Center for Geopolitics | JPMorganChase

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America's Trade Policy: Historical Blip or the New Normal?

The U.S. is undertaking the most significant shift in international trade in nearly a century, forcing investors to reassess core assumptions and transforming geopolitics. Washington has moved away from decades of trade liberalization, with country-specific tariff roiling markets and with sector-specific tariffs reshaping global trade dynamics for years to come. With the news coming at a dizzying pace, this explainer shows how we got here, what matters most, and what this means for the future.

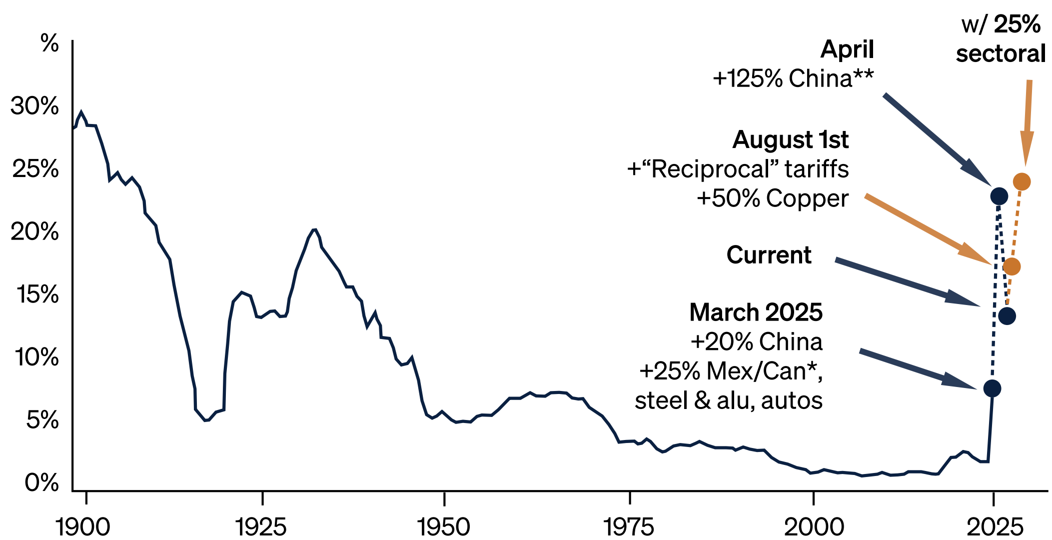
Driving the conversation:

- **Sectoral Tariffs Are Here to Stay**
  The Trump administration's country-specific tariffs make headlines, but sector-specific tariffs will have a more lasting impact. These tariffs are likely to stick around due to domestic political and economic hurdles in unwinding them, as well as growing bipartisan consensus that domestic manufacturing in key strategic sectors is necessary for U.S. national security.
- **Brace for more Restrictive Rules in New U.S. Trade Agreements**
  Any future U.S. trade deals, even narrow sectoral agreements, will likely include stringent rules of origin to prevent third countries from exploiting agreements.
- **Increased Geopolitical Competition**
  Rising geopolitical strains and fears of over-concentration—especially in sensitive sectors like semiconductors and critical minerals—are leading to a fragmented global trade landscape, with countries erecting more barriers and trading within blocs.
- **New Opportunities on Digital Trade**
  Despite challenges, advances in technology, especially AI, and digital services offer opportunities for a series of digital trade agreements.

What we're watching: Sectoral tariffs

The second Trump administration has taken the most aggressive approach to trade policy since the 1930s, and J.P. Morgan's Global Economic Research team believes it is increasingly likely that the U.S. effective tariff rate will settle close to the 22% rate initially announced on April 2 *(see figure 1)*. This has already begun to generate significant revenue—as of July 2025, a little over $100 billion—but will also have profound impacts across the U.S. economy. For example, a recent report by the JPMorganChase Institute found that **the implementation of full universal tariffs announced on ("liberation day," April 2) could add up to $187.7 billion in direct import costs for midsize firms—more than six times the cost of earlier tariffs in place at the start of 2025.**

Figure 1: Back to the Future: U.S. Average Tariff rate since 1900



*Source: J.P. Morgan Global Economics. *25% tariff on non-USMCA compliant goods, 10% Canada energy. **In addition to the prior 20%. 2025 uses 2024 trade basket weights.*

Headlines have largely focused on country-specific and liberation day tariffs and the subsequent trade negotiations, but **we see the sector-specific, Section 232 tariffs as far more consequential long term**, as they will shape the U.S. trade landscape well beyond the Trump administration.

To date the administration has used Section 232 to put **25% tariffs on autos and auto parts, a 50% tariff on steel and aluminum**, **and a 50% tariff on copper**. Additionally, the administration has initiated investigations on lumber, semiconductors, pharmaceuticals, critical minerals, heavy and medium duty trucks, and aircraft and aircraft parts. *(See figure 2 for the status of ongoing 232 investigations).*

The scope of some of these investigations is very broad, meaning that once the investigations are concluded—likely over the next several months—we could see higher tariffs on a large range of imports, including derivative products.

- For example, the investigation on **semiconductors** examines the impact on national security of imports of semiconductors, semiconductor manufacturing equipment, and notably their derivative products. The scope of derivative products includes downstream products that contain semiconductors, such as consumer electronics like cell phones and laptops.
- The scope of the **critical minerals** investigation also includes derivative products like semi-finished goods (such as semiconductor wafers, anodes, and cathodes) as well as final products (such as permanent magnets, motors, electric vehicles, batteries, smartphones, microprocessors, radar systems, wind turbines and their components, and advanced optical devices).

Tools of the Trade

- **The International Emergency Economic Powers Act (IEEPA)** was used as the basis to impose country-specific tariffs on “liberation day” and August 1. The use of IEEPA has been challenged by some courts that have found the administration exceeded its authority. One of these cases is currently with a U.S. federal appellate court, and we eventually expect the case to make its way to the U.S. Supreme Court.
- **Section 301** allows the president to use tariffs and non-tariff measures to combat unfair trading practices from other countries upon conclusion of an investigation that can take up to one year. Section 301 was used in the first Trump administration to put tariffs on China, and most recently the U.S. Trade Representative announced an investigation focused on a number of Brazil’s trade practices.
- **Section 232** of the Trade Expansion Act of 1962 allows the U.S. President to impose tariffs on imports threatening national security and gives the administration latitude to define what constitutes a threat. Once an investigation is launched, the Department of Commerce puts together a report that can take up to 270 days to conclude, and then makes a recommendation to the president to restrict imports accordingly. The Trump administration’s use of the statute has survived several legal challenges over the years in part due to the detailed process requirements underpinning a 232 investigation. The rigor of a 232 investigation stands in contrast to the administration’s use of the **IEEPA.**
- **If the U.S. courts rule the tariffs cannot be authorized under IEEPA, we expect the administration to pivot to other legal mechanisms like Section 301 and Section 122—which allows the president to impose tariffs up to 15% for 150 days to address large and serious balance-of-payments deficits. This would open the space for further negotiations but will likely end up with similar results.**

Figure 2: Status of Section 232 investigations (As of August 2025)

Sector	Status	Tariff Level
Steel and Aluminum	Concluded—Tariffs in Effect	50%
Autos and Auto Parts	Concluded—Tariffs in Effect	25%
Copper	Concluded—Tariffs in Effect	50%
Lumber	Launched March 10	TBD
Pharmaceuticals	Launched April 1	TBD
Semiconductors	Launched April 1	TBD
Critical Minerals	Launched April 22	TBD
Medium and Heavy-Duty Trucks	Launched April 22	TBD
Commercial Aircraft, Jet Engines, and Parts	Launched May 1	TBD
Polysilicon	Launched July 14	TBD
Unmanned Aircraft Systems and Parts	Launched July 14	TBD

Are tariffs here to stay?

In short, yes. The United States will likely continue to pursue a tariff-heavy trade agenda during Trump's administration. **Some country-specific tariffs may be negotiated away, along with certain concessions on sectoral tariffs for key trading partners and allies, but overall we expect these tariffs largely to stay in place.** Additionally, now that country-specific tariffs are firmly established as a tool of leverage to address non-trade issues (as we've seen with Brazil)—they could be added or adjusted at any time if relations sour. In the coming months, it will be important to monitor the progress (or lack of progress) on the technical negotiations that will take place to implement these framework agreements. As we have already seen, disagreements over the scope of investment commitments, politically sensitive non-tariff barriers, and concerns from some U.S. businesses, could lead to negotiations stalling, which risks the threat of increased tariff rates.

So what happens after Trump? **It would be a mistake to assume that the United States returns to an era of low tariffs and the pursuit of comprehensive free trade agreements.** Even if the next U.S. president supports a pre-2017 approach to trade policy, they would face a number of challenges to unwinding the Trump administration's tariff structure.

- First, the more time that passes, the more U.S. companies, especially those making significant domestic investments, will have adapted to and come to depend on higher tariffs in certain sectors and will aggressively lobby a future administration to keep some of these tariffs in place to protect against foreign competition.
- Second, and more important, the sectoral tariffs will have more staying power than country-specific tariffs due to an **increasing bipartisan consensus that tariffs can play an important and even necessary role in increasing America's manufacturing capacity in key strategic sectors that are important to U.S. national security.** The Biden administration conducted an analysis of supply chain vulnerabilities in key sectors, and several of them—pharmaceuticals, batteries, semiconductors, information and communication technology, public health, critical minerals, and key parts of the defense industrial base—align with several of the ongoing Section 232 investigations in the Trump administration.

How we got here: A trade consensus frays

The U.S. free trade consensus faded "gradually, then suddenly." In 1934, President Roosevelt initiated trade negotiations to boost international trade, leading to reduced tariffs. By the time President Obama entered office, trade liberalization was central to U.S. policy, with tariffs under 2% and the U.S. entering into 14 FTAs with 20 countries *(see figure 3)*.

However, in the intervening years, many Americans—especially those living in regions that saw manufacturing jobs go overseas following NAFTA and China's entry into the World Trade Organization—began to question the fairness of the global trading system. This sentiment became more prevalent among members of Congress and, in 2006, the Central America Free Trade Agreement (CAFTA) passed the House of Representatives by just two votes.

Despite some of the growing backlash to FTAs, President Obama signed agreements with Korea, Panama, and Colombia into law and made a strong push to pass the 12-country Trans-Pacific Partnership (TPP) and launched talks to achieve a Transatlantic Trade and Investment Partnership (TTIP) with the EU. TPP ultimately failed to receive a vote when both Donald Trump and Hillary Clinton voiced opposition to the agreement during the 2016 presidential campaign, and the demise of TPP and the formal closure of TTIP talks in 2019 represented the end of an era of trade expansion.

Starting in 2017, the Trump administration imposed tariffs on steel, aluminum, and Chinese goods, and renegotiated NAFTA into USMCA. The Biden administration maintained most Trump tariffs, added new ones on China, and surprised allies by not pursuing new free trade agreements. Biden became the first president in decades not to preside over major trade negotiations or initiatives.

Figure 3: From Reagan to Obama—A global network of U.S. FTAs

U.S. Free Trade Agreements (FTAS)

Source: United States Trade Representative and U.S. Department of Commmerce *Credits: Jonathan Masters, Julia Ro* *Council of Foreign Relations*

Could backlash to tariffs resuscitate support in the U.S. for comprehensive free trade agreements?

Not Likely. The political climate and shifting coalitions will make it difficult for a future U.S. president to negotiate comprehensive free trade agreements. **Instead, the next administration could seek to negotiate sectoral trade agreements with trusted trading partners and allies in strategic sectors** like pharmaceuticals, batteries, and semiconductors.

However, striking even narrow deals will be challenging because many countries, especially in Asia, have supply chains that are heavily integrated with China. As a result, **any new agreement that contains market access will likely need to have strong rules of origin**, requiring the content of a good to originate from the countries that are part of the trade agreement. In many cases, strict rules of origin would be cumbersome for companies to navigate and require significant supply chain shifts.

Where are the opportunities?

1. **Critical Minerals:** As technology continues to drive so much growth in the global economy, access to inputs lower down the value chain become increasingly important both from an economic and security perspective. China dominates the processing of critical minerals, and, with domestic alternatives years away, China's leverage over these vital supply chains remains a strategic vulnerability for the United States and others. As a result, and mostly out of necessity, **we expect cooperation on critical minerals to be a prominent feature of the Trump administration and future U.S. administrations.**

    - Countries that have significant deposits of critical minerals are Australia, Canada, Vietnam, Indonesia, Malaysia, and several countries in Africa and Latin America. While the Trump administration wants to prioritize domestic investments and companies are trying to develop synthetic alternatives, some materials will need to be sourced from other countries.

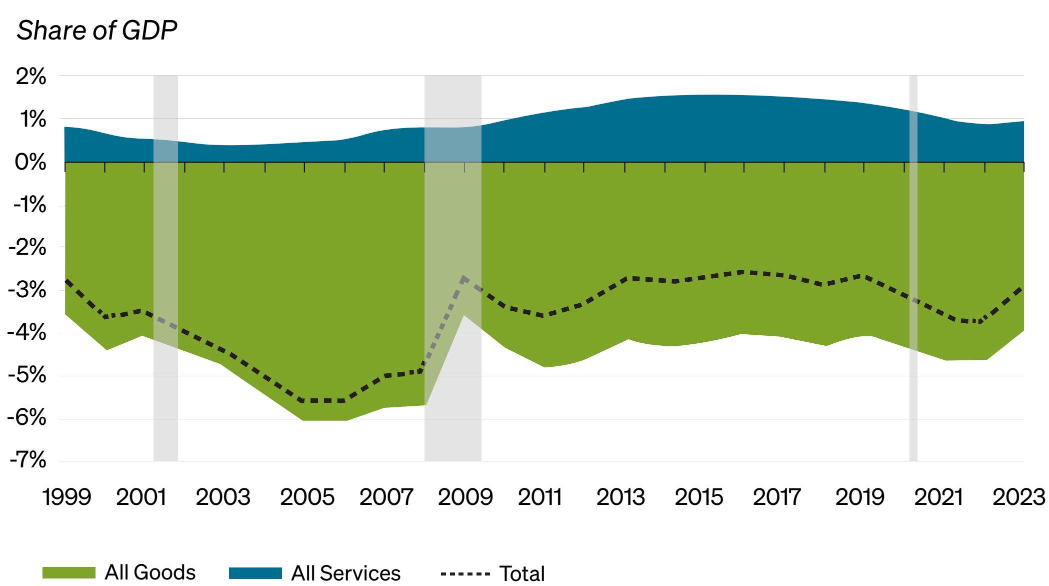
    - The administration has pushed for the issue to be key parts of discussions with Ukraine, Greenland, and the Democratic Republic of Congo. There was also a Memorandum of Understanding signed between a U.S. and Saudi company during President Trump's May 2025 visit to Saudi Arabia to deepen cooperation on processing heavy rare earths and magnet production. Cooperation on critical minerals is also a key plank of the trade framework that the administration is pursuing with Indonesia.

2. **The Digital Advantage:** In the modern era, trade extends well beyond tariff policy and trade in goods. A 2024 report by the Council of Economic Advisors highlights the United States' global comparative advantage in services trade, with exports of services hitting $1 trillion in 2023 and a services trade surplus of nearly $300 billion.

   Traditional industries such as legal services, insurance, and other professional services represent a large portion of services exports but, in recent years, **digitally enabled services have become the fastest growing sector in global trade**. As a result, even in the absence of increased trade liberalization for goods, the United States has an opportunity to lean into its advantage in this space and **negotiate a series of high-standard digital trade agreements** with allies and trading partners where we see strong bipartisan congressional support.

   - While the Trump administration has disagreements with key trading partners on some digital policies, there are several areas of common ground. For example, the Trump administration negotiated a high-standard agreement with Japan in 2019 that included important provisions that prohibit data localization, ensure that data can be transferred across borders, and protect against forced disclosure of proprietary computer source code and algorithms, provisions that can form the basis of new agreements.

Figure 4: The U.S. continues to maintain a services trade surplus



Council of Economic Advisers

Source: Census; BEA; CEA calculations.

Note: Trade data are on a balance of payments basis. Gray bars indicate recessions.
As of May 30, 2024 at 3:00pm.

The new landscape

The emergence of this new more protectionist policy impetus will have staying power, bringing with it implications beyond those that are purely economic. The below list is far from exhaustive but touches on what we see as key issues facing an altered global trade landscape.

1. **Post-World War II Economic Multilateralism is (Nearly) Dead**

   The long-held belief that free trade fosters prosperity and reduces conflict is waning. Geopolitical tensions, including a major European war, Middle East instability, and deteriorating U.S.-China relations have weakened multilateral institutions like the WTO, leaving them ineffective. In recent years, G20 meetings have failed to produce cooperation on substantive issues—struggling even to agree on joint statements. Similarly, Asia-Pacific Economic Cooperation (APEC) meetings have been overshadowed by geopolitical tensions and failed to produce any tangible outcomes on trade and investment, development, or cooperation on key foreign policy issues. Finally, while a lot of ink has been spilled about more countries joining the BRICS as an alternative to the current western-led institutions, BRICS countries have their own internal geopolitical tensions, and different strategic aims of BRICS countries will only make it more unwieldy and harder to reach consensus on any issue. Most recently, the Trump administration's approach to trade negotiations has departed from the long-standing principal of Most Favored Nations—the cornerstone of the multilateral trading system. **All of this, combined with governments increasingly designating more and more goods as imperative to national security, is leading to a world that is increasingly fragmented.**

2. **Traditional U.S. Allies and Close Trading Partners are Making Alternate Plans**

   As the U.S. continues to impose new barriers to entry, its allies and close trading partners are accelerating efforts to find alternative markets. When President Trump pulled the U.S. out of the TPP, the remaining countries decided to move forward with the agreement, renaming it the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and welcoming the United Kingdom as a new member. Many other countries, from Uruguay to Indonesia to Ukraine have also indicated formal interest in joining the CPTPP. ASEAN countries recently agreed to an update to their FTA with China, and many countries within the bloc have negotiated or are in the process of negotiating an agreement with the European Union. So even as the U.S. pulls back from free trade, don't expect other countries to follow.

3. **A New Approach to Alliances**

   As supply chains adjust to new tariff realities, U.S. diplomatic relations with traditional partners are evolving. While some see this as a return to isolationism, the reality is more complicated. **Instead of an approach to foreign policy rooted firmly in post-World War II alliances and institutions, the U.S. is pursuing more flexible foreign policy strategies, forming new regional and transactional partnerships based on economic and security needs.** The Biden administration initiated this shift, particularly in the Indo-Pacific where it embraced a "lattice strategy" of a series of overlapping partnerships with countries like Japan, Korea, Australia, India, and the Philippines. The Trump administration has maintained some of these groupings, like the "Quad," but is clearly taking a different approach that will drive more shifts in alliances. Future U.S. presidents will need to reimagine old alliances to remain influential in the coming decades.

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About the author

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