Trade War 2.0: The Next Chapter in Global Economic Conflict

Ad Hoc Insights by Peter G. Carolan

Trade policies don't always make headlines, but when they do, it's usually because they're creating disruptions. With tariffs expanding and global trade relationships shifting, the current landscape demands a closer look. Recent developments have introduced significant uncertainties for businesses, investors, and policymakers, and I felt it was important to provide a clear and structured analysis of what's happening.

This overview breaks down the key developments in the escalating trade conflict under President Trump's second term, commonly referred to as "Trade War 2.0" (2025-present). I'll also compare them to the 2018-2020 trade war and assess their implications for global economies and investment landscapes. My intent is to offer a clear and professional perspective on these events, similar to the discussions we might have during a consultation—focusing on the broader economic picture, rather than specific investment recommendations or performance data.

One caveat: Given the rapid pace of developments—changing daily and even hourly—it's impossible to have the most up-to-date information at any single moment, but this analysis provides a structured framework to navigate the unfolding landscape.

Introduction: The Dawn of Trade War 2.0

Since assuming office in January 2025, President Trump has reignited trade tensions with a strategy that surpasses the scope of his first term. Unlike the 2018-2020 trade war, which primarily targeted China, this new phase involves a wider array of countries and industries. The administration has acknowledged that these policies may lead to higher consumer prices in the U.S., framing it as a necessary cost to advance national interests. Where the earlier conflict focused on specific goods like steel and Chinese exports, Trade War 2.0 introduces broader measures, including tariffs on all imports and heightened restrictions on technology transfers. This escalation has prompted rapid responses from trading partners, creating a dynamic and challenging global trade environment as we progress through 2025. To understand this shift, let us first revisit the key aspects of the initial trade war before examining the current landscape.

Flashback: Trade War 1.0 (2018-2020) in Brief

The trade war of 2018-2020 began with the U.S. imposing tariffs of 10% to 25% on approximately $370 billion of Chinese goods, citing unfair trade practices. China responded with tariffs of 5% to 10% on $75 billion of U.S. exports, affecting products such as soybeans, automobiles, and energy commodities. These duties largely translated into higher costs for American consumers. Businesses adapted by rerouting supply chains, with some production moving to countries like Vietnam and Mexico, though the U.S. trade deficit persisted, and manufacturing employment gains were limited. Domestic steel producers benefited from a 25% tariff on imported metals, but U.S. exporters faced significant setbacks. For instance, China shifted its soybean purchases to Brazil, a market loss that proved enduring, while Boeing saw orders decline in favor of Airbus. The "Phase One" agreement in January 2020 offered a temporary reprieve, with China committing to purchase an additional $200 billion in U.S. goods, though it fell short of this goal, leaving many tariffs in place through 2024. This backdrop of unresolved tensions paved the way for the more expansive approach we see today.

Major Developments in Trade War 2.0 (2025-Present)

President Trump's renewed trade agenda has introduced a series of impactful measures in 2025. One of the most notable proposals is a 10% tariff on all U.S. imports, encompassing over $2.8 trillion in goods from all trading partners—a stark contrast to the targeted duties of the past. As a first step, a 10% tariff on Chinese imports was enacted on February 4, 2025, with threats of increases up to 60% if China does not concede to U.S. demands, a level that could severely disrupt bilateral trade. Economists, including those at Goldman Sachs, estimate a 90% likelihood of further escalation with China, underscoring the seriousness of these threats.

The administration also considered 25% tariffs on imports from Canada and Mexico, announced for February 1, 2025, which would have affected North America's integrated supply chains. Following negotiations, these were deferred until March 2025 in exchange for commitments on border security, averting immediate price increases on goods like food and automobiles. Another significant policy is the "fair and reciprocal" tariff initiative, outlined in a February 13, 2025, memorandum, which seeks to align U.S. tariffs with those of other nations, such as raising the U.S. duty on European cars from 2.5% to match the EU's 10% rate. This review, due by August 2025, signals a potential broadening of tariff targets.

Additionally, global steel and aluminum tariffs have been reinstated at 25%, effective March 12, 2025, benefiting U.S. producers while raising costs for manufacturers. The closure of the "de minimis" loophole, which previously allowed duty-free imports under $800, has disrupted e-commerce flows from China, affecting companies like Shein and Temu. On the technology front, tightened U.S. export controls on semiconductors to China have been met with China's restrictions on rare mineral exports, intensifying a parallel tech conflict. These actions collectively reflect a bolder and more comprehensive trade strategy than seen previously.

Update as of March 4, 2025:

- The 10% tariff that Trump placed on Chinese imports in February was doubled to 20%.
- Starting just past midnight, imports from Canada and Mexico are now to be taxed at 25%, with Canadian energy products subject to 10% import duties.

International Response and Geopolitical Shifts

The global reaction to these U.S. policies has been multifaceted. China has countered with tariffs of 10% to 15% on U.S. energy and machinery exports, effective February 10, 2025, targeting industries in politically sensitive U.S. regions. Beijing has also restricted exports of critical minerals like gallium (vital for technology production), and is accelerating its self-reliance efforts through initiatives like "Made in China 2025." Meanwhile, Canada and Mexico have secured a temporary reprieve from tariffs by addressing U.S. border concerns, though they are exploring options to diversify trade dependencies.

The European Union is engaging in diplomacy to avoid reciprocal tariffs, potentially adjusting its own rates to placate Washington, while preparing retaliatory measures if negotiations falter. Emerging markets such as Vietnam and India are capitalizing on supply chain shifts, attracting investment as alternatives to China. Geopolitically, these tensions are fragmenting trade into blocs, with China strengthening ties with Russia and Asia via the RCEP, and the U.S. promoting "friend-shoring" with allies. This realignment suggests a move away from a unified global trade system toward more regionalized economic structures.

Update as of March 4, 2025:

- Beijing retaliated with tariffs of up to 15% on a wide array of U.S. farm exports. It also expanded the number of U.S. companies subject to export controls and other restrictions by about two dozen.
- Canadian Prime Minister Justin Trudeau said his country would slap tariffs on more than $100 billion of American goods over the course of 21 days.
- Mexico didn't immediately detail any retaliatory measures.

Impact Analysis by Country & Region

In the United States, the trade war is yielding mixed outcomes. Consumers are experiencing higher prices on imported goods, from electronics to vehicles, with potential inflation risks that could temper economic growth. Exporters, particularly in agriculture and energy, are losing competitiveness due to retaliatory tariffs, while steel and aluminum producers gain from renewed protection. China faces export declines and manufacturing slowdowns, but is mitigating these through domestic stimulus and technological investment. Europe is navigating threats to its automotive sector, while pursuing a "de-risking" strategy from China, balancing economic ties with both the U.S. and China.

Across Asia, excluding China, countries like Vietnam and India are emerging as beneficiaries, absorbing production shifts from China, while Japan and South Korea grapple with supply chain complexities. In Latin America, Brazil is securing agricultural markets lost by the U.S., while Mexico balances nearshoring gains with tariff risks. Africa and the Middle East are adjusting to commodity trade shifts, with potential for increased Chinese investment. These regional dynamics highlight the uneven economic fallout of the trade war.

Sector Impacts: Industries in Focus

Several industries are notably affected by these developments. In manufacturing, U.S. steel producers like Nucor benefit from tariffs, but machinery firms such as Caterpillar face challenges from China's retaliatory duties. The technology sector is under strain, with companies like Qualcomm and Nvidia losing China sales due to export bans, and Apple contending with higher costs from its China-centric supply chain. Automotive firms, including GM and Ford, risk cost increases from potential North American tariffs, while Tesla's significant operations in China expose it to geopolitical volatility.

Agriculture continues to suffer, with U.S. farmers losing ground to competitors like Brazil due to China's tariffs. In retail, companies like Walmart, heavily reliant on Chinese imports, are adjusting sourcing strategies as costs rise, compounded by the de minimis closure impacting e-commerce. These sector-specific impacts underscore the need for businesses to adapt to shifting trade realities.

Conclusion and Investment Implications

Trade War 2.0 presents a complex landscape of risks and opportunities. Its expansive scope introduces inflationary pressures, supply chain disruptions and market volatility, yet it also fosters growth in certain protected sectors and emerging markets. For investors, this environment emphasizes the importance of diversification across regions and industries to mitigate exposure to tariff-related shocks. Sectors such as technology and automotive may face earnings uncertainty, while trends like supply chain relocation could benefit logistics and industrial real estate in places like Vietnam.

Investment Considerations

As your wealth manager, I am committed to monitoring these developments and their implications for your portfolios. While the trade war's trajectory remains uncertain—potentially leading to negotiations or an entrenched new normal—our approach is to maintain a balanced perspective, avoiding reactive shifts while ensuring your investments are positioned to weather or take advantage of the volatility. We welcome your questions and look forward to discussing how these events align with your financial objectives in our next review.

Sincerely,

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Managing Partner

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The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

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The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P SmallCap 600 Index in size: between $1-4 billion.

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