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Introduction

In his relentless pursuit of industrial renewal and the creation of high-paying blue-collar jobs, Donald Trump has dented the liberal economic order promoted by the United States since the Second World War. Shortly after taking office, he ordered additional tariffs not seen since the 1930s[2]. China's swift retaliation led to a staggering protectionist escalation and the reciprocal imposition of triple-digit tariffs.

Under pressure from the financial markets, the President suspended the application of numerous surtaxes (the "reciprocal tariffs") differentiated by country (from 11% to 49%) for 90 days as of April 9. A similar truce was agreed with China on May 12. During the reprieve, the US will, as a general rule, apply a baseline additional tariff of 10% on all imports (30% on Chinese goods[3]: 20% fentanyl-related tariff + 10% baseline tariff). This respite allows time for negotiations.

Furthermore, an extra fentanyl-related tariff of 25% has been imposed on all goods from Canada and Mexico that do not comply with the rules of origin of the United States-Mexico-Canada Free Trade Agreement (hereinafter USMCA non-compliant).

The measures were introduced without any regard for international law, particularly WTO agreements[4]. The US administration is currently adjusting its policy at short notice. Assumptions made at the time of writing (June 4, 2025) may therefore lose all relevance in the not-too-distant future.

The uncertainties in US trade policy have been further exacerbated by the May 28 ruling of the US Court of International Trade (CIT) ordering the repeal of the aforementioned tariffs within ten days[5]. The court ruled that the 1977 International Emergency Economic Powers Act (IEEPA) invoked by the President could not justify the imposition of these measures, which in this instance were the responsibility of the US Congress.

The Trump administration immediately filed an appeal with the U.S. Court of Appeals for the Federal Circuit, which agreed to suspend the CIT's decision for the time needed to examine the parties' arguments[6]. If the plaintiffs are successful (the Supreme Court could have the final say), most of the surcharges imposed by President Trump would be cancelled. In that case, the administration will certainly seek to back up its policy by means of other available options.

That said, a series of sector-specific customs duties (25% on automobiles and their parts and 50% on aluminium and on steel), remain in force and others are looming (e.g. semi-conductors, pharmaceuticals, trucks and their parts)[7]. These measures are not affected by

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[2] Cf. State of U.S. Tariffs: May 12, 2025 | The Budget Lab at Yale

[3] The 30% figure is misleading. Since the start of the trade war between the US and China in 2018, numerous tariffs have piled up on the same goods. According to the Peterson Institute, "average US tariffs on Chinese exports now stand at 51.1 percent and cover 100 percent of all goods. China's average tariffs on US exports are at 32.6 percent and cover 100 percent of all goods." Cf. https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart

[4] Cf. The new US tariff policy from a WTO law perspective: assessment and approach

[5] Cf. gov.uscourts.cit.17080.56.0.pdf and Court of International Trade strikes down Trump's tariffs

[6] Cf. Court Tariffs Ruling Upends Trump's Trade Strategy - The New York Times

[7] For an overview, cf. Trump's trade war timeline 2.0: An up-to-date guide | PIIE

the ruling of the CIT as they fall under another legal basis: section 232 of the Trade Expansion Act.

Against a backdrop of legal conflict, internal resistance and international tensions, any prediction as to the regime that will apply in a few months' time is highly risky. We would venture to suggest that a return to the former status quo - where average US tariffs on industrial goods neared 2% - seems out of the question. Depending on the products, a more or less pronounced degree of protection will remain. Without a marked reduction in the rates initially announced, all trading partners will suffer from a protectionist outburst. Starting with the United States, where the Fed and the OECD[8] are forecasting higher inflation, slower growth and rising unemployment.

According to the White House, the new tariffs will incentivise companies to (re)locate their factories in the USA and (re)hire numerous workers to revitalise regions left behind by globalisation. While the end is undeniably laudable, the appropriateness of the means is a point of contention. To better understand the impact of such a policy, it is useful to look at the potential effects of tariffs on a sector representative of modern production methods: the automotive industry.

A case in point: The automotive industry

A convoluted protectionist regime

On March 26, President Trump announced the imposition of a 25% surcharge on passenger vehicles and light trucks as well as on some of their essential parts, such as engines and engine parts, transmissions and powertrain parts, and electrical components[9]. The surcharge took effect on April 3 for finished vehicles, and on May 3 for parts and components. The following is a description of the new system, which stands out for its extreme complexity.

- Excluding the baseline 10% tariff, duties are in addition to other levies (e.g., most-favoured-nation/MFN tariffs). For instance, the United States currently imposes an MFN tariff of 2,5% on passenger vehicles and 25% on light trucks. With the additional 25% tariff, the total rate will amount to 27,5% for passenger vehicles and 50% for light trucks originating in countries which did not conclude comprehensive free trade agreements[10] with the US (e.g. EU member states). Usual MFN duties for automobile parts are relatively low from 0 to a few percent depending on the product.
- For vehicles and parts imported under a comprehensive free trade agreement, the total tariff will in most cases amount to 25%.
- However, finished vehicles from Canada and Mexico that comply with the rules of origin of the USMCA (hereinafter USMCA-compliant) will receive preferential treatment and pay a maximum customs duty of less than 25%. Indeed, the US content of eligible automobiles will remain exempt.[11] The U.S. Department of Commerce estimates that the percentage of U.S. content in the typical USMCA vehicle is equal to 40%[12] of the vehicle's value, although the actual percentage varies considerably from model to model. Theoretically, the average tariff on vehicles from

[8] Cf. OECD Economic Outlook, Volume 2025 Issue 1 | OECD

[9] Cf. Adjusting Imports of Automobiles and Automobile Parts into the United States – The White House and Fact Sheet: President Donald J. Trump Adjusts Imports of Automobiles and Automobile Parts into the United States –].

[10] The United States has comprehensive free trade agreements in force with 20 countries: Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Singapore. Cf. https://ustr.gov/trade-agreements/free-trade-agreements

[11] Parts wholly obtained or substantially transformed in the U.S.

[12] Cf. International Trade Administration, Department of Commerce, Procedures for Submissions by Importers of Automobiles Qualifying for Preferential Tariff Treatment Under the USMCA To Determine U.S. Content

Mexico and Canada (around 36%[13] of the value of US imports) could approximate 15%.

- For USMCA non-compliant vehicles imported from Canada and Mexico, various tariffs will be accumulated to reach 52,5% for passenger vehicles (25% fentanyl-related tariff + 25% sectorial surcharge + 2,5% MFN tariff) and 75% for light trucks (25% + 25% + 25%).
- The sum of the tariffs imposed by the Biden and Trump administrations on Chinese electric cars will reach a quasi-prohibitive level exceeding 100%, given that President Biden raised the US tariff on such vehicles to 100% in 2024[14].
- Imported USMCA-compliant parts will be exempted[15].
- Manufacturers will no longer be subject to multiple levies, but only to the highest tariff associated with the inputs they use. For example, if they pay a 25% tariff on components, they will be exempted from the 50% surcharges on the steel and aluminium contained in those components.
- The government has granted partial and temporary relief on tariffs for USMCA non-compliant parts (mostly imported from outside the USMCA area). Automakers will benefit, for two years, from credits on the value of a car assembled in the USA (3.75% in the first year and 2.5% in the second) which they may claim to import an equal amount in spare parts exempt from additional duties. Thus, for each vehicle worth $50,000, a manufacturer could save $1,875 in customs duties in the first year.

Manufacturers welcomed the above-mentioned easings, which significantly reduce (but do not eliminate) the impact of tariffs on the cost of US-assembled vehicles[16]. Of course, the reduction is only granted on condition that the importer is able to produce the documentation required to prove the conformity of the origin of the relevant cars and parts. This is no small feat and requires tedious and time-consuming administrative work from companies in the automotive sector, which not all are able to provide[17].

In addition, under the terms of an agreement in principle reached between Washington and London on May 8, British automobiles will be exempt from the 25% surtaxes and subject to the baseline 10% customs duty for a quota of 100,000 units[18].

A tall order

Formally, the measures were introduced on the grounds that the targeted imports threatened national security through undermining the U.S. industrial base and supply chains. The stated aim is to create a home market essentially supplied by the domestic production of automobiles that are entirely (or almost entirely) “made in the USA”.

As in other sectors, the various stages of automobile production are spread across geographically distant sites so as to maximize their respective comparative advantages. Intermediate products cross borders several times before final assembly. Consumers benefit from this complex, finely-tuned system, which optimises the cost-quality ratio and expands the assortment. The single North American market has fostered the emergence of fully integrated, highly efficient industrial processes: a “grand factory” spanning the USA, Mexico and Canada.

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[13] Cf. US Imported Cars by Supplier Countries 2024

[14] Cf. https://www.china-briefing.com/news/us-china-tariff-rates-2025/

[15] Cf. Amendments to Adjusting Imports of Automobiles and Automobile Parts Into the United States – The White House and Fact Sheet: President Donald J. Trump Incentivizes Domestic Automobile Production – The White House

[16] Cf. https://www.andersoneconomicgroup.com/tariffs-economic-impact-on-auto-industry/

[17] Cf USTR, Biennial Reports to Congress on the Operation of the United States-Mexico-Canada Agreement (USMCA) with Respect to Trade in Automotive Goods, pp. 17-19

[18] Cf. US UK EPD_050825_FINAL rev v2.pdf

In 2024, 46% of the 16 million light vehicles sold in the USA were imported, mainly from Mexico, Japan, South Korea, Canada and Germany[19]. Their price at the border will increase by the amount of the customs duties collected. The cost of automobiles assembled in the USA will also rise in line with the tariffed foreign components. These may account for just over 50% of component imports. Note that spare parts from Canada and Mexico that comply with the USMCA rules of origin are exempted[20].

The rebate on parts imported from outside the USMCA area granted for a period of two years will ease the burden (see above)[21]. In the first year, this credit means an exemption from customs duties for the production of a car assembled in the United States with 85% content sourced from the U.S. or originating in Canada and Mexico according to the USMCA. A study[22] by the Kogod School of Business suggests that only three Tesla models reached the 85% mark in 2024[23]. A good number of models from other brands are more or less far from meeting this requirement, which implies that their manufacturers will have to pay the additional tariff on the value of parts imported from outside the USMCA area that exceeds 15% of the whole content. Without rapid reorganisation of their supply chain, they will incur additional costs.

Automakers will likely avoid passing on the full additional costs to customers in order to stem the decline in sales for as long as possible. Most of them and their dealers have stocks not affected by customs duties. However, their financial leeway is limited and they will not be able to absorb the extra costs indefinitely. General Motors, one of the most profitable companies, reported a net profit on sales of 3.2% last year. In any case, the situation remains highly volatile in a sector where prices change monthly in response to market signals.

Moreover, most car purchases are negotiated between the dealer and the buyer. The terms of the transaction are largely determined by the availability of the coveted vehicle. The foreseeable contraction in supply due to the customs levies will add to the bill. In fact, prices of new and used cars still unaffected by surcharges increased in April. Customers flocked to retailers to make pre-emptive purchases and avoid further price rises[24].

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[19] Cf. US Import Tariffs Will Reset the Automotive Value Chain | S&P Global

[20] The White House estimates the foreign component content of automobiles assembled in the USA at between 50 and 60 percent. In 2024, 41% of these components came from Mexico and 10% from Canada. According to the Mexican Automotive Industry Association (AMIA), 8% of the parts exported from Mexico do not meet USMCA requirements and do not benefit from the exemption. Some Canadian producers are also facing the same situation. This means that slightly more than 50% of components imported into the United States are subject to an additional 25% customs duty under the current regime. Cf. https://www.whitehouse.gov/fact-sheets/2025/03/fact-sheet-president-donald-j-trump-adjusts-imports-of-automobiles-and-automobile-parts-into-the-united-states/, US Imports of Automotive Parts by Country 2011-2024, 92% of auto parts made in Mexico comply with USMCA rules: INA - MEXICONOW and https://www.macmillanscg.com/blog/how-canadian-auto-suppliers-can-adapt-to-new-us-tariffs/

[21] At its maximum, the credit is calculated in such a way that a manufacturer assembling a car in the United States with 85% US content or content originating in Mexico and Canada under the terms of the USMCA does not pay customs duties on the production of this vehicle during the first year. If a manufacturer assembles a car in the United States with 50% US or USMCA content and 50% from other suppliers, only 35% of the imported parts will be subject to duties in the first year, not the full 50%. Cf. Fact Sheet: President Donald J. Trump Incentivizes Domestic Automobile Production – The White House

[22] Cf. https://kogod.american.edu/autoindex/2024

[23] These figures may be inaccurate. The data used by the authors do not fully take into account eligible content from Mexico. Thus, a car assembled in the United States containing a significant proportion of parts originating in that country could be closer to meeting the 85% requirement than the results of the Kogod School of Business study indicate.

[24] Cf. https://www.coxautoinc.com/wp-content/uploads/2025/05/May-2025-APA-Meeting-Presentation-FINAL.pdf and Cox Automotive Forecast: May New-Vehicle Sales To Cool After Tariff-Fueled Surge, 16M SAAR Expected - Cox Automotive Inc.

All in all, the extra expense borne by the buyer would vary greatly and could amount to several thousand dollars, depending on the brand and model[25]. In addition, parts taxation will increase maintenance, repair and insurance costs, which car owners are already struggling to meet. Under these circumstances, a decline in sales seems inevitable. Especially as new cars are already out of reach for many Americans[26]. Carmakers could also withdraw some of their less profitable models, which tend to be smaller and cheaper. Most of these products come from Mexico, Japan and South Korea, and will bear the brunt of tariffs. A shrinking range of affordable cars would directly affect the less affluent.

Last year, US companies exported almost 15% of the vehicles they built, mainly to Canada, Germany, China and Mexico[27]. These business opportunities could be jeopardized by countermeasures that countries injured by Washington's protectionism might adopt. China and Canada have already retaliated. Moreover, US parts suppliers hire twice as many workers as assembly plants. They also sell their products to Mexico and Canada, where they are incorporated into cars exported to the USA[28]. Equipment manufacturers will cut their workforces if Canadian and Mexican customers cease or reduce their activities.

These adverse effects will not be mitigated in the short term by an upswing in US industry. It takes several years to build a new plant, acquire the necessary machinery, reorganize the supply chain and so on[29]. Even an operation as simple as adapting a plant to the manufacture of a different model may require shutting down operations for a year or more.

Each car with an internal combustion engine has almost 30,000 parts, and it would be difficult to produce practically all of them in the United States, and certainly not economically rational[30]. The tariff reductions on components that the authorities had to concede reflect the very severe constraints faced by manufacturers. The findings of the International Trade Commission's 2023 report on the economic impact of the rules of origin applicable to the automotive sector under the USMCA are very explicit:

> *"Parts production is more labor intensive than vehicle production; therefore, shifting parts purchases to the United States (and Canada) increases the cost of individual parts more on a percentage basis than shifting vehicle assembly increases the overall vehicle cost…*
>
> *…Small increases in the prices of individual parts multiplied across hundreds of thousands or millions of vehicles can significantly increase costs. Manufacturers rely on an intricate supply chain with thousands of inputs from hundreds of suppliers for each vehicle. The cost of materials for U.S. vehicle manufacturers was 77 percent ($245 billion) of the value of U.S. motor vehicle shipments in 2021"*[31]

It is therefore not surprising that, in 2024, almost 60% of car parts imported into the United States came from Mexico (41%), China (9%), Thailand (3%), Vietnam (2%) and India (2%), countries with low labour costs[32]. When international production chains have been in place for a long time and are exactly adapted to production needs, border levies result in costly disturbances. In these circumstances, it would be logical for the granted relaxations to be

[25] Cf. https://www.andersoneconomicgroup.com/tariffs-economic-impact-on-auto-industry/, Trump's auto tariffs will hit many companies, but Elon Musk's Tesla less so | Reuters, US-Consumer-Economic-Impacts-of-US-Automotive-Trade-Policies-.pdf and Goldman Sachs Research Newsletter

[26] Cf Coxautoinc : New Auto Tariffs Are Now in Place, Driving the Industry into Uncharted Territory

[27] Cf. Cars in United States Trade | The Observatory of Economic Complexity

[28] Cf. Seven Charts Showing How Canada/Mexico Tariffs Would Harm the US Auto Industry (and American Car Buyers) | Cato at Liberty Blog

[29] Cf. Trump tariffs urge U.S. auto production. Here's why that's complicated

[30] Cf. https://www.csis.org/analysis/are-us-auto-tariffs-punishing-domestic-investment

[31] Cf. USMCA Automotive Rules of Origin: Economic Impact and Operation, 2023 Report, United States International Trade Commission, p. 71

[32] Cf. https://automotiveaftermarket.org/automotive-parts-imports-country/

made permanent. On top of this, recruiting and training a skilled workforce is no easy task. The U.S. automotive industry is experiencing real difficulties in finding enough skilled and motivated employees[33].

Finally, given the prevailing unpredictability, companies will be reluctant to undertake heavy, multi-year investments. The description of the challenges facing the industry by Paul Waatti, director of industry analysis at AutoPacific, is as striking as it is pertinent:

> *"Tariff uncertainty is forcing automakers into a reactive tailspin. In an industry that thrives on stability and long lead times, shifting policies upend both short-term production planning and long-term investment strategy—driving up costs, undercutting margins and destabilizing global supply chains."*[34]

It should also be noted that automation has long been a feature of the automotive workplace and that it will intensify with advances in artificial intelligence and robotics. Technological change has played a greater role than import competition in driving down the number of manufacturing jobs in recent decades[35]. The hoped-for reshoring of production will not change the underlying trend, and a return to employment levels comparable to those of the 1990s is illusory.

In the end, it is possible that protectionist measures will lead to an increase in US automobile production. The global automotive industry has reacted in various ways to mitigate the impact of the tariffs introduced by President Trump. Some manufacturers are considering expanding their operations in the United States or relocating production of certain models there[36]. Companies such as Volkswagen, Hyundai and Honda have announced that they intend to make significant investments in the United States[37].

Such a structural adjustment would respond to a politically-motivated constraint rather than to economic rationality, and it is to be feared that consumers would have to bear a lower cost/quality ratio in order to absorb the resulting additional costs. Moreover, it is plausible that domestic manufacturers would take advantage of the tariff shield to charge higher prices than in a regime better exposed to foreign competition. They did not refrain from doing so after President Johnson imposed a surcharge on pickup trucks in 1963[38].

Ultimately it appears that making an automobile entirely (or almost entirely) in the United States can only be achieved through long and costly efforts. The flexibilities already granted at the urging of manufacturers are a clear reminder of the reality on the ground and suggest that the project cannot be carried out as planned. But how far should it be taken? It is up to American stakeholders to weigh up the pros and cons of a resolutely mercantilist policy and to determine whether the anticipated societal gains outweigh the costs.

If, as a result of the international talks currently underway, the basic customs duty on automobiles and their components were to be closer to 10% rather than 25%, the effect of the surtaxes would be significantly lessened and made more sensitive to exchange rate variations, which depends on the confidence placed by financial markets in the dollar as a world reserve currency.

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[33] Cf. Automation Adoption Implications on Workforce | Center for Automotive Research et Battery Industry Workforce Needs in North America | Center for Automotive Research

[34] Cf. https://www.newsweek.com/automakers-change-production-sales-plans-based-trump-tariffs-2066875

[35] Cf. Automation Adoption Implications on Workforce | Center for Automotive Research et Battery Industry Workforce Needs in North America | Center for Automotive Research

[36] Which companies are looking at US expansion to lessen tariff fallout? | Reuters

[37] Cf. https://www.theguardian.com/business/2025/may/30/volkswagen-to-make-massive-investment-in-us-to-avoid-tariffs, https://www.jalopnik.com/1873377/hyundai-latest-automaker-raising-prices-trump-tariffs/

[38] Cf. CNN : Chickens. Pickup trucks. Trade war?

General lessons

Is the game worth the candle? This question obviously arises in all sectors where the Trump administration wishes to substitute local production for imports. The lesson that can be drawn from the automotive industry retains much of its relevance on a macroeconomic scale.

Market protection generally decreases the competitiveness of domestic firms, notably if a plethora of inputs and capital goods are taxed at the border. These products make up more than half of US imports, and it is virtually impossible to relocate their entire production at competitive conditions. US exporters, of whom many manufacture high-tech goods (for instance civil aircraft, gas turbines and specialised chemicals), will be particularly hit, all the more so if they are faced with trade retaliation[39].

For example, the 50% surcharges on steel and aluminium, if maintained, could prove detrimental to the customers of steel mills and aluminium smelters, which will have to source their supplies from more expensive providers. There is a wealth of economic literature showing that tariffs on primary inputs durably reduce the total number of jobs in downstream industries[40].

Also, tariffs will lead to higher prices impacting consumers. And we can expect a fall in GDP and job losses before new factories are built.

Potential hiring gains in the longer term remain limited due to ubiquitous automation. New factories will require fewer staff with more advanced skills. Given the historically low unemployment rate, it is possible that open jobs in industry will go unfilled, due to their lesser attractiveness (lower salaries than the private sector average, lower flexibility, strenuous and hazardous conditions)[41]. According to data from the Bureau of Labor Statistics, almost half a million manufacturing jobs are currently unfilled[42]. Besides, Americans' skills are not well suited to modern industry. To overcome these difficulties, both qualifications and remuneration need to be improved - two major challenges.

Aware of these problems, President Trump issued an executive order on April 23 to support over a million apprenticeships[43]. This is not the first time that the USA has taken an interest in vocational training and many initiatives have already faltered. Assuming that the most recent attempt is carried out with the requisite determination and resources, it will only produce tangible results in several years' time. As for remuneration, it will be closely linked to the productivity of the work performed. How can employers generously pay for “screwing in little screws“, while at the same time keeping prices affordable for the average American to avoid a sales slump? Relocating labour-intensive production steps borders on a Sisyphean task.

The American economy has changed considerably over the last fifty years. Today, services account for 84% of private-sector jobs, while industry employs less than 10%. It is the latter, a small minority, who may benefit from the protection, the cost of which will be borne by employees of the service sector, the overwhelming majority. Deindustrialisation is part of a broader trend observed in all developed economies as a country becomes more prosperous and advances technologically. In the USA, manufacturing employment began to stagnate in the mid-1960s, when the country had little exposure to international competition and China

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[39] Cf. https://taxfoundation.org/blog/trump-tariffs-prices-long-term-effects/

[40] Cf. Alessandro Barattieri and Matteo Cacciatore, “Self-Harming Trade Policy? Protectionism and Production Networks”, American Economic Journal: Macroeconomics. Vol. 15, No2, April 2023, pp. 97–128 and Lydia Cox, “The Long-Term Impact of Steel Tariffs on U.S. Manufacturing”, University of Wisconsin-Madison February 19, 2025

[41] Cf. https://www.wita.org/blogs/gen-z-manufacturing/ and Can, or should, the US bring the factory jobs back? - CIBC Capital Markets

[42] Cf. Bureau of Labor Statistics

[43] Cf. Preparing Americans for High-Paying Skilled Trade Jobs of the Future – The White House

was far from becoming the world's leading workshop. Tariffs could somewhat increase hiring in industry, without reversing the trend[44].

In 2024, the US trade surplus in services offset 25% of the deficit in goods[45]. In the same year, exports of services - where the US often has a comparative advantage (information technology, digital services, finance and education) - reached a record level[46]. This profitable momentum will be reinforced by the technological transformations underway. Yet, the Trump administration has an unfounded propensity to overshadow the services surplus in order to dramatise the merchandise trade deficit[47]. Nonetheless, international trade in services generates real jobs and substantial income. In the United States, it is highly likely that most of the new jobs and growth in high-value-added exports will be provided by services.

The massive and indiscriminate imposition of customs surcharges is unsustainable in the long term. While a return to the previous status quo seems beyond the realms of possibility at this stage, it is likely that a partial de-escalation will occur under pressure from popular discontent and business circles, or in the context of negotiations with trading partners.

When President Trump took office, the US economy was performing very well. Unemployment neared 4%, inflation slightly exceeded the Fed's 2% target, growth and productivity gains were solid, and GDP per capita surpassed that of most advanced countries. Globalisation and technological change have thus enriched the United States but household economic well-being varies widely within the country[48].

Indispensable flanking policies

While productivity gains account for the bulk of the decline in industrial employment[49], international competition, particularly the China shock[50], also plays a part. The impacts are often geographically concentrated[51]. Many laid-off workers are unable to take up newly-created skilled jobs and are resigned to accepting low-paying occupations. In theory, the gains from trade could have been distributed more equitably. However, in the USA, there is no consensus on how to achieve such a goal and the new precariousness has generated legitimate frustrations.

The existing mechanisms for supporting the unemployed in the USA are insufficient to cushion economic shocks. In response to industrial mutations, many OECD countries are devoting significant resources to workforce transition programs. As the graph below shows, the United States is clearly lagging behind. It is true that the US government introduced the Trade Adjustment Assistance for Workers Program (TAA) as early as the 1960's[52]. This instrument encompassed retraining and job search programs, but the results fell short of

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[44] Cf. paulkrugman.substack.com/p/deindustrialization-causes-and-consequences?

[45] Cf. U.S. International Trade in Goods and Services, December and Annual 2024 | U.S. Bureau of Economic Analysis (BEA)

[46] Cf. What Drives the U.S. Services Trade Surplus? Growth in Digitally-Enabled Services Exports | CEA | The White House.

[47] Cf. Lighthizer, Robert (2023), *No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers*, Broadside Books

[48] According to the Report on the Economic Well-Being of U.S. Households in 2023 - May 2024: 27-34 surveying the financial lives of American adults and their families, “Seventeen percent of adults said they did not pay all their bills in full in the month prior to the survey.”…“Seven percent of adults said that members of their household sometimes or often did not have enough to eat in the prior month.”…“Twenty-seven percent of adults went without some form of medical care in 2023 because they could not afford it”.

[49] Cf. https://www.csis.org/analysis/do-not-blame-trade-decline-manufacturing-jobs, https://eig.org/wp-content/uploads/2024/07/TAWP-Handley.pdf and https://taxfoundation.org/blog/us-manufacturing-employment-tariffs/

[50] Cf. Autor, D., Dorn, D., and Hanson, G. (2013), ‘The China Syndrome: Local Labor Market Effects of Import Competition in the United States’, *American Economic Review*, 103(6): 2121–2168.

[51] Cf. https://www.wita.org/atp-research/china-trade-shock/

[52] Cf. https://www.wita.org/blogs/trials-tribulations-of-trade/

expectations, mainly due to a lack of funds. A study[53] has shown that the capacity of the TAA to respond to trade shocks has declined markedly since the 1990s, i.e. during the hyperglobalisation phase. Regions where the TAA was least responsive were more likely to vote for Donald Trump and thus favour a protectionist agenda. The TAA expired in 2022 and a fresh look is needed.

In President Trump's rationale, protectionism acts as a social safety net. Responsibility for the ills afflicting American society is assigned to foreigners, who are accused of unfair competition as soon as they maintain a trade surplus with the United States. This policy is based on a questionable diagnosis and detrimental to the common interest. So, what can be done for US deprived communities if the social shock absorbers widespread in the European Union and Canada are not available? In the absence of a nationwide adequate solution, place-based support and workforce transition programmes focused on the most affected geographical areas would provide welcome relief[54].

A complementary solution may consist in the implementation of an industrial policy targeted at disadvantaged communities and regions. A variety of instruments adapted to the circumstances would take into account, as far as possible, the interests of foreign partners in order to prevent trade conflicts. For example, it is justified to support and/or protect sectors where there is a real national security problem due to an excessive geographical concentration of production. This is the case for semiconductors in East Asia.

Finally, WTO rules need to be reformed to minimize the adverse effects of industrial policies, while identifying the situations and conditions in which state intervention would be authorized[55]. The rules governing the corrective tariff measures allowed by the WTO (including countervailing or anti-dumping duties) should also be revised to suit an environment where different economic systems coexist.

An initiative of this scale can only succeed if the main protagonists are prepared to engage in meaningful cooperation. The success of the undertaking would depend, among other things, on concrete steps from China aimed at disciplining state aids and effectively stimulating domestic consumption in order to absorb production surpluses. This issue is the subject of intense debate and falls outside the scope of this article. We will simply point out that it is not necessary to wage an all-out trade war in order to pursue a workable industrial policy.

Didier Chambovey, June 4, 2025

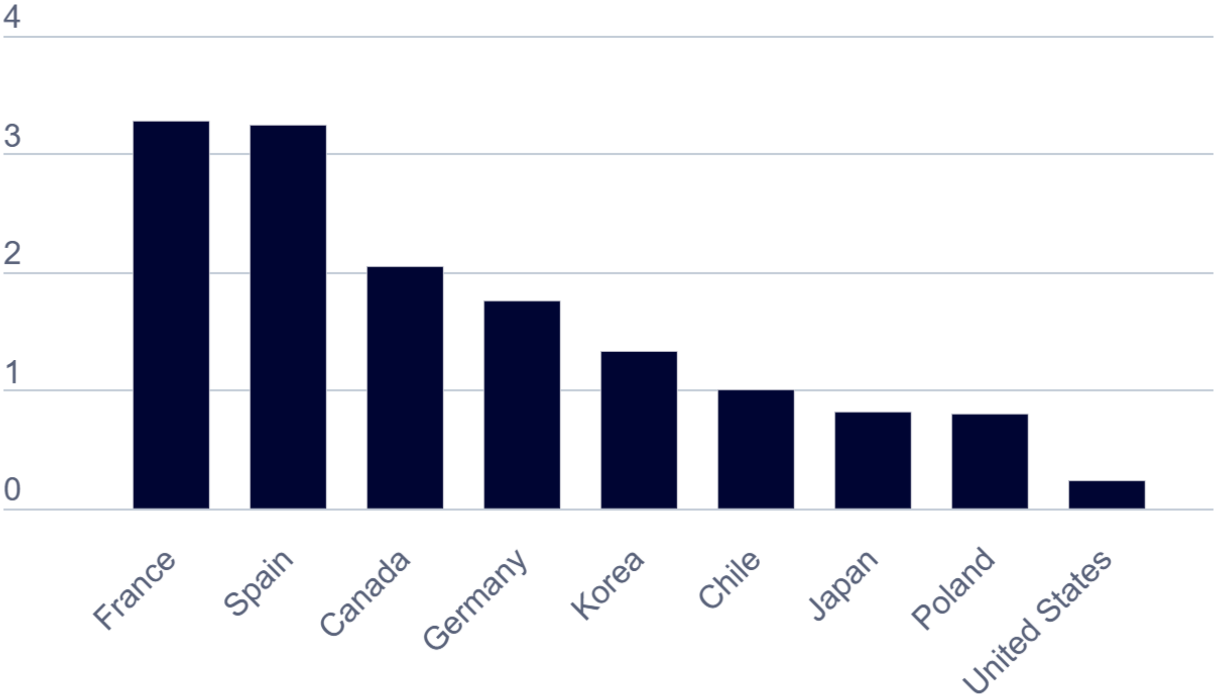
[53] Cf. Kim, Sung Eun and Krzysztof Pelc. 2020. "How Responsive is Trade Adjustment Assistance?" *Political Science Research and Methods*

[54] Cf. https://www.wita.org/atp-research/china-trade-shock/

[55] Cf. Chambovey, Didier (2024) *The World Trade Organisation (WTO) put to the test of geostrategic tensions and the upsurge of industrial policies,* World Trade Institute (WTI), Working papers

Public spending on labour markets

Total, % of GDP, 2021



Source : OECD