in the History of US Foreign Relations, history.state.gov.

[11] Source: "Protectionism in the Interwar Period", Milestones in the History of US Foreign Relations, history.state.gov.

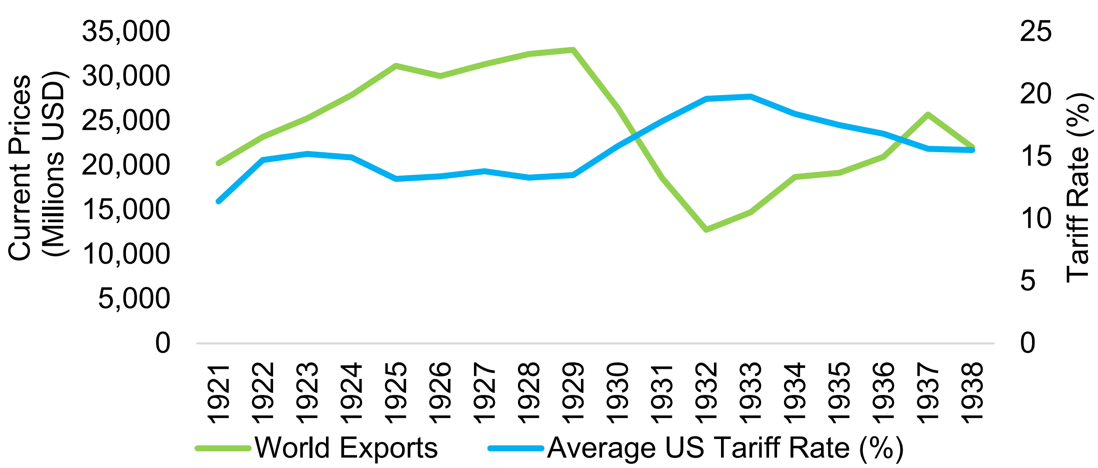


**FIGURE 4**

**World Exports and Average US Tariff Rates from 1921 to 1938.**

Sources: Federico, Giovanni; Tena Junguito, Antonio, 2018, Federico-Tena World Trade Historical Database: World Trade, https://doi.org/10.21950/JKZFDP/DEENJJ, e-ciencia Datos, V2; and Tax Foundation data. Average tariff is a weighted average based on the value and size of import goods.

Experts debate the degree to which Smoot-Hawley itself caused the Depression's severity, but it unquestionably exacerbated global economic stress. It became a symbol of "beggar-thy-neighbor" policy – each country's protectionism only deepened worldwide misery.[12] In the United States, many economists and business leaders had opposed the tariff hike; over a thousand economists famously petitioned President Herbert Hoover to veto Smoot-Hawley, warning of its dangers. Their fears proved prescient as exports and imports both plunged.

This period marked the last gasp of high-tariff policy in the US for many decades. In 1934, President Franklin Roosevelt reversed course with the Reciprocal Trade Agreements Act, which empowered the executive branch to negotiate tariff reductions with other nations. Tariff levels fell sharply after 1934 with the advent of reciprocal trade agreements. The lesson learned from this period was that tit-for-tat protectionism could be economically destructive. Indeed, Smoot-Hawley's legacy influenced the design of the General Agreement on Tariffs and Trade ("GATT"), established in 1947, which was devised to bind countries to gradual tariff cuts and prevent another 1930s-style trade war.[13]

### From chickens to Nixonomics (1960s–1970s)

After World War II, the US generally championed trade liberalization, but there were still notable flare-ups. In the early 1960s, the "Chicken War" between the United States and Europe was a quirky but instructive episode. European Economic Community ("EEC") countries, fearing cheap US poultry imports, imposed tariffs on imported chicken in 1962. When negotiations failed, President Lyndon Johnson retaliated in 1963 by slapping 25% tariffs on light trucks, as well as duties on items like potato starch and brandy from Europe.[14] This retaliation hit West Germany's auto industry especially hard and was designed to equalize the "imbalance" created by Europe's chicken tariff. Most of these 1960s retaliatory tariffs were lifted in subsequent agreements as US-Europe relations normalized, but one would leave a lasting imprint: the 25% truck tariff (known as the "Chicken Tax") remained in effect for decades.[15] It protected US automakers from foreign competition in light trucks and vans long after the original poultry dispute was forgotten.

In 1971, confronted with a growing trade deficit and monetary pressures, President Richard Nixon imposed a temporary 10% surcharge on all imports as part of the Nixon Shock (which also ended the dollar's gold convertibility). This import surcharge was a blunt tool aimed at pressuring trading partners (Japan and West Germany in particular) to revalue their currencies and improve the US trade balance. The gambit was short-lived, as it succeeded in bringing US allies to the bargaining table to adjust exchange rates, and the surcharge was lifted after a few months. While not a protracted trade war, Nixon's unilateral import tax underscored the leverage of US market power and foreshadowed later use of similarly aggressive tactics. It also highlighted the interplay of currency policy and trade.

[12] Source: "Protectionism in the Interwar Period", Milestones in the History of US Foreign Relations, history.state.gov.

[13] Source: "Do trade restrictions work? Lessons from trade with Japan in the 1980s", Lee Branstetter, PBS.org, November 2017.

[14] Source: "Chickens, Trucks, and Tariffs: A 1960s Trade War", Anna Price, December 2023.

[15] Source: "Chickens, Trucks, and Tariffs: A 1960s Trade War", Anna Price, December 2023.

## US-Japan trade tensions in the 1980s

By the 1980s, Japan had become an economic powerhouse and amassed large trade surpluses with the United States, fueling American fears of industrial decline. The US responded with an aggressive mix of protectionist measures in industries ranging from autos to electronics. For example, in 1981 the Reagan Administration pressured Japan into "Voluntary Export Restraints" that limited the number of Japanese cars shipped to the US (effectively a quota). These voluntary quotas on Japanese autos were estimated to be equivalent to imposing a whopping 60% tariff on those cars, according to economic analyses.[16] Similarly, in 1987 the US slapped a 100% tariff on select Japanese electronic imports (like certain computer chips) to enforce a semiconductor trade agreement.[17] At the time, there was no WTO to adjudicate such disputes, and the US leveraged its position as Japan's biggest export market (and Cold War ally) to extract concessions.[18]

In addition, Japanese officials, anxious to preserve access to the US, complied with a "constellation of agreements." Throughout the 1980s, Japan agreed to voluntary limits on exports of steel and automobiles, and it undertook measures to import more US goods. There were numerous accords – by one count, over 100 bilateral deals, memoranda, and market-opening pledges in that era.[19] For example, Japanese manufacturers opened factories to the US, a potential win-win as the US wanted manufacturing jobs and Japan was facing labor constraints.

Despite these measures, the bilateral trade deficit remained stubbornly high through the 1980s and 1990s (see Figure 5).[20] The failure of these policies to shrink the overall deficit illustrated how broader economic forces can overwhelm industry-by-industry trade measures. Large US budget deficits and low national saving in the 1980s meant the US had to borrow from abroad, which inherently tends to produce trade deficits.[21] In other words, factors such as macroeconomic conditions (e.g., exchange rates, savings-investment imbalances) limited the effectiveness of trade policies. As one analyst noted, trying to reduce a trade deficit by squeezing imports from one country is like "squeezing on a balloon" – the deficit may simply shift to other products or trading partners.[22]

16 "Do trade restrictions work? Lessons from trade with Japan in the 1980s", Lee Branstetter, PBS.org, November 2017.

17 "The First Semiconductor Trade War", Eric Boehm, Reason.com, November 2021.

18 "Do trade restrictions work? Lessons from trade with Japan in the 1980s", Lee Branstetter, PBS.org, November 2017.

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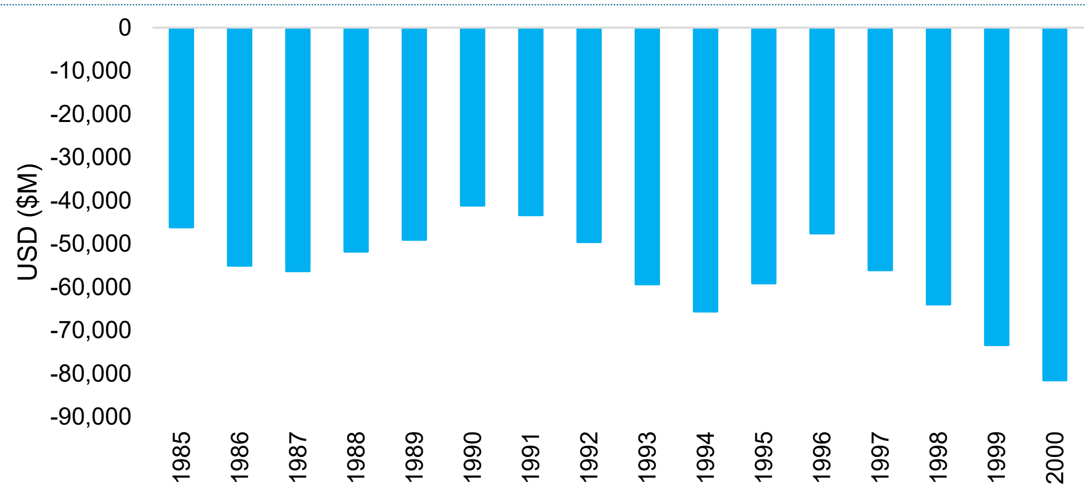


**FIGURE 5**
**US-Japan Bilateral Trade Balance in Goods (Millions USD)**

Source: US Census Bureau, Trade in Goods with Japan. All figures are in millions of US dollars on a nominal basis, not seasonally adjusted.

The 1980s US-Japan tensions eventually eased with diplomatic agreements like the Plaza Accord of 1985, which realigned currencies, and market-opening measures in Japan. This period demonstrated that while specific sectors (e.g., Harley-Davidson motorcycles or US semiconductor makers) might win temporary relief from foreign competition due to tariffs or quotas, the overall trade balance might not improve if the underlying fiscal and economic factors are unchanged.[23] It was a lesson that would resonate decades later during another major US trade war.

**The US-China trade war (2018-Present)**

In recent years, the most significant trade war involving the US has been the one initiated by the first Trump Administration against China. Beginning in 2018, the US began imposing tariffs on hundreds of billions of dollars' worth of Chinese imports, in response to long-simmering issues such as China's trade surplus, alleged intellectual property theft, currency manipulation, state subsidies, and forced technology transfers. By late 2019, the US had applied tariffs on roughly $350 billion of Chinese goods (about two-thirds of Chinese imports), ranging from 10% to 25% tariffs in several tranches.[24] In turn, China retaliated with tariffs on about $100–110 billion of US exports, targeting products like soybeans, pork, and automobiles that were perceived to be crucial to President Trump's political base.[25] China's retaliatory tariffs eventually came to affect over half of all US exports to China.[26] This rapid escalation marked the biggest trade war since Smoot-Hawley in terms of the value of trade affected.

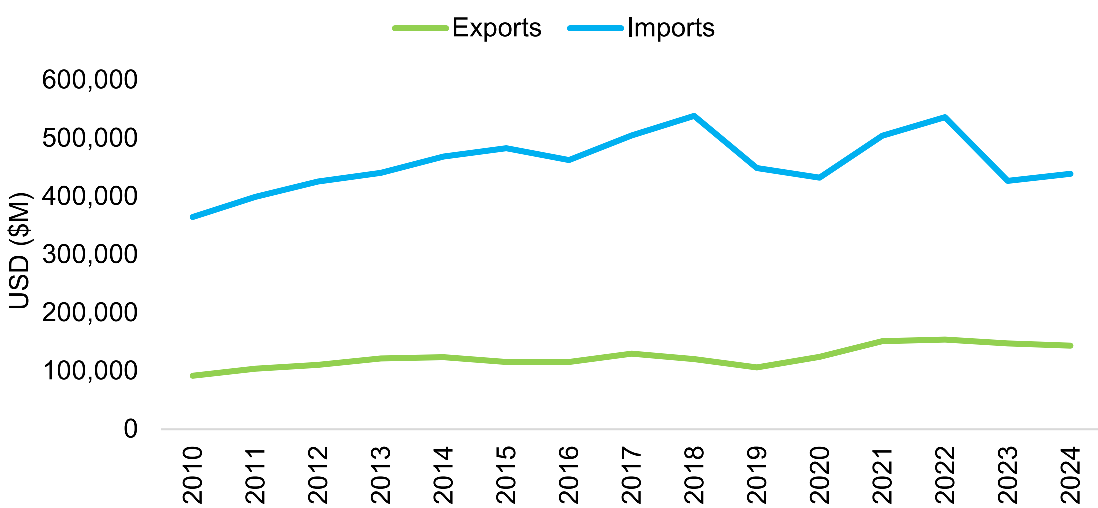


**FIGURE 6**

**US Exports to and Imports from China in Goods (Millions USD)**

Source: US Census Bureau, Trade in Goods with China. All figures are in millions of US dollars on a nominal basis, not seasonally adjusted.

The immediate impact was a sharp rise in the average tariff rates between the two countries. US imports from China declined as a result (see Figure 6). In 2019, US goods imports from China fell markedly, as the US goods trade deficit with China dropped from $419 billion in 2018 to $345.6 billion in 2019.[27] However, US exports to China also fell in 2019, though to a lesser degree, due to China's counter-tariffs and other factors. Furthermore, some of the decline in Chinese imports was offset by increased US imports from other countries as companies shifted supply chains. As a result, US trade deficits with countries like Mexico and Vietnam rose. Thus, the overall US trade deficit only narrowed slightly in 2019 despite the steep drop vis-à-vis China.[28]

[23] Source: PBS.Org, L. Branstetter, "Do trade restrictions work? Lessons from trade with Japan in the 1980s", November 2017.

[24] Source: "The economic impacts of the US-China trade war", Pablo Fajgelbaum, Amit Khandelwal, nber.org, December 2021.

[25] Source: "The economic impacts of the US-China trade war", Pablo Fajgelbaum, Amit Khandelwal, nber.org, December 2021.

[26] Source: "The economic impacts of the US-China trade war", Pablo Fajgelbaum, Amit Khandelwal, nber.org, December 2021.

[27] Source: Bureau of Economic Analysis, "2019 Trade Gap is $16.8B," February 5, 2020.

[28] Source: FRED April 2025.

After several tit-for-tat rounds, the two governments reached a partial truce with the "Phase One" agreement signed in January 2020. In that deal, China pledged to buy an extra $200 billion of US goods and services over 2020–2021 (above 2017 baseline levels), including agricultural and manufacturing products. The US in return postponed some tariffs and halved the rate on a portion of imports, but notably kept in place tariffs on about $360 billion of Chinese goods – maintaining significant leverage.[29] Ultimately, China did not meet the purchase targets, buying only roughly 57% of the promised amount by the end of 2021.[30] The trade war effectively continued under the Biden Administration, and most US tariffs on China remain in effect as of 2025. The second Trump administration has sought to expand and renew the trade war with China, which is an ongoing matter as of this writing.

[29] Source: "Trump signs 'Phase 1' trade truce with China", PBS.org, January 2020.

[30] Source: "China bought none of the extra $200 billion of US exports in Trump's trade deal", Chad P Bown, Realtime Economics, July 2022.

Note that some of the motivation for the current decoupling of trade can be linked to the supply chain disruptions of 2020 and 2021, which highlighted the need to focus on strategic domestic production and more resilient supply chains. In 2022, Secretary Yellen urged US companies to pursue friendshoring to bolster resiliency in global supply chains.[31] In 2025, Secretary Bessent indicated that strategic decoupling from China in key sectors would be the preferred policy path of the current administration, arguing that neither the US nor China want generalized decoupling.[32] So far, the indication is for a preference for free trade with friendly nations and strategic mercantilism for key sectors with non-allies.[33]

[31] Source: Atlantic Council, "On-the-next-steps-for-russia-sanctions-and-friend-shoring-supply-chains," April 13, 2022.

[32] Source: Bloomberg, "Bessent Says the US and China Do Not Want Generalized Decoupling," May 12, 2025.

[33] Mercantilism is an economic theory that emphasizes national self-sufficiency and building a nation's wealth and power by maximizing exports and minimizing imports, often through government intervention and protectionist policies.

The US-China trade war has shown mixed results. The US exerted economic pressure on China and signaled a tougher stance on trade, but it also introduced new costs and uncertainties for American companies and consumers. The conflict has yet to be fully resolved, reflecting deeper strategic tensions. For investors, this episode underscores how trade wars can roil markets, disrupt supply chains, and force shifts in corporate strategy. It also highlights the return of protectionism as a significant policy force, after decades in which trade liberalization was the prevailing trend.

## Impacts of trade wars on capital markets

Markets dislike uncertainty, and trade wars generate plenty of it, from unpredictable tariff announcements to abrupt shifts in supply chains. Trade policy uncertainty in 2019 reached high levels by some measures (see Figure 7), and surveys showed it contributed to firms delaying capital expenditures. This dampening of business investment is a channel through which trade wars hit GDP as well. Note that uncertainty related to economic policy reached a new high in the most recent trade war.

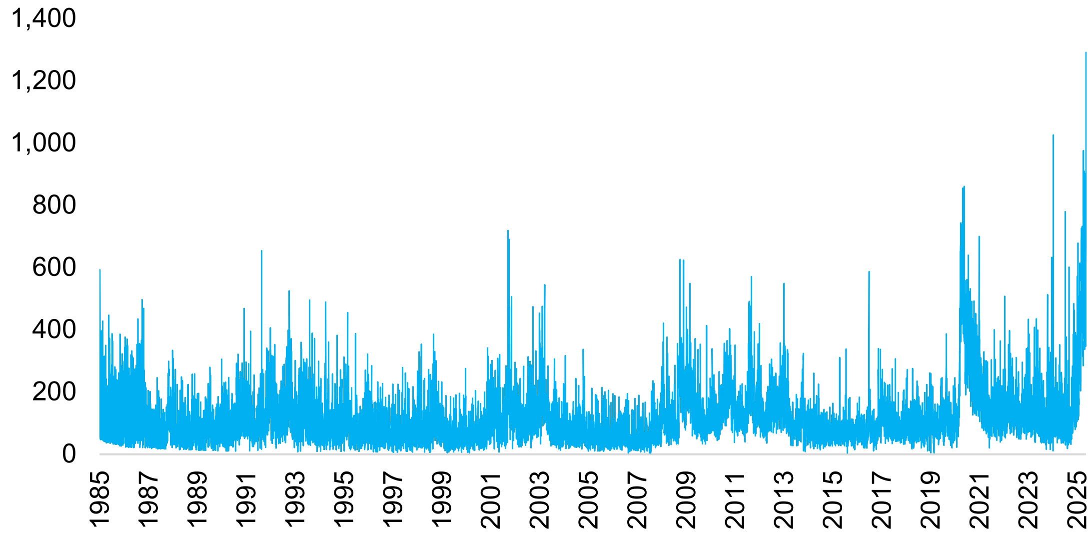


FIGURE 7
**US Economic Policy Uncertainty Index**

Source: FRED. Frequency is Daily, 7-Day.

The outcomes for individual industries are uneven. Generally, protected industries (e.g., steel) see short-term gains, while industries that rely on imported inputs or export markets feel pain. During 2018-2019, the performance of stocks was often based on certain sectors' trade exposure (e.g., industrial and agricultural equipment stocks lagged when China announced retaliatory tariffs on those goods). Because modern supply chains are interlinked, often an industry that appears purely domestic still has some upstream or downstream exposure to trade (e.g., the cost of materials used by domestic construction companies can be affected by tariffs on lumber, steel, etc.). Therefore, a tariff on one product can ripple through multiple industries. The net effect of a broad trade war for a diversified economy like the US tends to be negative on balance, but some niche industries can come out ahead. Therefore, trade wars create a more complex environment for picking corporate winners and losers, as the government's policy choices can significantly alter competitive dynamics.

## Conclusion

Trade wars involve protectionist measures and retaliation, impacting GDP, jobs, and inflation, often negatively. Research shows that free or fair trade, under rules-based systems, is more conducive to growth than trade warfare. Despite this, nations may engage in trade wars for policy goals, and the repercussions are likely to be felt across financial markets and economies. Trade wars can influence currency values, alter commodity prices, and induce volatility in equity and bond markets. They can change industry fortunes almost overnight. Exporters of agricultural and capital goods can see demand evaporate if they become targets of retaliation, whereas some domestic-focused firms might gain a temporary respite from foreign competition.

For the United States, the experience of trade conflicts from the 1930s to the present provides several key lessons. First, trade wars are costly. They may be undertaken for valid strategic reasons (e.g., protecting vital industries or addressing genuinely unfair practices), but they typically entail collateral damage to the broader economy in the form of higher prices for consumers, retaliatory hits to exporters, and efficiency losses that weigh on growth. Second, while protectionist policies can benefit specific industries in the short run, they are not a panacea for economy-wide issues like trade deficits or declining employment in certain sectors. Underlying macroeconomic conditions and competitiveness factors still dominate in the long run. Third, the post-WWII framework of trade agreements and institutions was designed to prevent the kind of spiraling beggar-thy-neighbor policies seen in the 1930s. Eroding that framework (e.g., bypassing the WTO dispute settlement system) raises the risk of uncontrolled escalation that can undermine global growth and financial stability.

Looking ahead, US trade policy continues to balance on a fulcrum between open markets and strategic protectionism. Issues like national security (e.g., technology exports and supply chain security), job protection, and fairness (e.g., intellectual property theft and forced technology transfers) are increasingly cited as reasons for trade restrictions, blurring the line between classic "trade wars" and broader economic competitions.

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