



Degree Program in Economics & Business

Department of Economics and Finance

Course of International Economics

The Emergence of Trump's Protectionism and Its Impact on Transatlantic Trade Relations: A Focus on the Pharmaceutical Sector

Prof. Cecilia Jona-Lasinio

SUPERVISOR

Pietro Nardiello - 284341

CANDIDATE

Academic year 2024/2025

I wish to thank my family for their unconditional support. Their financial and personal sacrifices made my education and this achievement possible. I am truly grateful and owe them everything.

I am deeply grateful to all the people I crossed paths with and to the friends who stood by me, making this journey between Rome and the Netherlands truly unforgettable.

Finally, I would like to thank Professor Jona-Lasinio for her generous advice and dedication to this project.

Table of contents

INTRODUCTION	5
1. UNDERSTANDING GLOBAL TRADE AND ITS DISCONTENTS: A LITERATURE REVIEW ON THE RISE OF PROTECTIONISM	7
1.1 Efficiency arguments for free trade	9
1.2 Protectionism and political motivations	11
1.3 Globalisation and the evolution of free trade	13
1.4 Backlash against globalisation.....	20
1.5 Lessons from the 2018 US-China Trade War	27
2. THE EVOLUTION OF TRANSATLANTIC TRADE RELATIONS	29
2.1 The American Role in Shaping European Integration after World War II	31
2.2 The Nixon shock and the Rise of Transatlantic Tensions in the 70s.....	36
2.3 From Reagan to the Uruguay Round.....	39
2.4 The Doha Round and the Shift Toward Bilateral Agreements in the 2000s	44
2.5 First Trump Administration and the EU	47
2.6 Biden Administration and the EU	49
2.7 Second Trump Administration and the EU	50
2.6 Trade Deficits and Tariffs: Is the EU to Blame?	54
3. POTENTIAL CONSEQUENCES OF TARIFF MEASURES IN EU-US PHARMACEUTICAL TRADE	58
3.1 The Pharmaceutical Industry in the European Union.....	59

3.2 Pharmaceutical Supply Chains (PSCs).....	63
3.3 Disruptions in the Pharmaceutical Market During the Pandemic	65
3.4 Pharmaceutical Trade Policy Responses	66
3.5 Tariff Uncertainty in the Post-Pandemic Pharmaceutical Sector	71
3.6 Modelling the Impact of Tariff Policy on Global Pharmaceutical Access	73
CONCLUSIONS.....	75
<i>Bibliography.....</i>	<i>79</i>

Introduction

We choose not to work when we should be looking for jobs. Sometimes we'll get a job, but it won't last. We'll get fired for tardiness, or for stealing merchandise and selling it on eBay, or for having a customer complain about the smell of alcohol on our breath, or for taking five thirty-minute restroom breaks per shift. We talk about the value of hard work but tell ourselves that the reason we're not working is some perceived unfairness: Obama shut down the coal mines, or all the jobs went to the Chinese. These are the lies we tell ourselves to solve the cognitive dissonance—the broken connection between the world we see and the values we preach.

This passage is taken from *Hillbilly Elegy*, the autobiographical memoir written in 2016 by J.D. Vance, the newly appointed vice-president of the United States of America. According to many commentators, this book offers a key to understanding that part of America which contributed to the rise of Donald J. Trump.

The word *hillbilly* is a colloquial, often pejorative, term used to describe white Americans of modest socio-cultural background, especially from rural areas such as the Appalachian Mountains. Often also referred to as *rednecks* or *white trash*, these communities have historically included lumberjacks, coal miners, steelworkers in Pittsburgh, factory laborers in Akron, builders, mechanics, and truck drivers.

Fatherless and raised by his grandparents after his mother struggled with addiction, Vance grew up in Middletown, Ohio, a city once fuelled by the steel industry. His grandfather came all the way from Jackson, Kentucky, to work at Armco, one of the giants of American steel, and for decades it seemed that each new generation would have experienced greater prosperity. That illusion collapsed as deindustrialisation spread, fuelled by hyper-globalisation, which led to the relocation of factories to countries like China, where labour was more abundant and much cheaper, much more convenient for big multinationals.

These are the people in whom the contradictions of the American dream took flesh. Hardworking yet jobless, proud yet forgotten. These are the people betrayed by decades of American rhetoric, with promises of open markets and shared growth. The liberal hope

was that globalisation would ultimately benefit everyone, and that its gains would be redistributed through a robust welfare state. But to the eyes of the *hillbillies*, this vision never materialised. Deindustrialisation brought with it social desertification: the most capable and fortunate moved away to the big American cities in the North, while the majority remained in decaying homes, drug-infested neighbourhoods, and precarious employment.

The passage presented captures one of the most profound expressions of the deep malaise affecting Trump's America. It portrays the psychological and cultural distress that afflicts the white working-class communities of the United States. It highlights the fracture between foundational American moral values such as hard work and personal responsibility, with the harsh reality of instability, dependency, failure, and abandonment. When that fracture becomes too painful to confront, people seek scapegoats to preserve a coherent identity, attacking globalisation, the federal government, urban elites, Obama, or China. This collective self-exoneration, these *lies we tell ourselves*, serves to justify anger and distrust. It is precisely this psychological mechanism that made Trump's tariffs not just credible, but desirable. Not as a rational response to economic hardship, but as an emotional narrative of redemption and revenge against those perceived to be responsible for this decline.

Before approaching this subject, I often asked myself what truly laid at the heart of the growing support for Trump and his protectionist agenda. I wondered whether these proposals were justified, and whether they could genuinely benefit the *forgotten* segments of American society. Could they really have been anything more than simplistic populist slogans designed to win votes? That is why the first aim of this thesis is *to explore the underlying roots of the protectionist revival in the United States and its consequences*.

Moreover, as an Italian and European I was particularly interested in *understanding the implications such tariffs may have for trade relations with the European Union, with a specific focus on the pharmaceutical sector*, which constitutes the second objective of this thesis.

Chapter One offers a review of the existing literature on the origins of protectionism, placing it within the context of contemporary Trump-era America. After examining these

foundations, Chapter Two shifts focus to the evolution of transatlantic trade relations, tracing the rise and fall of mutual trust and questioning whether the much-discussed US trade deficit with the EU can reasonably justify the imposition of tariffs. Finally, Chapter Three investigates the potential consequences that the tariffs may have on the EU, focusing particularly on the pharmaceutical sector. This specific case study was chosen for several reasons. Beyond being one of the most exposed sectors due to the strong US-EU commercial ties, the pharmaceutical industry plays an important role in safeguarding public welfare, as its efficiency directly impacts the health and survival of society's most vulnerable: the elderly, the poor, and the chronically ill. It is also relevant to assess how tariffs might impact this sector in the aftermath of the COVID-19 crisis, which already disrupted global pharmaceutical supply chains. New trade barriers risk worsening a situation that is only beginning to recover.

1. Understanding global trade and its discontents: a literature review on the rise of protectionism

The purpose of this chapter is to examine the existing literature explaining the emergence of protectionist measures, with the aim of understanding the renewed wave of tariffs introduced by the new Trump administration. By adopting both a theoretical and historical approach, this review will explore the efficiency arguments for free trade, the political economy forces that lead governments to impose trade restrictions, and the broader economic and social transformations that have shaped recent shifts in trade policy.

The chapter begins by examining the classical foundations of free trade theory, with a brief discussion of the contributions of the Ricardian and the Heckscher-Ohlin model. These theories form the basis for the economic arguments supporting the efficiency and welfare gains of trade liberalisation in International Economics. However, despite the theoretical advantages of free trade, politicians and policymakers frequently implement protectionist measures. Why is it that economists' arguments are often ignored in practice? This question is addressed through an analysis of the political motivations

behind protectionism, based on Baldwin's *The Political Economy of Trade Policy*, where the role of lobbying and voting behaviour will be examined.

This review then shifts from theory to practice, applying these theoretical insights to understand the political and economic motivations underlying the rise of Donald Trump and his protectionist agenda. What drove Americans to embrace protectionism? To answer this question, it is necessary to place these developments within the broader historical trajectory of globalisation and its evolving impact on the American electorate. A quick history of globalisation is presented, outlining its two major waves: from the Industrial Revolutions and post-Second World War trade liberalisation to China's accession to the World Trade Organisation and the rise of information and communication technologies (ICT) alongside global value chains (GVCs). The analysis then extends to more recent developments, identifying the early 2000s as the peak of globalisation, followed by a period of crisis triggered by the 2008 global financial crash.

This moment represents a crucial turning point for understanding the emergence of Trump's political consensus. With *The Backlash of Globalisation* by Colantone et al. it will be analysed the political shift by voters and parties towards protectionist and isolationist positions over the past three decades, with significant consequences for government orientations and policy choices. From the 1990s onwards, especially after successive financial crises, populist movements have grown in both the United States and Europe. The literature shows how a transformation in voting behaviour, particularly among the middle and working classes, disillusioned by the perceived failures of globalisation, has led to the rise of more protectionist and nationalist governments.

The final part of the chapter examines how the shift in voter consensus has influenced changes in government positioning and trade policy implementation, focusing in particular on recent developments in the United States. A comparative analysis will be conducted between the trade policies of the Trump administration and those pursued under President Biden, with particular attention to the impact of the 2018 trade war. By examining empirical data on the consequences of the tariffs imposed during that period, it becomes possible to better understand the potential effects of the new wave of tariffs introduced this year by the Trump administration.

1.1 Efficiency arguments for free trade

If you ask any undergraduate student encountering international trade theory for the first time to name you the first two international trade models that come to their minds, they will undoubtedly mention the Ricardian and the Heckscher-Ohlin models. These two basics although highly significant models are the most common theories supporting the efficiency argument for gains from free trade.

The Ricardian model of comparative advantage emerged in early XIX century Britain, during the intense debate surrounding the Corn Laws. In 1815, the Tory government led by Lord Liverpool passed tariffs on corn and food imports. After the end of the Napoleonic Wars (1803-1815), when trade restrictions were lifted, cheap foreign grain began to threaten British agriculture. Such imports were undermining the interests of the British landowning aristocracy, which dominated the parliament at the time and whose wealth depended on agriculture. Their goal was to protect British agriculture against cheaper imports, by restricting imports and maintain high domestic grain prices. The controversy surrounding the Corn Laws was largely due to the strong opposition from the working classes, the emerging industrial bourgeoisie, and many liberal economists, such as David Ricardo, who began publishing numerous articles and papers advocating for free trade (Moss et al., 2001). In this context, Ricardo wrote his theory on comparative advantage, one of the first models explaining the efficiency gains that two countries can have through trade liberalization.

Economists use the term opportunity cost to describe the trade-off between producing one certain good and the value of not choosing another. Essentially, the opportunity cost is what you give up to produce something else. The concept of comparative advantage is based on the concept of opportunity cost: a country has a comparative advantage in producing a good if it sacrifices fewer resources in producing that good compared to other

countries. According to Ricardo, two countries can both benefit from trade if each country exports the good in which it has a comparative advantage.¹

This model helps understanding the mutual gains of open trade. However, can it apply in real life? Despite being a very simple model, with many assumptions², the Ricardian model can still explain a country's gains on trade. Krugman et al. compared the American and British economy at the end of the Second World War. American productivity was higher in almost every sector, meaning it had an absolute advantage in all industries. The U.S. economy was more efficient in production compared to the UK. However, British exports were similar to those of the U.S. Ricardo's theory shows that the volume of trade depends on comparative advantage, not absolute advantage: although the U.S. had an absolute advantage, in some sectors, the US's comparative advantage over the UK was smaller.

From the heritage of David Ricardo, the two Swedish economists Eli Heckscher and Bertil Ohlin developed the Heckscher-Olin model (H-O model). One limit of the previous model was the assumption regarding the absence of different resources. The Ricardian model was assuming only one factor of production. If labour were the only factor of production, a country's comparative advantage would arise because of the differences in labour productivity between trading countries. The H-O model assumes more than a resource, capital and labour, comparative advantage will then arise according to the abundance of these factors of production. If country A is abundant in labour (such as a developing country) the country will have a comparative advantage in producing goods

¹ Suppose there are two countries trading two different goods. Country A specialises in the production of good A since they are more efficient producing it due to comparative advantage. They are better at it. Country A then trades good A with Country B, which is more efficient at producing good B and focuses on that. The final outcome is that Country A benefits by producing and exporting good A, while importing good B from Country B, because importing good B is cheaper than producing it domestically.

² Four assumptions: (1) there is an extreme degree of specialization on a certain good, which is unrealistic in the real world; (2) it assumes that trade always results in income redistribution within the countries involved. There are many side effects related to income redistribution, but it will be discussed later; (3) there are no differences in resources among the trading countries; (4) there are no economies of scale.

that require a lot of labour (e.g., textiles), while a country with abundant capital (such as a developed country) will specialize in capital-intensive goods (e.g., machinery or technology) (Krugman et al., 2023).

1.2 Protectionism and political motivations

There are many other economic frameworks in support of free trade and its efficiency, some even more detailed and complex. However, although countries are generally better off through liberalisation according to international trade theory, protectionist measures tend to arise, nonetheless. Economists are almost unanimously against protectionism as they consider it harmful to overall economic well-being, still, they have very little influence on politicians. Robert E. Baldwin provides a clear understanding of the political motivations behind the rise of protectionism. He examines two different approaches: *the economic self-interest approach* and *the social concerns approach* (Baldwin, 1989).

The Economic Self-interest Approach

The *economic self-interest approach* explains that decision makers support or oppose trade policies based on how those policies directly affect their financial situation. Individuals are motivated by their real income, rather than caring on the gains from trade of the overall society, preferring to vote for politicians advocating for protectionist measures in case open trade policies are damaging their wallets.

The reason behind this is that the benefits of free trade (such as lower prices due to cheaper imported goods) are widely spread across the whole society and, for this reason, are less visible. In contrast, the direct losses experienced by the import-competing sectors are more severe and draw greater public and political attention. Workers and capitalists operating in sectors directly exposed to foreign competition experience concentrated and significant losses. As a result, the damaged minority will organize and push for protection, and the silent majority instead will not participate. This is what Baldwin defines as *voting costs*.

The article also suggests that if the redistribution cost of compensating workers to support free trade outweighs the capitalists' gains from such trade, capitalists will not fund the compensation. As a result, workers, who might lose jobs or experience wage reductions due to free trade, will vote for protectionist policies.

There is a very well-known issue in economics that fits in this scenario: *the free rider problem*. While everyone is benefiting from free trade, no one is really incentivised to fund pro-free trade campaigns. Small but organised groups, affected by the consequences of trade, will instead raise funds to lobby for protection, as previously seen with the British landowning aristocracy during the Corn Laws debate. Lobbying will easily influence voting dynamics, especially in case of large companies with high shares of the market. At the same time, companies in sectors strictly dependent on imported goods might lobby against protectionism. There have also been examples over the past decades of U.S. governments granting trade protection to secure congressional support for trade liberalization laws: Eisenhower, Kennedy, and Nixon used import quotas (oil, cotton, and steel) to secure support for trade liberalization laws in 1955, 1962, and 1974, respectively.

Trade policies are not determined solely by individual's own interests, but also between governments interactions. During the 1930s most of the industrialised nations used trade barriers to boost domestic employment, fostering a cycle of retaliatory measures that reduced global prosperity. In Game Theory, this can be considered a *Prisoner's Dilemma scenario* applied to trade, with the dominant strategy of choosing protectionism regardless of the other player's choice (Baldwin, 1989).

The Social Concerns Approach

The second approach highlighted by Baldwin is the *social concerns approach*, where individuals favour protectionism due to ethical or social reasons rather than personal interests. Ex U.S. president Ronald Reagan implemented restrictions on the imports of Japanese cars through a Voluntary Export Restraint (VER) agreement³. The goal was to

³ In the context of international trade, VERs are often used when a country feels that its industries are threatened by a possible foreign competitor but prefers to avoid imposing tariffs that could negatively

allow U.S. automakers time to compete in the small car market and reduce short-term economic inequalities.

Trade relations have also been used as a means to strengthen political alliances and to exert pressure on third parties in the geopolitical context. As will be discussed in Section 2.1, after World War II, the U.S. promoted free trade with its allies to secure their political and economic influence over them, strategically positioning them against the Soviet Union (Baldwin, 1989). In more recent years, with the escalation of the Ukraine crisis in 2022, European Union countries increased sanctions on Russia as a political statement opposing Russian foreign policy (Council of EU, 2024).

1.3 Globalisation and the Evolution of Free Trade

After discussing Baldwin's work, it can be concluded that if open trade negatively affects an individual's income in a specific sector, that individual is more likely to support protectionist measures, even if these measures harm the overall economic wellbeing. It is important to frame this reasoning within the current context, particularly in the United States. The results of the 2024 U.S. presidential elections demonstrate that Americans have rewarded President Trump and his protectionist agenda. The majority of the votes can be attributed to the American working and middle class, who have been adversely affected by the collateral consequences of globalisation and the opening of markets over recent decades (Colantone et al., 2022).

To this end, it is essential to understand how trade liberalisation has evolved over the past few decades and how this evolution has contributed to today's globalised world and its criticism. By analysing the literature on the evolution and implications of globalisation, it will be possible to truly comprehend how these consequences have affected American citizens. Only then can the *rationale* behind Trump's initiatives be fully understood.

impact international relations or its domestic market. VERs are typically negotiated between the countries, thus avoiding the sanctions or retaliatory escalations that might arise from more direct protectionist measures, such as tariffs. (Baldwin, 1989)

Richard E. Baldwin and Philippe Martin provide an overview over the history of globalisation, dividing it in two different *waves*. The *first wave of globalisation* begins with the Industrial Revolution (late XVIII century) until the beginning of World War I (1914). The *second wave of globalisation* is traced from the end of World War II until present times.

The First Wave of Globalisation

Before the first wave, most nations were poor and agrarian, there were no substantial industrial or technological differences between countries on a global scale. For instance, China and India prior to the XIX century were considered by many Europeans to be even more developed than Europe: The Indian cotton textile industry in the 18th century was a global leader in terms of quality, production, and exports. India and China produced the world's highest-quality silk and porcelain, which was traded with silver by Europeans.

The first Industrial Revolution then began. By the end of the XVIII century, the invention of the steam engine, improvements in transportation (including railroads and steamships), and mechanisation in industries like textiles and iron production contributed to the industrialisation of Europe. With the rapid growth of western textile industry, by the close of the XIX century, more than 70% of India's textile consumption was obtained from imports, primarily from Great Britain, while India transitioned into a net exporter of cotton. A completely different scenario compared to pre-industrialisation era, when India was leading the industry.

With the Second Industrial Revolution (late XIX century), western countries expanded their industrial growth even further. This was driven by advancements in steel production, electricity, chemicals, and telecommunications. The manufacturing process was revolutionised by innovations such as the electric motor, internal combustion engine, and the assembly line. With transportation costs radically decreasing thanks to the rapid expansion of railroad networks (1820s-1850s), and the widespread use of steam-driven ships for inland and oceanic routes (1840s-1870s), global trade increased substantially.

However, the benefits affected only the developed countries, and the divergence between the north and the south grew even greater (Baldwin & Martin, 1999).

Western colonial superpowers were growing wealthier. Their industries were growing fast at home, while they took raw materials by force from their colonies. At the end of the 19th century, imperialism intensified, expanding Western influence through both direct colonisation and indirect control. Less developed nations were either fully colonised or brought under Western dominance through economic pressure and military force. Free trade was often not a choice. It was imposed at gunpoint in regions with weak rulers, especially where the West had economic interests in accessing valuable goods or markets.

One example is the Opium Wars in the mid XIX century, which were triggered by China's decision to prohibit the opium trade, primarily driven by the negative social, economic, and health effects of opium consumption in the country. The United Kingdom was producing large quantities of opium in India, which was then traded with China in exchange of valuable Chinese exports such as tea and silk. The British pressured Chinese rulers to open their markets, eventually leading to an armed conflict. With their military superiority and technological advancements, Britain, as well as France, easily defeated the Chinese military, forcing China and other Asian nations to sign the infamous *unequal treaties* and open its markets to the opium trade (Sapir & Mavroidis, 2021).

The first wave of globalisation led to a reallocation of wealth never seen before in history. While almost all countries were unindustrialised and agrarian before the first wave, by the end of it, the global income gap had become substantial, with the industrialised North overshadowing the poorer and exploited South. Many scholars believe that northern industrialization directly caused southern de-industrialization (Baldwin & Martin, 1999).

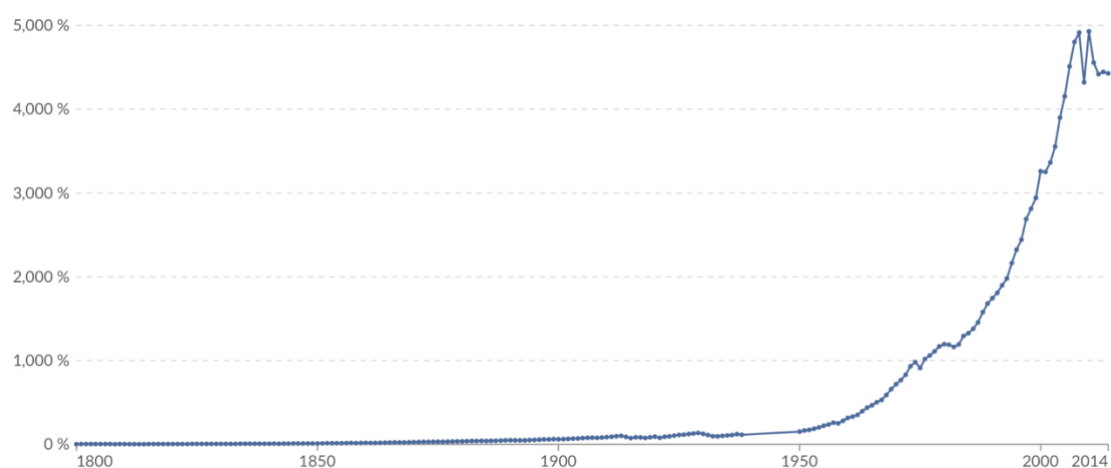
The Second Wave of Globalization

By the end of the XIX century, Europe was marked by a spirit of peace, prosperity, and optimistic belief in progress due to the industrial and economic growth of the continent's major cities. Then came the turning point. The European upper class of

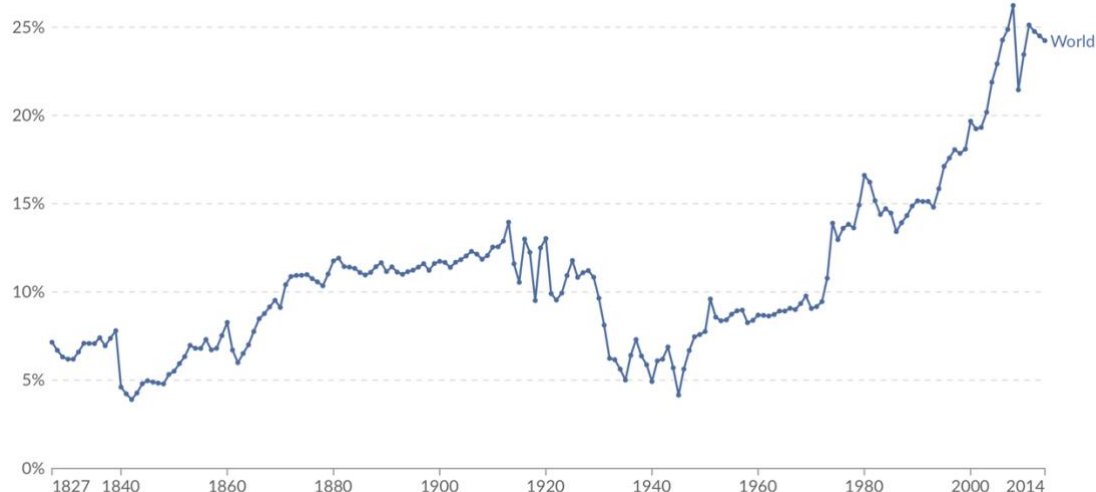
the *Belle Époque*, enriched by the early benefits of globalization, suddenly found itself facing the senseless slaughter of the Great War. What followed was a dramatic sequence of crises: the Great Depression, the 1930s protectionism, the emergence of totalitarian regimes, and, ultimately, another global conflict. By the end of the Second World War, trade as a percentage of world GDP had dropped to just 5%, a level not seen in over a century (Baldwin & Martin, 1999).

From the devastation of the Second World War emerged the *second wave of globalization*. With the technologies of the Second Industrial Revolution, the early decades following the war were marked by a return in trade liberalisation and economic prosperity among the developed nations. In these years, European countries opened to liberalisation of trade through the formation of the European Economic Community, which benefited their growth indeed after the devastation of war. Their income levels started converging towards those of the United States, which advanced at a GDP growth rate of about 2% per year. Even some newly industrialized countries (NICs), for instance Japan and South Korea, saw rapid income growth, allowing them to join the ranks of the world's wealthiest nations. However, many African, Latin American, and some Asian countries saw slower income growth compared to the U.S. between the 1960s and the 1990s, with some even experiencing declines. This resulted in a *twin peaks* income distribution, as described by Jones (1997) where rich nations grew richer relative to the U.S., and poorer nations fell further behind, thus increasing even more the income gap between developed and less-developed countries (Jones, 1997).

Starting from late 1980s, globalization expanded even further, reaching levels never seen before, culminating in its peak in the 2000s. As shown in Figures 1a and 1b, the share of exported goods as a percentage of global GDP began to rise steadily after World War II, but it was in the 1980s that this growth became more evident. By the 2000s, with a deeper integration of global markets, the proportion of global GDP for exports approached 25%. Similarly, global export growth adjusted for inflation was increasing relatively slowly but surged dramatically after the 1980s. This rapid expansion can be attributed to several pivotal moments that have changed international trade and contemporary history.



(Figure 1a) Total world exports adjusted for inflation (constant prices), relative to 1913. Values correspond to world export volumes indexed to 1913. Federico and Tena-Junguito (2016) – processed by Our World in Data



(Figure 1b) Total value of merchandise exports divided by gross domestic product, expressed as a percentage. Fouquin and Hugot (CEPII 2016) – processed by Our World in Data

The first significant turning point was the end of the cold war. By 1989 the Berlin Wall fell, Germany reunited, and the Soviet Union was dissolved. As the Iron Curtain collapsed, new nations began integrating into the capitalist system. Among these nations there was China, which joined the World Trade Organization (WTO) on 11th December

2001 (Brown University, 2018). China started opening its economy to foreign investments, attracting companies eager to capitalize on its low labour costs. Concurrently, China's economy grew substantially from being the sixth-largest exporter of goods globally in 2001 to being the world's largest exporter since 2009, surpassing EU countries in 2014 (Sapir, Mavroidis, 2021). The rapid growth of both exports and imports has driven significant increases in GDP and income levels. According to the IMF's World Economic Outlook (WEO) database, China's GDP represented just 13% of the U.S. GDP in 2001. By 2023, this ratio reached approximately 64%.

However, China's integration into the global economy has also led to many tensions and controversies, particularly with the United States, which has long faced substantial trade deficits with the Red Dragon. In 2019, U.S. trade with China amounted to an estimated \$635 billion, with exports totalling \$163 billion and imports reaching \$472 billion. This resulted in a trade deficit of \$309 billion, a number never expected when China joined the WTO.

Many Western countries, especially the United States, have often criticised China's trade practices. One main concern is China's use of State-Owned Enterprises (SOEs). These companies get strong support from the government, which makes it hard for foreign firms to compete. Critics say this creates unfair market conditions. The problem is that WTO rules do not clearly cover state control of SOEs, so China can keep backing them without breaking any specific rules. This puts foreign companies at a disadvantage.

Another issue is intellectual property and technology transfer. Foreign companies investing in China are often required to share their proprietary technologies through joint ventures with local firms. Critics from the U.S. and Europe say China pressures firms to hand over know-how or simply steals it. Some cases have gone to the WTO, but the rules do not fully deal with forced technology transfers. This has caused frustration, especially in the U.S., where leaders see it as a threat to their tech edge and national security.

Still, not everyone agrees that China's progress is based on theft. Richard Baldwin's perspective suggests that much of China's technological advancement may not be the result of a *theft* of patents or industrial secrets, but rather the natural transfer of implicit knowledge regarding manufacturing and management practices. (Wolf, Baldwin, 2025)

With the influx of capital and expertise from more developed foreign firms, who would not expect a once less-developed country like China to observe and learn from them?

Another problem is market access. Despite commitments made during China's accession to the WTO, western critics argue that China has not fully opened its markets to foreign competition. While China promised to remove barriers to entry and allow more foreign investment, many sectors remain heavily controlled by the state, and foreign companies still face significant problems. The WTO has not enforced these commitments effectively, and China's market remains less open than many anticipated when it joined the organization (Sapir, Mavroidis, 2021) (Brown University, 2018).

Turning back to globalisation, the second key driver of its acceleration was the *revolution in information and communication technology* (ICT). The widespread adoption of the internet, mobile phones, and email eliminated many communication barriers, making it faster and more cost-effective to connect across the globe. Just as the steam-powered ships and railway networks at the end of the XIX century reduced transportation costs and increased goods crossing borders, the reduction of communication costs sparked another transformative shift in international trade. With the rise of ICT, it became possible to coordinate different stages of production across various parts of the world, something that was previously impossible. This marked the beginning of the *Age of Global Value Chains* (GVCs). Companies began outsourcing production to countries with lower labour costs, and the coordination of these production stages became easier thanks to the new technologies. The world thus transitioned from a model of *goods crossing borders* to one of *factories crossing borders* (Wolf, Baldwin, 2025).

As GVCs developed, firms became reliant on foreign components in their production processes, which led to a greater flow of intermediate goods internationally, rather than being limited to domestic markets. This made the world even more interconnected, driving globalisation to new heights. A natural disaster as a flood in Thailand could now interrupt white-collar businesses as far away as the United States or Europe (Antras, Chor, 2022).

1.4 Backlash against globalisation

After discussing the origins and evolution of globalisation in the past centuries, we now turn to more recent times. In the 2000s, globalisation reached its peak, with nearly the entire world engaged in international trade and benefiting from it. But many were the downsides too. As highlighted by Rodrik (2023), economics remains the science of *trade-offs*, of compromises. While globalisation has promoted global economic growth indeed, it has also contributed to irreparable damages. Hyper-globalisation thus presents a dual aspect. Inequality between countries persists, failing, although partially, in redistributing the benefits of trade between developed and developing nations. Climate damage is also direct consequence of this process.

However, the most significant consequence of hyper-globalisation for the purposes of this thesis is the erosion of the middle class in the U.S. and Europe, as it helps explaining the resurgence of protectionism. These middle classes have been burdened by a growing sense of humiliation and frustration: people lost their jobs due to market crashes, relocation of large multinational corporations, while also observing massive inflows of immigrants from countries impoverished by globalisation itself. It is precisely from this context that protectionism has remerged. It will be seen more in dept how recent global crises have contributed to the impoverishment of the middle class in the West, and how this has led the masses to vote for a new wave of populist parties that promote protectionist and nationalist policies. This phenomenon is addressed in Colantone et al.'s *Backlash of Globalisation*, which will provide an analytical framework for understanding this development. Subsequently, it will be examined how this is reflected in the positions taken by Western governments, particularly the United States, in recent years, analysing the recent isolationist pushes and crises.

The Financial Integration and the 2008 Crisis

As globalisation spread across the world, it not only liberalised trade and allowed the fragmentation of production through GVCs, but also drove a profound integration of financial systems. Starting in the 1980s and accelerating through the 1990s, banks

increasingly engaged in cross-border investments, leading to a dramatic rise in foreign lending. This growing financial integration made financial markets deeply interconnected across countries. The 2008 subprime mortgage crisis illustrates how such interconnection can amplify and globalise economic shocks, for two main reasons.

The first reason is the increase in foreign leverage. Beginning in the 1980s, the U.S. non-financial sector experienced a sharp increase in net borrowing, largely financed by foreign capital inflows. This twenty-year period was characterised by rising debt and leverage, facilitated by low global interest rates, increasing U.S. current account deficits, and expanding access to foreign credit. As a result, leverage in the U.S. economy rose substantially. In a less financially integrated environment, leverage would likely have remained lower, limiting the volume of aggregate loans and potentially reducing the impact of the crisis.

Second, globalisation enabled the crisis to spill over into other countries. Economic models confirm that, although financial integration may partially buffer the originating country, it simultaneously exposes other economies to external shocks. Consequently, country-specific financial disruptions are transmitted across borders, leading to a synchronized and widespread financial instability (Mendoza & Quadrini, 2009).

The Erosion of Trust in Globalisation Post-Crisis

The 2008 crisis opened Pandora's box. In the decades following World War II, *embedded liberalism* became the guiding principle for most western governments. The prevailing belief was that trade liberalisation among countries would give substantial gains, which in turn would be used to fund welfare policies. It was a combination of free trade and multilateralism with policies aimed at fostering domestic growth and social cohesion through the creation of a strong middle class. An implicit social contract, where globalisation was promised to deliver benefits for the vast majority of society. In Europe, this vision led to deeper European integration and the construction of robust welfare-state systems (Colantone et al, 2022).

However, with the 2008 financial crisis, the 2011 European sovereign debt crisis, and the subsequent wave of austerity measures, the belief that globalization could serve the interests of all began to erode, particularly across Europe and the United States. This growing disillusionment brings us back to the end of the XX century, during the first wave of globalisation previously analysed. Despite the aggregate economic gains, then too globalisation produced deep distributional asymmetries. While capital owners and industrial elites gained unprecedented wealth, real income for the bottom 90% stagnated or declined, and volatility in wages and employment increased. As shown by Franzese (2019), the income shares of the bottom 90% of U.S. families were falling while those of the top 0.1% were rising already in the early XX century (Figure 4, Franzese, 2019). These imbalances triggered an isolationist and nationalist backlash that ultimately led to the collapse of global economic integration with the onset of World War I.

Similarly, today, in the aftermath of the 2008 and 2011 crises, many in the working and middle classes perceive themselves as the *losers* of globalisation, as demonstrated by the rise of populist and anti-globalisation political movements. The *Backlash of Globalisation* by Colantone, Ottaviano and Stanig provides a fascinating insight on such dynamics. They define the globalisation backlash as *the political shift of voters and parties in a protectionist and isolationist direction, with substantive implications on governments' leaning and enacted policies*.

What emerges from their study is that the concept of embedded liberalism lost its credibility among the public opinion, especially after the financial crisis, gradually giving way to more protectionist ideals. Colantone et al report striking yet highly interesting findings of a survey carried out by Eurobarometer in 2019 where the following question was asked: *Nowadays, international trade has an important place in the EU: this means that goods and services from outside are imported into the EU, while goods and services are exported around the world. Could you tell me whether you are currently benefiting from international trade or not?* The results confirm the increase in frustration towards globalisation among the public: more than a third of respondents answered “no” in Austria, Belgium, Greece, France, Spain and Italy, which obtained the highest share of negative answers (60%).

Another question in the same survey asked whether *the EU should increase duties on imported goods so as to protect EU industry and jobs*. This position was supported by 42% of respondents in Spain, around a third in France, Greece, and Portugal, and approximately a quarter in Austria, Ireland, and Italy. If we also consider the option of retaliatory import tariffs, that is, tariffs imposed in response to similar measures adopted abroad, more than 50% of respondents in all Western EU countries expressed support for such actions, with peaks of 69% in France and 73% in Spain.

This isolationist attitude has been reflected in the electoral shift beginning in the 1990s and intensifying after the Great Recession. The findings suggest that although there was a decline in net autarky from the 1980s until the early 1990s, this trend was subsequently reversed, with a growing support for isolationist parties from the mid-1990s onwards. From that point, voters increasingly shifted toward nationalist, anti-global right-wing parties, notable examples include the Northern League in Italy, Front National in France, Alternative for Germany (AfD), and Vox in Spain.

After the recession however, a significant rise in support for isolationist forces on the left was also observed, particularly in Southern Europe. Prominent examples include Syriza in Greece, Podemos in Spain, and the Five Star Movement in Italy, all of which voiced strong critiques of international financial institutions, neoliberal trade policies, and the perceived erosion of national democracy.

Nevertheless, right-wing protectionist rhetoric appears to have gained more popularity than its left-wing counterpart, particularly in the United States, as evidenced by the rise of the *Trumpian America*. But why the right and not the left?

The winning formula of Trump's Republican Party, and of the broader no-global right, has been its ability to attract support from both the working class and the middle class: the so-called *losers* of globalisation and of financial crises. Promises of lower taxes appeal to a declining middle class that has grown increasingly sceptical of the benefits of the welfare state. Meanwhile, protectionist trade policies resonate with working-class voters, especially in regions hit hard by foreign competition and where trade unions have lost influence and relevance. Colantone et al. document that U.S. counties most exposed to foreign trade competition became increasingly Republican. After analysing Baldwin's

political explanations behind the rise of protectionism, this outcome should come as no surprise. It has become increasingly difficult for unions to defend workers from the consequences of market liberalisation, such as the offshoring of manufacturing to low-wage countries. Trade unions themselves often appear estranged in this new hyper-globalised world, disoriented and disconnected from the dynamics that once defined their power and role. Their historical alliance with left-wing parties has weakened, and their perceived impotence has contributed to the political disengagement of the working class.

Change in attitude has been reflected in a change in voting, it is important to understand if such shift also led to a shift in government positioning and actual trade policy measures. The findings indeed support the globalisation backlash in voting behaviour seems to have been consequential not only in terms of legislative representation, but also in terms of government positioning (Colantone et al. 2022). A notable example is Italy, where the 2018 general elections led to the formation of the Conte I government, a coalition between the Northern League and the Five Star Movement, which represented isolationist forces from both the right and the left of the political spectrum (The Guardian, 2018).

Political shifts and the Return of Protectionist Policies

Looking at the effective implementation of trade policies, we observe different outcomes between the U.S. and the EU. In Europe, trade policy is set jointly by all the 27 countries and EU parliament, without unanimity requirements; therefore, individual governments, as isolationist they can be, have very little influence. A way to shift away from trade liberalisation requirements imposed by the EU would be to leave the EU directly, as we have seen with Brexit after the referendum in 2016. Several politicians backed the leave campaign in order to let the UK set their own trade policies as a way to foster security from global trade. Brexit was indeed a consequence of the backlash of globalization: it has been the first and major step back in European integration's history and its consequences are still affecting today's British and European economy (Colantone, 2022).

In the U.S. it is easier to observe trade policy effects of the backlash of globalisation. The White house have long shared complaints on the appellate body of WTO, accusing them of failing to address charges to China's trading practices, considered irregular by Washington. The blocking of judges of the appellate body began during Obama administration, it then escalated with President Trump in 2017 (Horton, 2021).

Under Trump's first presidency, the U.S. government withdrew their participation to Transatlantic Trade and Investment Partnership (TTIP), a trade agreement with the European Union, and the Trans-Pacific Partnership (TPP), a trade agreement with 12 countries on both sides of the Pacific region, including the US, Mexico, Canada, Australia, New Zealand, and Japan. ⁴

The protectionist escalation culminated in the 2018 trade war against China during the first Trump administration. In January 2018, Trump imposed the first tariffs on solar panels and washing machines (20–50%), followed in March by tariffs on steel (25%) and aluminium (10%) from all countries, including the EU and Canada. Starting in April, he targeted Chinese goods, especially high-tech items like aircraft parts, batteries, TVs, and medical devices, eventually covering over \$360 billion worth of imports by the end of 2019. In retaliation, China imposed tariffs on cars, airplanes, soybeans, and other U.S. goods, approximately \$100 billion worth of U.S. exports. Trump justified the tariffs as a response to unfair trade practices, intellectual property theft, and to protect national security and U.S. industries. However, deeper motivations included the need to gain political consensus and respond to the popular backlash against globalisation, as discussed earlier in the paper (Faigelbaum, 2018).

De-escalation began in late 2019 with the announcement of a *Phase One* trade deal, signed in January 2020, where China agreed to increase purchases of U.S. goods and commit to reforms on issues like IP protection, leading to the postponement or reduction of some tariffs.

Although less chaotic than Trump's tariff wars, President Biden's approach to trade has marked a continuation of protectionism in U.S. economic policy. As Dani Rodrik

⁴ More of these issues will be examined in greater depth in Chapter 2.

(2023) notes, the Biden administration has distanced itself from traditional free trade rhetoric, arguing that building a more secure, green, and equitable economy must take precedence over hyper-globalization. Measures taken include a continuation of the Trump tariffs on China, preserving the Trump-era boycott of the WTO appellate body, *Made in America* provisions, and generous subsidies to domestic manufacturers to limit offshoring in high-tech sectors such as semiconductors, advanced AI, and microchips (Schoenbaum, 2023).

President Biden has also reduced trade restrictions from the past presidency, as the steel and aluminium dispute with the European Union, replacing tariffs with a tariff-rate quota system. Despite the emphasis on environmental sustainability, no carbon emission tariffs were emitted, while framed as tools for resilience and justice, such tariffs would have drawn criticism for their protectionist undertones from developing countries, who view them as potentially discriminatory. According to Chen Jiemin and Wang Qin (2021), such tariffs risk penalising exporters that are still in the process of implementing broad climate reforms, turning climate policy into a trade weapon (Fu, 2021).

Critics like Richard Baldwin (2025) acknowledge that Biden's policies are more subtle and well-formed than Trump's. Targeting strategic sectors like semiconductors under the banner of national security still risks fragmenting global supply chains, however there is a distinction between the trade policies. As Baldwin (2025) explains, the manufacturing sectors most affected by Trump's tariffs suffer from a lack of skilled labour willing to work in U.S. factories, making reshoring in those areas largely ineffective. In contrast, Biden focused on strategic high-tech sectors that the U.S. is better equipped to support due to its number of specialized workers and technological infrastructure (Baldwin, 2025).

Additionally, Biden's presidency had to face the outbreak of the Covid-19 pandemic, where a general return on more protectionist measures was observed. During the pandemic most countries adopted short-term policies, such as subsidies or export bans, aimed to protecting domestic industries and employment. According to Fu (2021), although trade liberalisation remains the most desirable situation in the long-term, at that time adopting such measures was necessary to stimulate economic recovery and preserve social stability.

In contrast, Baldwin and Freeman (2020) adopt a much more critical position. In their study, they document export restrictions on medical supplies imposed by over 80 countries and highlight an emerging trend among policymakers and academics advocating for a more protectionist and self-reliant supply chains. They warn that dismantling global value chains may generate negative outcomes, considering the high levels of international manufacturing interdependence, especially with China at the centre, arguing that such outcome not only would be economically inefficient but also harmful to both global trade and public health.⁵

1.5 Lessons from the 2018 US-China Trade War

On January 20, 2025, Donald Trump's second presidential term began with his inauguration in Washington DC. The American electorate chose to support his *America First* agenda over the democratic alternative presented by the outgoing Vice President Kamala Harris. Throughout the campaign, Trump advocated for higher tariffs, a zero-tolerance policy on illegal immigration, and an explicit scepticism toward the EU and other traditional U.S. allies. His victory was partly a result of widespread dissatisfaction with the policies of the Biden-Harris administration, particularly the high inflation that emerged under their leadership, the increased migration at the Mexican border, their inability to resolve crises in Ukraine and the Middle East, and a perceived excessive attention on social issues such as LGBT rights.

As mention in the introduction of this thesis, Trump's America is the mirror of those marginalised by globalisation, the sceptics and resentful towards the globalist establishment of the Clinton-Bush-Obama era, viewed as the accomplices of an elite conspiracy against the working class. The concept of the globalisation backlash analysed earlier offers a clear framework for understanding Trump's political resurgence following his defeat in the 2020 presidential election by Joe Biden (Financial Times, 2025).

⁵ More about trade policies adopted during the pandemic will be examined in greater depth in Chapter 3.

Although the protectionist policy has convinced the vast majority of Americans, the same cannot be said for academics, analysts, and, primarily, stock markets. The day after Trump's *liberation day*, when the new tariffs of the Trump administration were implemented, uncertainty and pessimism about the future of global economic growth led investors worldwide liquidation of stocks, triggering a panic selling. On April 3rd, the most devastating market crash in five years was recorded, with Nasdaq dropping by 5.97%, Dow Jones by 3.98%, S&P 500 by 4.84%, as well as FTSE MIB (- 3.60%), Euro Stoxx 50 (-3.80%), DAX (-3.01%), FTSE 100 (-1.55%), and Nikkei 225 (-2.77%).

The tariffs adopted in 2025 are far more devastating than those implemented in 2018, with a minimum taxation of 10% on all U.S. imports, accompanied by much harder measures for specific countries: 34% for China, 20% for the EU, 24% for Japan, and as high as 49% and 46% for Cambodia and Vietnam, respectively. According to most major economists, the consequences will be catastrophic; however, the future evolution of this situation remains highly uncertain. (Financial Times, 2025). The last tariffs imposed by Trump in 2018 may prove useful, as years have passed, and we now have clear data documenting the consequences on the U.S. economy.

Caliendo and Parro (2022) quantify the aggregate and distributional effects of the 2018 trade war between the United States and its trading partners. Their empirical study suggests that tariffs have been almost fully passed through to U.S. consumer prices, meaning that the burden of increased tariffs fell primarily on U.S. consumers. Fajgelbaum and Khandelwal provide an even more detailed study on the burden faced by consumers. They study the pass-through of tariffs, which is how much of the tariff cost is passed on to the final price consumers pay. Complete pass-through means the full tariff cost is added to the price (if a 10% tariff is applied, the price goes up by 10%). Incomplete pass-through means that only a part of the tariff is passed on to consumers, so prices do not increase by the full amount of the tariff. Economists assume that large importing countries (like the U.S.) might have significant market power, meaning they can influence the prices of goods they import. If a country imposes a tariff, producers in exporting countries may have to absorb part of the cost of the tariff rather than passing the full amount onto consumers. For example, if the U.S. is a large market for a specific

product, the exporter might prefer to reduce their profit margin rather than lose U.S. customers. As a result, they might only partially pass on the tariff to the consumer.

What was surprising from their empirical study was that they found a complete tariff pass-through for both the U.S. and China, as, in theory, a large importer like the U.S. could manipulate terms-of-trade to its advantage. Motivations for a complete pass through are either an inelastic demand or an elastic supply, which is consistent with the empirical findings of Fajgelbaum and Khandelwal. In the supply side it was found that China easily reallocated its exports from the United States to other destinations, meaning that U.S. tariffs did not impact much Chinese exports.

Looking at the labour market, the 2018 trade war resulted in a small decline in real wages in both the U.S. (around 0.13%) and China (about 0.11%). The effects on employment were also regionally heterogeneous, with regions heavily exposed to tariff-affected industries witnessing greater job losses. If countries did not retaliate against the U.S. tariffs, the U.S. would have experienced a modest improvement in real income (about 0.02%). The absence of retaliatory tariffs would have allowed U.S. firms to benefit from more favourable market conditions; however, once retaliation kicks in, the situation changes. Retaliatory tariffs on U.S. exports resulted in greater negative effects on both countries' economies, reminding us of a Prisoner's Dilemma situation alike.

Caliendo and Parro also provide evidence of the negative impact on investments, with an estimated 1.9 percentage point decrease in investment growth for U.S. listed companies, mostly due to uncertainty surrounding tariffs, that pushed firms to delay investment plans. Tariffs had a spread effect across global supply chains, with firms facing higher input costs pushing them to consider relocating production (Caliendo & Parro, 2022) (Fajgelbaum & Khandelwal, 2022).

2. The Evolution of Transatlantic Trade Relations

Chapter 2 provides an overview of the evolution of transatlantic trade relationships from the aftermath of World War II to present times. Going through the history of EU-U.S. commercial relations will provide a complete understanding of the current scenario,

and will equip the reader with the necessary tools to assess the potential impact of tariffs on the EU pharmaceutical sector, which will be addressed in Chapter 3. This overview begins from the ruins of post-War Europe, analysing the role played by the United States in promoting free trade through initiatives such as the Bretton Woods system and the launch of the first GATT round. The American doctrine of the time believed that it was in the United States' own national interest that the world engaged in free trade. In their view, trade liberalisation would not only help restoring global stability following the turbulence of early XX century, but also allow the U.S. to reinforce its economic hegemony through opening foreign markets to American goods and countering communism through the expansion of capitalism.

This goal was evident in the reconstruction of European economies. The chapter emphasizes the role played by the United States in financing and supporting the recovery of post-war Europe, as well as in initiating the process of European integration. The U.S. wanted to foster a strong, prosperous trading partner with which it could engage in mutually beneficial trade and to prevent Western Europe from falling into the Soviet sphere of influence.

European economic growth and trade relations with the United States proceeded positively until the 1970s, when the first signs of instability began to emerge. The American doctrine of unequivocal support for Europe and the other allies in favour of broader national interests began to erode during the Nixon presidency. Europeans were now seen as rivals rather than partners mostly due to growing issues over the American trade balance. During the 70s the U.S. experienced its first trade deficit since 1873, this shift culminated in the *Nixon Shock*, the unilateral decision by the United States to abandon the Bretton Woods system, which meant suspending dollar convertibility to gold in favour of a regime of floating exchange rates to address budgetary imbalances.

The collapse of the Bretton Woods system, the fiscal burdens inherited from previous administrations (including Vietnam War expenditures and social reforms), and the stagflation triggered by the two oil shocks (in the 1970s and early 1980s) pushed Washington toward policies that included veiled forms of protectionism to shield domestic industries. Transatlantic relations entered a period of crisis, further aggravated by disputes such as those surrounding the Common Agricultural Policy.

Tensions persisted until the emergence of neoliberal policies under the leadership of Thatcher and Reagan, which renewed interest in global trade liberalisation and led to new negotiations within the GATT framework, culminating in the Uruguay Round. Although initially sceptical, the EEC eventually agreed to participate in the talks. The Uruguay Round marked a return to free trade principles, leading to the establishment of the World Trade Organization (WTO). During the same years, the process of European integration culminated in the creation of the European Union and the euro currency.

In the 1990s, transatlantic relations entered a *honeymoon phase*. However, ambitions of boosting once again globalisation and multilateralism were eventually ruined by the failure of the Doha Round, considered as the greatest drawback in modern trade diplomacy. The WTO and multilateral trade governance suffered a *Waterloo* that pushed nations to prioritise instead bilateral and regional agreements. In this context, the U.S. and the EU began negotiations for the ambitious Transatlantic Trade and Investment Partnership (TTIP), which ultimately failed following the election of Donald Trump, who suspended negotiations and introduced protectionist policies.

The chapter concludes by examining the trade policies pursued by the last three U.S. administrations, Trump, Biden, and Trump again, with a specific focus on the European Union and its response to these policies. It ends with an analysis of the latest and most severe trade measures adopted by the Second Trump Administration in 2025, with the developments in recent months up to the time of writing. The new tariffs have been justified on the grounds of the U.S. trade deficit with the EU and other countries. The chapter will assess whether this *ratio* truly supports protectionist policies, and whether such measures are likely to improve the U.S. fiscal balance and benefit its economy.

2.1 The United States' Role in Shaping European Integration After World War II

The period following World War I was marked by decades of severe economic instability. After the protectionism of the 1930s and the Great Depression, the United Kingdom and the United States began calling for an international agreement on

commercial policy aimed at restoring trade liberalisation, convinced that a more open market could help lift the world out of crisis and promote global prosperity and peace (Irwin, 1995). This view was maintained even when World War II broke out. It became the main objective of the historic Bretton Woods agreement of 1944, reached at the United Nations Monetary and Financial Conference at the Mount Washington Hotel in Bretton Woods, New Hampshire. At the conference, 44 countries committed themselves to embrace the *Bretton Woods system*, where each national currency had to be kept fixed but adjustable (within a 1 percent band) to the U.S. dollar, fixed to gold at \$35 an ounce.

The idea was to combine the advantages of the classical gold standard with the flexibility of floating exchange rates. Before World War I, countries had to maintain fixed exchange rates by tying their currencies to gold, which provided stability and predictability in international trade. Strong, gold-anchored currencies helped promoting confidence and reduced the risk of inflation. However, the gold standard had also significant disadvantages, most notably, it limited the ability of governments to respond to economic crises. Since currencies had to be backed by gold reserves, countries were often unable to adjust interest rates or increase the money supply to stimulate their economies during downturns (Bordo, 1991).

The situation worsened during World War I. Countries suspended the gold standard to finance military expenditures, leading to inflation and instability. The interwar years saw repeated failed attempts to return to the gold standard which only worsened the situation, contributing to economic crises (the Great Depression) and protectionist measures (Smoot-Hawley Tariffs). As soon as World War II erupted, it had become clear that a new international monetary system was needed, one that preserved monetary stability while allowing governments more flexibility in responding to economic shocks (Baldwin and Martin, 1999).

Another milestone reached at Bretton Woods was the creation of institutions such as the World Bank and the International Monetary Fund. The International Monetary Fund (IMF) would have monitored exchange rates and lent reserve currencies to nations with deficits in their balance of payments. The International Bank for Reconstruction and Development, now known as the World Bank Group, was instead responsible for

providing financial assistance for the reconstruction after World War II, as well as the economic development of less developed countries (Bordo, 1991).

The same driving force of the Bretton Woods Agreement led to the formation of the General Agreement on Tariffs and Trade (GATT), with the first GATT negotiating round held in Geneva in 1947. The aim of GATT was *to contribute to rising standards of living and full employment by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce*. The first GATT Geneva negotiating round was a huge success, with an accomplished 35% tariffs cut on average. However, the following negotiating rounds in Annecy (1949) and Torquay (1950-1951) accomplished relatively little compared to the first one, and negotiations on the creation of an International Trade Organization (ITO) alongside the World Bank and the IMF failed.

After Bretton Woods, the United States had the responsibility of managing the supply of dollars in order to maintain global confidence in the currency's future convertibility into gold. It quickly became evident that the U.S. would take the lead in shaping this new international economic order, as well as assume a position of leadership in global trade. The GATT itself was born largely out of American strategic interests, and during its early decades, it was the United States that led most of the negotiations and set the direction for trade liberalisation efforts (Irwin, 1995).

But why was the U.S. so committed to promoting free trade in other countries? In economic terms, the Americans promoted a liberal global trading system as if it were a public good⁶, something that it would have benefited everyone. But this was not mere altruism, as the U.S. had implicit interests (Baldwin and Martin, 1999).

⁶ In economics, a public good is defined as something that is non-excludable (meaning everyone can benefit from it) and non-rivalrous (meaning one person's use does not diminish its availability to others). Examples include clean air or national defence.

The first key reason for assuming a hegemonic role in shaping a liberal global trade system was geopolitical: it was a response to the rising threat of Soviet influence. The U.S. had a strategic interest to bring as many regions of the world as possible under its economic and ideological umbrella. This was clear in its role in the reconstruction and integration of Western Europe.

After the devastation of European economies in the aftermath of World War II, President Harry S. Truman and General George C. Marshall feared the ascent of communist parties in the vulnerable European countries. In this scenario, the U.S. would have lost Western Europe under the Soviet influence, thus losing not only geopolitical influence, but also a valuable trading partner (Stokes 2022) (Baldwin and Martin, 1999). During the *Marshall Plan Speech* of 1947 at Harvard University, general Marshall declared: *It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans.... The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program.... The program should be a joint one, agreed to by a number, if not all European nations.* This aligns with Baldwin's *social concerns* approach, discussed in Section 1.2.

The second reason was economic. The U.S. economy stood to benefit from strong trading partners, particularly if they were allies. Washington aimed to support the recovery of European economies after the war, expecting them in return to engage in reciprocal trade and align with the U.S. capitalist model. From the American perspective, it was far more advantageous to trade with a strong, unified European market than with a weak and fragmented one. Without integration, Europe risked economic collapse, which could have triggered a downturn in the U.S. and supported the rise of socialist governments in the region (Stokes, 2022).

The notion of a unified Europe was notably advanced by Will Clayton, a wealthy businessman and key figure in the U.S. State Department at the time. In a memo to Marshall, he wrote: *Our objective has as its background the needs and interests of the people of the United States. We need markets-big markets-in which to buy and sell. (..) The recovery plan 'should be based on a European economic federation.*

On the other side of the Atlantic, European countries welcomed the United States' invitation to cooperate. In 1950, the Schuman Plan led to the establishment of the European Coal and Steel Community (ECSC), a treaty through which France, Italy, Belgium, the Netherlands, Luxembourg, and West Germany agreed to place their coal and steel industries under a common market. Most of the enthusiasm behind this initiative came from countries neighbouring West Germany, which, after experiencing two devastating world wars, feared that German dominance in coal and steel could once again be used to fuel militarization. Among these countries was France, which emerged as the strongest proponent of the plan. Jean Monnet, architect of the Schuman Plan and later President of the ECSC's High Authority, argued that such an agreement would significantly reduce the prospects of another European conflict.

Unfortunately, despite its ambitious foundations, the ECSC proved to be largely ineffective in practice, as its rules were frequently ignored. National governments were more inclined to prioritise the protection of domestic industries rather than the pursue of supranational objectives. The ECSC was selectively implemented, primarily during periods of crisis or under external pressure from the United States, but not when national interests prevailed. Nevertheless, its symbolic significance must be recognised. The ECSC played an important role in reconciling France and Germany, marking a huge, although largely symbolic, first step toward broader European integration (Alter and Steinberg, 1997).

The process of European integration further advanced in 1957 with the treaties of Rome, when the European Economic Community (EEC) was created⁷. The aim was once again to create a common market by reducing trade barriers and promoting economic cooperation among its members countries: France, West Germany, Italy, Belgium, The Netherlands, and Luxembourg (Stokes, 1957).

⁷ Two treaties were signed on 25 March 1957: not only the Treaty establishing the European Economic Community (EEC), but also the Treaty establishing the European Atomic Energy Community (EAEC or Euratom). Its aims are to promote the peaceful use of atomic energy within the European Union (European Parliament, 2025).

Through the creation of a European common market, and the implementation of the Marshall Plan, the European countries' economies returned strong. The total amount provided by the Marshall Plan to help finance the recovery of Western Europe was \$13.2 billion. If adjusted for inflation, this amount would be equivalent to approximately \$135 billion in today's dollars. In terms of the U.S. economy, the original aid represented about 5.2% of the U.S. Gross National Product (GNP) at the time, if such a program were implemented today, it would exceed \$800 billion (Roll, 2015). From the 1950s to the 1970s, European countries (along with Japan) experienced rapid economic growth, marking a historically remarkable period in the collective imagination of each nation, with France's *Les Trente Glorieuses* or Italy's *Economic Miracle* (Roll, 2015).

2.2 The Nixon shock and the Rise of Transatlantic Tensions in the 70s

Europe was catching up very quickly with the United States. American domestic production grew more vulnerable to imports from U.S. allies such as Japan and the EEC. Imports more than doubled in proportion to U.S. production, increasing from 4.3% of production in 1953 to 10.6% in 1979 (Pollack and Schaffer, 2001). Between 1965 and 1970, while U.S. exports to Western Europe grew by 50%, American imports from western Europe rose 81% (Stokes 2022). In 1971, the United States experienced its first trade deficit since 1893. Whereas the United States was the world's largest creditor nation following World War II, it was the world's largest debtor nation by the mid-1980s, financed by foreign holdings of short-term U.S. government debt. The post-war trade surpluses with Europe had now become a distant memory (Pollack and Schaffer, 2001).

American trade deficit was pressuring the dollar, still pegged to the price of gold under the Bretton Woods system. Starting in the 1970s, the American establishment began to shift its perception of its transatlantic ally. Presidencies following Truman administration generally maintained the strong relations with the European countries, following the guiding principle of unequivocal support for European integration. This vision began to erode during the Nixon presidency (1969-1974), with Europe now portrayed as an economic rival rather than an ally (Stokes, 2022) (Pollack and Shaffer, 2001).

By April 1973, then National Security Advisor Henry Kissinger confided that he was *no longer so sure that European integration is all that much in our interest*, and that *the United States should seek to keep Europe divided*. President Richard Nixon replied, expressing his *opposition to any solution that brought the Common Market countries closer together*, otherwise, *we will create in Europe, a Frankenstein monster, which could be highly detrimental to our interests in the years ahead* (Stokes, 2022).

Growing scepticism towards America's allies led the president to abandon the dollar's convertibility into gold in 1971, thereby ending the Bretton Woods agreements and causing the so-called *Nixon Shock*. As European (and Japanese) exports became more competitive due to their economic recovery, and the demand for U.S. exports declined, an overvalued dollar was undermining U.S. export competitiveness. The United States was facing its first post-World War II balance of payments problems, accompanied by growing inflationary pressures due to the costs of the Vietnam War and Johnson's social reforms, inherited by the past U.S. presidencies. With more dollars held abroad than the U.S. had gold to cover, countries began demanding gold in exchange for dollars, fearing a devaluation. France, under De Gaulle, was particularly active in requesting gold for its dollar holdings. The increased demand for gold conversion threatened to drain U.S. gold reserves.

After 1971, the world's major economies transitioned to a system of floating exchange rates, marking the beginning of the modern international monetary system. By doing so, the U.S. shifted the burden of adjustment onto other countries: this meant that other nations would have to adapt to the new system of floating exchange rates and address the consequences of the U.S. decision, rather than the U.S. bearing the burden of maintaining the international gold standard (Irwin, 2012) (Stokes 2022). As U.S. Treasury secretary John Connally affirmed, *Foreigners are out to screw us, our job is to screw them first* (Pollack and Shaffer, 2001).

The EEC was frustrated with this development; however, it was only the beginning of a troubling decade. In October 1973, the Organisation of Arab Petroleum Exporting Countries (OAPEC) decided to implement an oil embargo against the United States and other western nations that were providing military and political support to Israel during the Yom Kippur War (or October War). The war started when Egypt and Syria launched

a two-front attack on Israel to regain their territories lost in the Six Day War (1967), when Israel captured the Sinai Peninsula in Egypt and Syria's Golan Heights. This later came to be referred as the first oil shock, as in 1979 a second oil crisis emerged following the Iranian Revolution (1978-1979), when the Pahlavi dynasty was overthrown, and the Islamic Republic was established (US Federal Reserve, 2013) (Al Jazeera, 2023).

Although the dominant view is that the price increases during both oil shocks were caused by exogenous political events in the Middle East, there were also deeper macroeconomic factors at play. According to Barsky and Kilian (2000), the price increase was made possible by a period of exceptionally strong global economic growth, low real interest rates, and expansionary monetary policies. The rapid industrial expansion in the United States, Europe, and Japan until 1972–73 had pressured the oil market, with an excess in demand and limited supply, exhausting production capacity both in the U.S. and the Middle East. The OAPEC embargo acted more as a spark that accelerated a price increase already taking place, rather than being the sole cause of the crisis.

The oil crises led to an overall increase in input prices, which ultimately turned into rising inflation and economic stagnation (stagflation). It was the end of the post-war economic growth. For the United States, which was already facing trade deficit pressures, rising competition from its allies, and uncertainty linked to fluctuating exchange rates, the situation became extremely hard to manage. In response, Nixon decided to intervene to protect its domestic industries, threatened by foreign competition and rising production costs, initiating a phase of growing but subtle protectionism.

Why *subtle*? Trade restrictions reemerged, but in more indirect forms than traditional tariffs, which instead were reduced. Tariffs in advanced industrial democracies reached their lowest levels following the tariff reductions achieved during the Kennedy Round (1964-1967) and the negotiations of the Tokyo Round under GATT, which took place from 1973 until 1979, during the economic crises. The international trading system thus remained relatively liberal compared if compared to pre-war decades, with the protectionist wave of the Smoot-Hawley Tariff Act. However, while many tariffs were reduced during the GATT negotiations, some remained in sectors such as agriculture, and non-tariff trade barriers continued to rise (Milner, 1987).

In 1974, the Nixon administration passed Section 301 of the Trade Act, which directed U.S. trade authorities to take unilateral retaliatory measures against unreasonable and unjustifiable foreign trade practices. This significantly affected U.S. - EEC trade relations. Washington began criticising the EEC's Common Agricultural Policy (CAP), a protectionist policy aimed at sustaining European agriculture, which involved fixed prices on agricultural goods, subsidies, and import tariffs on non-EEC agricultural products. The U.S. accused the old continent that subsidies for products such as wheat flour, pasta, and canned fruit, as well as preferential Mediterranean tariff arrangements for citrus fruits, were distorting international competition and damaging the American economy. The CAP debate will be at the centre of major disagreements between the EEC and the U.S. in the following decades, slowing down potential progress in transatlantic trade relations. Additionally, the U.S. objected to the structure of the EEC's value-added tax (VAT) system, which was allowing European exports to be tax-free abroad while imposing VAT on imports, creating what the U.S. perceived as an indirect trade barrier (Pollack and Shaffer, 2001).

2.3 From Reagan to the Uruguay Round

In 1981 President Reagan was elected, marking the beginning of the neoliberal era. Steady advocate of free trade, he called countries to begin a new multilateral trade negotiation to re-establish U.S. hegemony of the world economy *under the ideological banner of free trade and free market* (Coppolaro 2019).

However, this was in part largely rhetorical. The tense climate of late 1970s persisted into the 1980s, with U.S. and EEC authorities continuing to negotiate and oversee non-tariff restrictions, particularly with Japan but also among themselves. Trade economists estimate that by the early 1980s, approximately one-third of the manufacturing sectors in the United States and in the major European economies were protected by non-tariff barriers. During this period, U.S. governments demonstrated an increased willingness to claim their trading rights under the GATT framework, particularly in agriculture, as the issues with EEC's CAP were far from resolved. Seventeen of the twenty-one Section 301 cases brought against the EEC between 1975 and 1988 specifically targeted agricultural

trade. From 1980 to 1982 alone, the United States initiated eleven new GATT disputes, nine of which were directed against the EEC. Five of these nine cases were brought under Section 301 and concerned issues related to the CAP (Pollack and Shaffer, 2001).

President Reagan continued to push for new trade negotiations. During the GATT Ministerial Meeting held in Geneva in late November 1982, the Reagan Administration urged participants to begin a new negotiation round. The United States wanted to broaden the GATT agenda by including new areas such as services and intellectual property, in addition to addressing the issues related to agricultural trade. However, the EEC was divided. While the United Kingdom's neoliberal government of Margaret Thatcher (the UK had joined the EEC in 1973) fully supported Reagan's initiative, countries such as France, Italy, Ireland, and Belgium remained sceptical. Their main concerns included the risk that a new round would redirect attention from completing the Tokyo Round commitments. Moreover, France and others continued to oppose agricultural liberalisation, viewing it as a threat to European primary sector, and resisted the liberalisation of services (Coppolaro, 2019).

EEC scepticism on the appointment of a new round ended in 1985, with the appointment of Jacques Delors as President of the European Commission. He initially served as the French Minister of Finance during the first three years of President Mitterrand's socialist government (1981–1984). After early attempts to boost the French economy through a series of social reforms, which resulted in inflationary pressures by 1983, Delors and the Mitterrand government decided to shift toward a more market-oriented approach. Even socialist governments such as the French became influenced by the broader economic trends of the 1980s, although still distinct from the more aggressive neoliberal measures seen in the UK or the U.S. The economic turning point of Mitterrand's government was initiated by Jacques Delors, who subsequently left his position to begin his presidency of the European Commission (Pollack and Shaffer, 2001) (Coppolaro, 2019).

With the beginning of his presidency the EEC changed approach too. Despite coming from the left, Delors was not completely opposed to market mechanisms, especially after the economic shift he experienced in 1983 in the French Government. This vision led him to support the concept of *organised liberalisation*, meaning that trade liberalisation can

occur, but only if regulated by rules and institutions to ensure a more equitable distribution of benefits. As President of the European Commission, Delors contributed to promoting both internal European integration and external multilateral liberalisation) (Coppolaro, 2019).

Internally, Delors accelerated the process of European integration through the Single European Act of 1986, the first major revision of the Treaty of Rome. Through this act, European countries set a clear timeline for the creation of a single market by 1992. Such ambitions were formalised eventually in the Maastricht Treaty of 1992, which marked the official birth of the European Union (EU). Maastricht introduced plans for Economic and Monetary Union (EMU), which led in 1999 to the creation of the euro. It established a new governance structure known as the three-pillar system: the first pillar covered the European Community and included economic policies like the single market and competition rules, the second pillar introduced the Common Foreign and Security Policy (CFSP), while the third focused on cooperation in Justice and Home Affairs (JHA). The project of European economic and political integration was finally consolidated (European Union, 2025).

Externally, Europe eventually overcame its initial scepticism towards the new GATT negotiations, while also improving transatlantic trade relations. In 1986, 123 countries gathered in Punta del Este, officially initiating the Uruguay Round (1986-1993). The long duration of the negotiations was primarily due to the divergences between the EEC and the U.S. on agricultural trade. The CAP remained a sore point for the Americans, who wanted to resolve the issue as quickly as possible. However, their European counterparts, particularly France and Germany, were reluctant to make concessions. On one side were Kohl and Mitterrand, who wanted to maintain the support of their respective farming communities in Germany and France. On the other side were Reagan and Thatcher, with the Iron Lady describing the CAP as *a pretty strange system with fixed agricultural prices in order to provide a living for inefficient farmers*.

A coalition of business groups in Germany decided to lobby to pressure the German government into ceding to the Anglo-American demands for liberalisation of the agricultural industry. Their concern was that a potential failure of the Uruguay Round negotiations would deprive them of the benefits that might arise from the trade

liberalisation agreements emerging from the talks. The Germans ultimately gave in, and in November 1992, the Blair House Agreement between the U.S. and the EEC was signed, committing to the reduction of both export and domestic subsidies. This agreement clears the way for a resolution on agricultural issues within the GATT framework. Non-tariff import barriers were converted into tariffs, and all tariffs were reduced by 36% in industrialized countries and 24% in developing countries. Additionally, industrialized nations reduced export subsidies by 36% in value and 21% in quantity, while internal support prices were cut by around 20%, with import quotas set to be phased out over ten years.

Once the agricultural trade issue was resolved, a new problem emerged, this time raised by the EEC. Building on the *organised liberalisation* initiated by Mitterrand's government, the European Community pushed for the creation of rules and institutions necessary to regulate this broader liberalisation. Margaret Thatcher's government was less eager to increase international bureaucracy; however, the strengthening of a multilateral trade regime was seen as a tool to control U.S. unilateralism. The U.S. on the other hand was reluctant to support both proposals. The Bush Sr. administration feared opposition from Congress over proposals that might result in a loss of sovereignty.

The negotiations eventually led to the formation of the WTO. The intermediation of Canadian negotiators and GATT Directors-General Arthur Dunkel (until 1992) and Peter Sutherland (from 1992 onwards) helped broker a compromise that introduced a major innovation: the formal establishment of automatic jurisdiction, with an Appellate Body (as requested by the EEC), and the multilateral imposition of sanctions in cases of enduring non-compliance (as requested by the US). Regarding the establishment of an international organisation, institutional reform of GATT was not initially on the agenda for the Uruguay Round. However, the collapse of the Berlin Wall and the fall of communist regimes throughout Eastern Europe influenced the negotiations. As these regimes were replaced by governments committed to market-oriented reforms, the principles of liberal trade and market-oriented pricing became mainstream economic thinking across much of the world. Such changes in the international context led

governments to reassess their approach to institutional reform. This weakened U.S. opposition, ultimately leading to the foundation of the WTO on January 1st.

Meanwhile, to win over developing countries, the EU and U.S. offered a ten-year phase-out of quotas on textiles, footwear, and tropical products, alongside agricultural liberalisation. They also imposed the *single undertaking principle*, meaning that all provisions of the Uruguay Round Agreement and existing GATT commitments would be included in a single WTO agreement, requiring nearly unanimous agreement for membership. This forced reluctant GATT members to accept liberalisation and new regulatory commitments in services, investment, and intellectual property, ensuring the broadest possible membership for the WTO. Among the developing countries, China was not included yet. China's accession to the multilateral trade system was one of the key issues during the Uruguay Round. It was only in 1995 that China obtained observer status, and it would not gain final accession to the WTO until 2001 (Coppolaro, 2019).

The success of the Uruguay Round and the progress of European integration reflected a clear shift in Europe's approach to market liberalisation and a renewed openness towards its American allies. The protectionist tensions and trade barriers that had emerged in the 1970s had begun to fade, and by the 1990s, the transatlantic trade alliance had entered a new phase of friendly liberalisation and open exchange. Towards the end of the Uruguay Round, democrat Bill Clinton was elected President of the United States. During his presidency (1993–2001), diplomatic and commercial relations between the United States and the European Union were marked by an even closer cooperation. In December 1995, Washington and Brussels signed the New Transatlantic Agenda (NTA), a broad framework to strengthen bilateral ties. The agreement included a proposal for a New Transatlantic Marketplace, the creation of the Transatlantic Business Dialogue and various civil society dialogues, such as the Consumer Dialogue, aimed at deepening economic integration.

The NTA identified a set of shared priorities for transatlantic cooperation, as defined by its signatories. These included: the promotion of peace, stability, democracy and development worldwide; coordinated response to global challenges such as crime, terrorism, immigration and public health; the expansion of world trade and the enhancement of economic relations; and the strengthening of transatlantic connections

through exchanges between business leaders, scientists, and other civil society actors (Pollack and Shaffer, 2001) (Stokes, 2022).

2.4 The Doha Round and the Shift Toward Bilateral Agreements in the 2000s

In the wake of the 9/11 attacks and growing criticism towards globalisation, the WTO launched the Doha Development Agenda in November 2001 at its Fourth Ministerial Conference in Doha, Qatar. This initiative was launched in a particularly sensitive historical moment, the early 2000s, right between the *end of history*, marked by the collapse of the Cold War's bipolar order, and the beginning of a new multipolar global landscape in which emerging economies such as China began to assume an increasingly important role.

The Doha Round had the objective of strengthening global trade through a reduction in tariffs and an improvement in developing countries' access to markets such as agriculture, manufacturing, services, digital technologies, finance, telecommunications, and environmental goods and services.

Negotiators wanted to establish a comprehensive agreement based on the *single undertaking* principle⁸, meaning that all WTO members, without exception, had to agree simultaneously on all 20 negotiation topics. The goal was to conclude the entire package of negotiations within four years (by 2005).

On one side there were developing countries, with newly influential members like China, India, Brazil, and South Africa, asking for a fairer global trading system. Their demands were mainly focusing on the reduction of agricultural subsidies in wealthier countries (especially the EU and the U.S.) which distorted global prices and made agricultural exports from the South less competitive. They also asked for greater access to the markets of developed countries for agricultural products, textiles, and manufactured

⁸ In WTO negotiations, the *single undertaking* principle means that virtually every item under negotiation is part of a single, indivisible package. No issue can be settled in isolation; instead, all elements must be agreed upon collectively. In other words, *nothing is agreed until everything is agreed*.

goods. Furthermore, developing countries were negotiating for a *special and differential treatment*, requesting more time and flexibility to implement the new rules. This demand was understandable: the Global South was still recovering from the legacy of colonialism, for which developed countries bore all the responsibility. Most of the developing countries were newly independent states, and their intuitional capacity was limited. They also pushed for tailored safeguard measures such as the ability to temporarily raise tariffs on agricultural products if sudden import threatened local producers.

Beyond these formal requests, these countries also had implicit political motivations. The world was becoming increasingly multipolar, and it was time for the Global South to make its voice heard. They wanted to assert themselves on the geopolitical stage, challenging the longstanding Western Oligopoly. Moreover, protecting sensitive sectors, especially agriculture, was a matter of social stability in countries like India and China, where millions of people rely on farming for their living.

On the other hand, developed countries had different priorities. The U.S.-EU axis, backed by Canada, Japan, and other allies, pushed for greater access to emerging markets, particularly in sectors such as banking, insurance, telecommunications, and industrial goods. They also advocated for stricter rules on intellectual property, investment, competition, all measures that largely served the interests of their own multinational corporations. Unlike developing nations, their focus went beyond agriculture to include the liberalisation of services. However, at the same time, they were determined to protect their domestic agricultural sectors, particularly in France, Japan, and the U.S., where powerful domestic agricultural lobbies could not accept any cuts in subsidies. They were willing to make some concessions, but only on their own terms.

Despite over a decade of negotiations, the longest trade round in WTO/GATT history, the Doha Round failed to achieve its goals due to persistent disagreements between the Global North and the Global South, marking the most significant negotiation failure in the history of modern multilateral trade. The round has probably always been too ambitious from the beginning. Despite repeated efforts, WTO members were unable to reach a compromise on important issues such as the reduction of agricultural subsidies in the EU and the US, access to industrial markets for developing countries, and the special and differential treatment requested by emerging economies. Many were the reasons of

this failure: structural conflicts of interest between developed and developing countries, excessive ambition in trying to resolve too many issues at the same time, a lack of political leadership, and continuous diplomatic stalemates. Symbolically, the collapse of the Doha Round can be seen as the beginning of the crisis of multilateralism in global trade, with the WTO left completely powerless in an uncharted multipolar and complex global order (Cho, 2010) (Wolfe 2015).

Once the impossibility of achieving multilateral liberalisation became clear, both the EU and the U.S. shifted their focus toward the development of more flexible bilateral and regional trade agreements, or to strengthening those already in place. EU's growing network of Free Trade Agreements (FTAs) included deals with countries like South Korea, Canada, and Singapore. Similarly, the U.S. favoured agreements such as the Central American Free Trade Agreement (CAFTA) and the North American Free Trade Agreement (NAFTA), which better aligned with its economic and strategic interests (Urata, 2002).

Among the FTAs, the most ambitious was the Transatlantic Trade and Investment Partnership (TTIP). This proposed agreement between the European Union and the United States, officially launched in June 2013, was never brought into force. Had it been concluded, the TTIP would have been the largest bilateral trade initiative ever negotiated, involving the two largest economic blocs in the world at the time. Negotiations were initiated under the leadership of the European Commission and the United States Trade Representative (USTR), with strong political support from both U.S. President Barack Obama and EU Commission President José Manuel Barroso. Although TTIP was never finalized, it remains significant as a reflection of the state of transatlantic relations at the time. The very proposal of such an ambitious agreement indicates that Washington and Brussels enjoyed a strong commercial partnership and shared the common objective of deepening their economic ties even further.

TTIP aimed not only to reduce tariffs and facilitate investment, but also to establish common rules for global trade. The three main pillars of the agreement included: improving market access (by reducing tariffs and opening public procurement), aligning regulations and standards (to reduce duplication and compliance costs), and boosting international competitiveness through shared transatlantic standards.

According to early projections, TTIP could have added €119 billion annually to the EU economy and €95 billion to the U.S. economy. For European households, this was estimated to mean an average gain of €500 per year. Small and medium-sized enterprises (SMEs) were expected to benefit significantly from reduced regulations. The agreement also had the potential to stimulate global trade, as EU and U.S. new standards could have served as benchmarks for exporters in third countries (European Commission, 2015).

Despite its ambitious goals, the TTIP was also highly controversial. Many feared that regulatory harmonisation could have led to a reduction of EU standards in areas like food safety, environmental protection, labour rights, and public services. Civil society organizations, trade unions, and consumer groups also questioned the transparency of the negotiations and the lack of democratic oversight, despite the European Commission's efforts to increase public consultation and stakeholder involvement (Ziegler, 2016).

2.5 First Trump Administration and Its Relations with the EU

And then came Trump. Donald Trump's election as President of the United States in 2016 marked a shift in U.S. trade policy and its commercial relations with the European partners. As previously discussed, Trump's *America First* agenda has the goal of prioritising protectionist measures aimed at reshoring American industries and reduce U.S. trade deficit.

One of his first actions was to withdraw from several FTAs, result of years and years of trade diplomacy, starting with NAFTA. He famously defined it as *the worst trade deal maybe ever signed anywhere, but certainly ever signed in this country*, accusing it of *causing the loss of thousands of factories and millions of jobs*. Most economists, however, agree that NAFTA brought significant benefits to the North American economy by expanding trade and economic integration between member countries, increasing production efficiency, lowering consumer prices, and raising living standards. Nonetheless, the agreement has also faced strong criticism, particularly regarding its effects on employment and wages: while some industries benefited from new market opportunities, others experienced painful disruptions due to increased competition. In

2018, NAFTA was replaced by the more stringent United States–Mexico–Canada Agreement (USMCA). The new agreement introduced tighter rules of origin in the automobile, textile, and apparel sectors, a new labour value content requirement in the auto industry, greater U.S. access to Canadian supply-managed markets, trade facilitation measures, updated provisions for financial services, and new clauses on currency manipulation and on future trade agreements with non-market economies (Burfisher et al., 2019). Trump also decided to withdraw from the Trans-Pacific Partnership (TPP), a major multilateral agreement aimed at expanding trade across the Asia-Pacific region. Meanwhile, the previously discussed Transatlantic Trade and Investment Partnership (TTIP) never materialised, as the U.S. government withdrew from negotiations following the deterioration of trade relations with the EU (Faigelbaum, 2018).

Trump's stance on the EU was openly aggressive. *The European Union was formed in order to take advantage of the United States*, he complained, later adding, *I think the European Union is a foe*. Trump's rhetoric and actions contributed worsening Americans' partisan view of the EU (Stokes 2022).

On 8 March 2018, President Trump imposed tariffs of 25% on five types of steel and 10% on aluminium imports from most countries citing national security concerns under Section 232 of the Trade Expansion Act. The EU, Canada, and Mexico were initially exempted from the measure, but the tariffs were extended to them on 1 June 2018. EU exports worth approximately €6.4 billion were affected. The European Union rejected the national security justification and classified the U.S. measures as de facto safeguard measures under WTO law. Relying on Article 8.2 of the WTO Agreement on Safeguards, the EU formally notified the WTO of its intention to suspend substantially equivalent concessions. It filed a dispute settlement case and introduced retaliatory tariffs on a wide range of U.S. products. The first wave of EU retaliatory measures applied in the same month, targeting approximately €2.8 billion worth of imports, including emblematic American goods such as bourbon whiskey, jeans, motorcycles, orange juice, and peanut butter (European Commission, 2018) (WTO, 2018).

Still, the U.S. was far from finished. For over 15 years, the U.S. and the EU have accused each other at the World Trade Organization (WTO) of providing illegal subsidies to their respective aerospace champions: Boeing (USA) and Airbus (EU). In 2019, the

WTO ruled in favour of the United States, concluding that European subsidies to Airbus were unlawful. As a result, on October 2, 2019, the WTO authorized the U.S. to impose tariffs on up to \$7.49 billion worth of European goods annually, at the time, the largest award in the WTO's history. In response, the Trump administration imposed additional tariffs starting in October 2019, applying a 10% duty on large civil aircraft imported from Airbus and a 25% duty on a range of other European products. These included French wine and cheese, Scotch whisky, Spanish olives, German wine, and industrial products. In February 2020, Tariffs on Airbus aircraft were further increased from 10% to 15%. (Houssain, 2023).

2.6 Biden Administration and Its Relations with the EU

In January 2021, Joe Biden succeeded the defeated Donald Trump. While European allies welcomed the change, hopeful that Biden would end trade tensions, the shift initiated under Trump had already marked a deeper structural change. The United States had long championed multilateralism and free trade, especially after the end of the Cold War. But by this point in the paper, it should be evident to the reader that this leadership role had eroded. Since the collapse of the Doha Round, dissatisfaction with global trade grew among American voters (as previously discussed in the backlash against globalization), and tensions with the WTO intensified. Biden changed some elements of this isolationism, but he maintained others (Schoenbaum, 2023). Like Trump, both during his campaign and throughout his administration, he has demonstrated a strong commitment to reviving American manufacturing (Lawrence, 2025).

Biden, to many observers' surprises, left some of Trump's trade measures untouched. Former trade officials from both Democratic and Republican administrations publicly urged him to remove the national security tariffs on steel and aluminium, resolve the trade war with China, initiate negotiations for free trade agreements with the EU and the UK, seek accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) restore U.S. leadership in the WTO and the multilateral trading system and end the U.S. blockade of the WTO Appellate Body. Biden has acted on none of these fronts. He maintained tariff tensions with China and, although he adopted a more cooperative tone

toward European allies and partially eased certain tariffs, he did not put forward any major transatlantic initiatives comparable in scale to the TTIP years.

Regarding U.S.–EU relations, the Biden administration indeed pursued a partial reconciliation. President Biden was the first U.S. president since George W. Bush in 2001 to participate in a European Council session, and the first to attend a U.S.–EU leaders' summit since 2014 (Stokes, 2022). The tariffs related to the Airbus dispute were suspended in March 2021 and fully removed in 2022. In June 2021, the U.S.–EU Trade and Technology Council (TTC) was launched by President Biden and EU Commission President Ursula von der Leyen to increase cooperation on transatlantic trade, investment, and emerging technologies. The U.S. and the EU also negotiated the suspension of Trump-era Section 232 tariffs on European steel and aluminium, which were replaced in October 2021 by a tariff-rate quota (TRQ).

Following the escalation of the Ukraine conflict in February 2022, the Biden administration, together with the EU, Japan, and other partners, imposed additional sanctions on Russia, condemning its military intervention. Even in this case, Biden adopted a significantly more cooperative tone towards traditional allies, compared to the Trump administration. Rather than placing tariffs on them, he worked with them to present a united transatlantic response (Schoenbaum, 2023). Still, this unity was rather due to political alignment than to solving deeper trade or economic issues.

2.7 Second Trump Administration and Its Relations with the EU

Donald Trump returned to office with a second term in January 2025, marking a protectionist comeback. On February 1st, he opened his new mandate with the announcement of targeted tariffs on imports from Canada, Mexico, and China. Just days later, on February 10th, he reimposed a 25% tariff on steel imports and raised aluminium tariffs from 10% to 25%, once again citing national security concerns under Section 232 of the Trade Expansion Act. All previously granted exemptions were revoked, directly impacting EU exports of steel and aluminium.

In response to the metal tariffs, the EU announced on March 12th a Two-Phase Retaliatory Plan. In the first phase, Brussels would reintroduce the counter-tariffs from Trump's first term, which had been suspended in 2021, covering approximately €4.5 billion worth of U.S. exports. These measures were set to take effect on April 1st. The second phase would target an additional €18 billion in U.S. goods, potentially including cosmetics, clothing, wood, soybeans, chicken, beef, and other agricultural products, with implementation scheduled for April 13th. *We're happy to buy our soybeans from Brazil or Argentina*, one EU official remarked, referring to a strategy aimed at targeting products from politically sensitive Republican states, such as Louisiana which heavily relies on soybeans.

Then, on March 26, Donald Trump announced that the United States would impose tariffs of 25% on foreign-made automobile imports, triggering a sharp decline in the share prices of major carmakers, from Toyota to Stellantis to Porsche. This measure would place significant pressure on several EU member states, particularly Germany.

On April 2nd *Liberation Day* tariffs are announced. Trump announced a new tariff package introducing a two-tier structure. The first element was a universal 10% baseline tariff on all imports, set to take effect on April 5, 2025. In addition, the administration imposed so-called reciprocal tariffs on approximately 60 countries, with rates calibrated to reflect what were described as trade imbalances. The European Union was assigned a 20% tariff rate, scheduled to enter into force on April 9th, 2025. On April 3rd the EU has given itself a four-week window to convince Donald Trump to drop his 20% tariffs on the bloc.

On April 9th Donald Trump announces an increase of the U.S. tariff rate on China to as high as 145% and a 90-day pause on other countries, during which their tariff rates will be reduced to the baseline 10%. The EU is now subject to only 10%. tariffs of 25% on steel and aluminium and cars, which remain in place (Financial Times, 2025).

Liberation Day sparked significant controversy, particularly over the methodology used to calculate the so-called reciprocal tariffs. The White House released the following formula on its website to justify the tariff adjustments:

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

The formula describes the change in the U.S. tariff rate τ on country i needed to achieve a bilateral trade balance (i.e., zero trade deficit or surplus). In this context: $\varepsilon < 0$ represents the elasticity of imports with respect to import prices; $\varphi > 0$ is the pass-through rate from tariffs to prices; m_i is total U.S. imports from country i ; x_i is total U.S. exports to country i .

Most economists expressed scepticism about the methodology behind this calculation. Firstly, the formula considers only trade in goods, entirely excluding services. This omission creates significant distortions. For example, Bermuda exports minimal physical goods to the U.S. but supplies a large volume of financial services, benefiting from soft tax laws that attract American firms. Under the current model, Bermuda is assigned a flat 10% tariff, whereas factoring in services would increase this to 37%. Conversely, many of the U.S.'s trading partners, such as the EU are disadvantaged. The U.S. imports more goods than it exports to the EU but runs a surplus in services. If services were included in Trump's formula, the calculated tariff rate on the EU would be nearly reduced in half.

Secondly, the administration relied on trade data from 2024 to compute these tariffs, although bilateral trade balances can fluctuate significantly year by year. For instance, the U.S. recorded only a minor trade deficit with Equatorial Guinea in 2024, meaning the country now faces a far lower tariff than in previous years when the imbalance was considerably larger. Meanwhile Brunei, which recently ran surpluses against the U.S. is now penalised more heavily.

A third issue lies in the imposition of a minimum 10% tariff on all countries, regardless of actual trade balances. Australia, for example, maintains a sizable trade deficit in America's favour, importing less than half of what it exports, yet it is still subject to the same 10% baseline tariff as New Zealand, a country with which the U.S. runs a 20% deficit. One especially detail that gained traction in the media was the inclusion of remote and uninhabited territories like the Heard and McDonald Islands, Australian territories in the Antarctic Ocean known only for their populations of seals and penguins, under the blanket 10% tariff.

The choice of parameters used in the formula has also been questioned. The administration assumed an import price elasticity ϵ of 4 and a tariff pass-through rate ϕ of 0.25, figures that cancel each other out (since $4 \times 0.25 = 1$). Beyond that, the formula divides the outcome by two, which Trump himself claimed was done *to be kind*.

No explanation was given for the different treatment given to Afghanistan: based on the formula, it should have been subject to a 25% tariff, yet the final rate was set at just 10%. Other Several countries were excluded from the tariff regime altogether, including Canada and Mexico (which are part of separate negotiations), as well as politically sensitive states such as Russia and North Korea, which are already subject to other sanctions (New York Times, 2025).

On April 10th, the European Union suspended its retaliatory measures against U.S. steel and aluminium tariffs, pausing action on approximately €21 billion worth of U.S. imports for a period of 90 days. The move was intended to give negotiations with Washington a chance to produce what European Commission President Ursula von der Leyen called a *win-win* trade agreement. Brussels' strategy is to remain patient and engage in talks, though a decision will have to be made when the 90-day suspension expires in July.

On April 17th, Italian Prime Minister Giorgia Meloni visited Washington to meet with President Trump. During the meeting, Trump struck a notably less aggressive tone toward the EU. He softened his tone towards the bloc, as he had in the past, by calling it *pathetic* and accusing it of *ripping off* the United States, and instead promised progress: *Oh, there'll be a trade deal, 100 per cent*, he said. *They want to make one very much, and we're going to make a trade deal, I fully expect it and it'll be a fair-trade deal*. However, Trump offered little detail on what the U.S. would demand in exchange for rolling back the tariffs.

According to recent reports, one area of potential U.S. pressure is liquefied natural gas (LNG). American gas producers have already gained significant market share in Europe, particularly after the reduction, and subsequent effective interruption, of Russian imports from January 1st, 2025. Another likely U.S. demand concerns defence spending. Washington has been pushing European allies to increase their defence spending to the

2% GDP target set by NATO, potentially through higher spending on U.S.-made weaponry. This proposal, however, might face resistance from several EU leaders, including French President Emmanuel Macron and Commission President von der Leyen. In recent months, both have promoted the EU's much-debated *ReArm Europe* initiative, an effort to strengthen the Old Continent's defence industry and reduce its dependency on external suppliers, such as the United States (Financial Times, 2025).

2.6 Trade Deficits and Tariffs: Is the EU to Blame?

The EU and the U.S. are among the biggest economies in the world. The EU is the second largest economy in the world considering Nominal GDP (\$19.99 trillion), following the U.S. (\$30.51trillion). If adjusted to Purchasing Power Parity (PPP), the EU ranks third (\$29.18 trillion), following the U.S. (\$30.51 trillion) and China (\$40.72 trillion) (IMF, 2025). Together, the U.S. and the EU account for 43% of global GDP.

The EU and the U.S. have the largest bilateral trade and investment relationship and the most integrated economic relationship in the world, representing almost 30% of global trade in goods and services. The EU is the world's largest exporter of manufactured goods and services, accounting for around 14% of the world's trade in goods. (European Council, 2025).

Trump has repeatedly targeted the European Union, citing the much-discussed trade deficit that the United States maintains with the bloc. As with other countries, tariffs imposed on the EU have been justified on the grounds of the trade imbalance. But is this truly a valid justification?

The U.S. does indeed run a trade deficit with the EU in goods: in 2024, trade in goods between the two partners reached €865 billion, nearly double the level a decade earlier. EU imports from the U.S. totalled €333.4 billion, while exports amounted to €531.6 billion, resulting in a trade surplus of €198.2 billion for the EU. The United States remained the EU's top export destination and second-largest source of imports, after China. The top five traded product categories, accounting for nearly half of all goods traded, included medicinal and pharmaceutical products, road vehicles, and general

industrial machinery among EU exports, and petroleum products, pharmaceuticals, and power-generating equipment among imports from the U.S.



(Figure 2a) Source: Eurostat (2025)



(Figure 2b) Source: Eurostat (2025)

However, there is a different scenario with services. In 2023, EU-U.S. trade in services reached €746 billion, with the EU importing €427.3 billion from the U.S. and exporting €318.7 billion, resulting in a €109 billion trade deficit in services for the EU. The top services traded included professional, scientific, and technical services, telecommunications and IT, and transport. Despite the goods surplus, when goods and services are considered together, the EU recorded a total trade surplus of just €48 billion, representing only 3% of overall transatlantic trade (Eurostat, 2024).

Whether or not other countries are taking advantage of the United States largely depends on one's perspective. Historically, the U.S. has been an open economy characterised by low tariffs and minimal trade barriers. It is also known for the openness of its society, a nation shaped from the beginning by waves of immigrants who came to the New World in search of new opportunities and follow the desired *American Dream*. This openness has indeed made the country more accessible to foreign businesses and individuals than many other countries.

It is also an open society, generally more accessible to foreign businesses and individuals than many other countries. This openness allows Americans to purchase imports at lower prices, benefiting consumers and reducing the overall cost of living. The existence of a trade deficit is not necessarily a negative indicator. A trade deficit simply means the country is borrowing from the rest of the world, which can be positive if those funds are used for productive investments, such as building infrastructure or purchasing equipment.

Most economists agree that the persistent U.S. trade deficit is less about unfair trade practices and more a reflection of domestic economic behaviour such as high levels of consumption and relatively low savings. The Trump administration's approach to closing the trade deficit is contradictory: on one hand, it imposes tariffs to reduce imports, while on the other hand, it cuts taxes, thereby reducing public savings.

As for the claim that tariffs will generate substantial government revenue (some estimates suggest up to \$600 billion) most experts are sceptical. Tariffs are unlikely to produce sustained or significant fiscal returns. Higher tariffs raise prices on imports, leading consumers to reduce their spending on these goods, which limits revenue. Moreover, in a scenario where tariffs succeeded in encouraging foreign firms to relocate their production to the U.S., those firms will no longer be subject to the tariffs, further shrinking the revenue base. Tariffs are also regressive, disproportionately affecting lower-income households instead of higher-income ones. Lower socioeconomic groups tend to spend a larger share of their income on goods rather than services, whereas wealthier individuals are more likely to allocate a greater proportion of their spending to services. As a result, it is once again the poorest who bear the heaviest burden.

Additionally, if we look at employment tariffs can do more harm than good. While tariffs on steel may protect jobs in the steel industry, they raise costs for industries that rely on steel as an input and potentially lead to job losses in those sectors. Some estimates suggest that for every job saved in steel, between 60 and 80 other jobs are negatively affected. The belief that tariffs can revitalise the American middle class is largely illusory. Only around 8% of Americans are currently employed in manufacturing, even if the trade deficit in manufactured goods were eliminated, the resulting increase in

manufacturing employment would be limited. The share of manufacturing jobs would increase to perhaps 10% at most (Lawrence, 2025) (Wolf, Baldwin, 2025).

3. Potential Consequences of Tariff Measures in EU–US Pharmaceutical Trade

This final chapter examines the potential impact of U.S. tariffs on the EU with a specific focus on the pharmaceutical sector. Many were the reasons of choosing this specific sector. Firstly, the pharmaceutical sector is among the most exposed to potential tariffs, given that the United States is a major importer of EU-manufactured pharmaceuticals. Moreover, while other sectors such as automotive and chemicals also merit attention, the pharmaceutical industry remains particularly significant from an equity standpoint. Inefficiencies and rising costs in this sector would have severe consequences for the population, especially for vulnerable groups such as the elderly and low-income individuals. It is important to clarify and highlight the negative consequences of protectionist measures, which risk undermining quality of life and restricting adequate access to healthcare, both of which are essential for safeguarding individual rights and ensuring a proper functioning of society. Furthermore, it is especially relevant to analyse how this sector might be affected in the current context, particularly in the aftermath of the COVID-19 pandemic, which significantly disrupted global pharmaceutical trade.

The chapter begins with an overview of the pharmaceutical industry in the European Union, examining the sector's growth and identifying the main trade partners both within and outside the continent. It also explores how the pharmaceutical supply chain operates and why it is particularly sensitive and vulnerable to potential tariffs.

Tariffs imposed on this sector can be highly disruptive, especially in the wake of the recent shock caused by the COVID-19 pandemic. For this reason, the analysis will continue by investigating the market disruptions caused by the pandemic and how countries responded through trade policy.

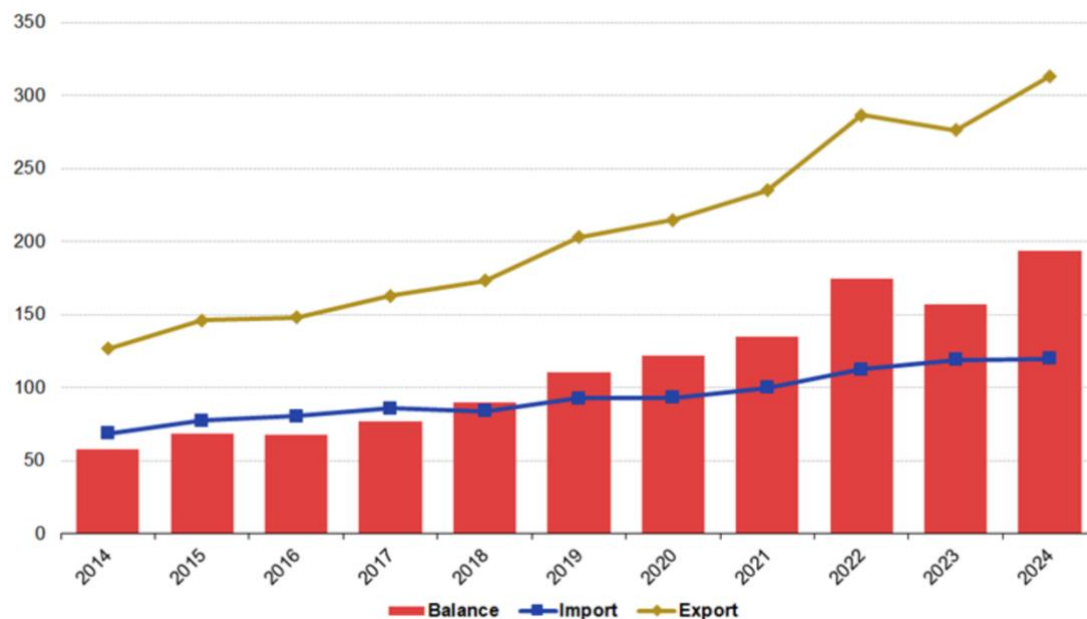
It will be shown that most governments implemented export restrictions in an effort to safeguard national interests and secure access to essential medical supplies during the health emergency, though often at the cost of higher prices, reduced trade volumes, and increased global instability. Particular attention will be paid to the responses of both the United States and the European Union.

The chapter then turns to the present-day context, focusing on the renewed tariff threats by former President Donald Trump and the growing concerns among major European pharmaceutical companies, which fear the relocation of production and investment to the United States, along with further inefficiencies in global supply chains.

In order to assess a likely scenario in which the U.S. imposes tariffs on pharmaceutical and medicinal products from the EU, the chapter will analyse the simulation study conducted by Bauer and Lamprecht. This study models three potential outcomes: (1) Bilateral tariff increases between the U.S. and the EU; (2) Global tariff escalation up to WTO-bound rates; (3) Full global tariff elimination in the pharmaceutical sector. The study provides a valuable analytical framework to understand the potentially harmful effects of protectionist trade policies in this field, as well as the benefits that could arise from a cooperative trade regime, something that was lacking during the pandemic and remains uncertain under the current trajectory of U.S. trade policy.

3.1 The Pharmaceutical Industry in the European Union

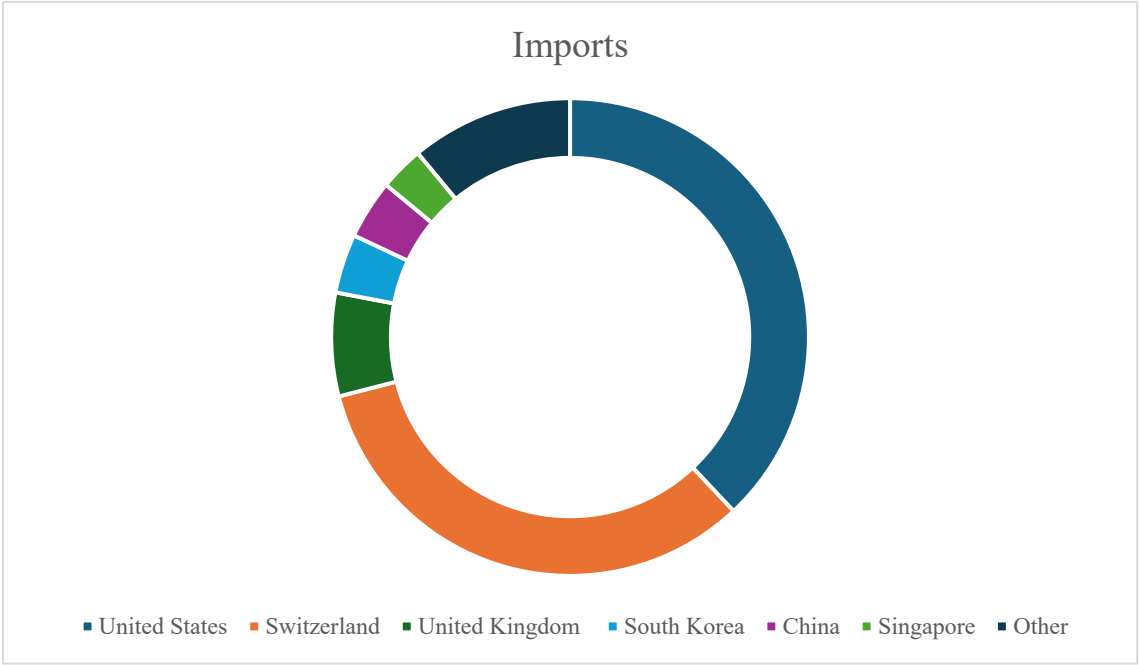
The Medicinal and Pharmaceutical industry represent one of EU's most important export sectors and is among the most exposed to potential U.S. tariffs (Burger and Flick, 2025). Between 2014 and 2024, EU exports of medicinal and pharmaceutical products grew by 148%, while imports increased by 74%. With exports increasing more than imports, EU trade surplus in pharmaceuticals expanded from €58 billion in 2014 to a record high of €194 billion in 2024. Although 2023 marked the only year without export growth during this period, EU exports still rose by €1 billion in 2024 compared to the previous year (see Figure 3).



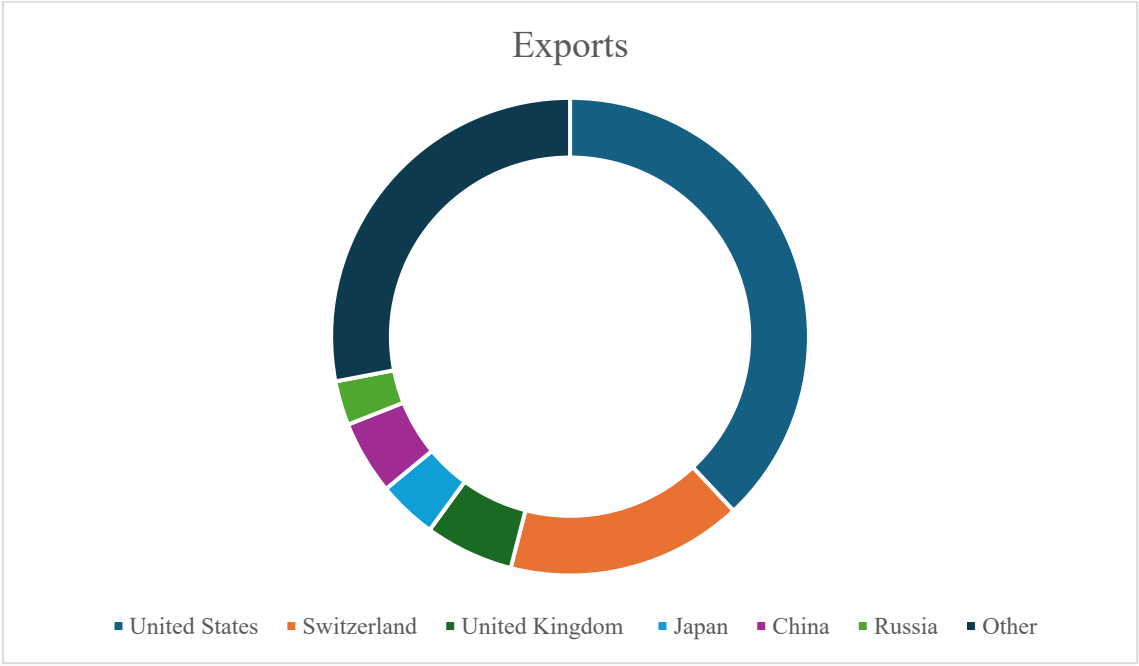
(Figure 3) EU trade in medicinal and pharmaceutical products, 2014-2024 (€ billion). Source: Eurostat (2025)

The U.S. remains the EU's main trading partner in the sector, exports to the United States (38%) were almost a two-fifths of all EU exports, followed at some distance by Switzerland (16%) and the United Kingdom (6%). Imports to the EU were also dominated by the United States (38%) and Switzerland (33%), followed by the United Kingdom (7%) (see Figures 4a and 4b).

Main EU partners for medicinal and pharmaceutical products, 2024. Source: Eurostat (2025)

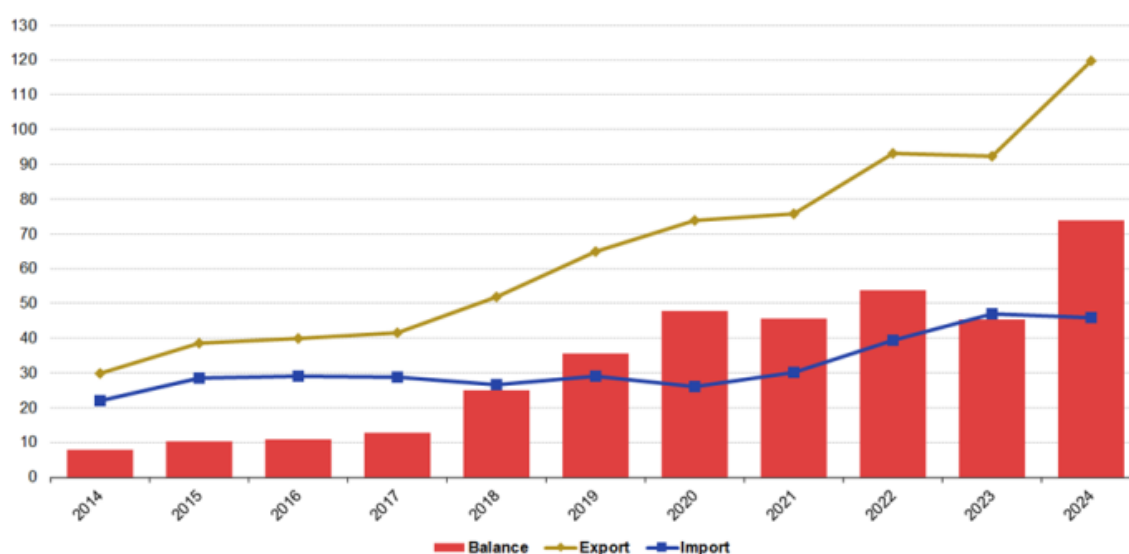


(Figure 4a)



(Figure 4b)

Figure 5 shows the development of trade in medicinal and pharmaceutical products between the EU and the U.S. from 2014 to 2024. Between 2023 and 2024, imports from the United States decreased by 2.4% while exports increased by 29.6%. This caused the trade surplus to increase from €45 billion in 2023 to a record high of €74 billion in 2024.



(Figure 5) EU trade with the United States in medicinal and pharmaceutical products, 2014-2024 (€ billion). Source: Eurostat (2025)

Table 1 shows that in 2024 Germany had the highest extra-EU exports (€68 billion) followed by Ireland (€56 billion) and Belgium (€41 billion). Four countries had shares higher than 20% for medicinal and pharmaceutical products in their total extra-EU exports, these were Slovenia (69%), Ireland (42%), Denmark and Belgium (both 25%). Germany (€23 billion), Belgium (€21 billion), the Netherlands (€15 billion) and Italy (€14 billion) were instead the largest importers of medicinal and pharmaceutical products from countries outside the EU, in 2024 (Eurostat, 2025).

(Table 1) Extra EU trade in medicinal and pharmaceutical products (€ million and %), 2024. Source: Eurostat (2025).

	Extra EU trade (EUR million)			Share of total extra-EU trade (%)	
	Export	Import	Balance	Export	Import
EU	313 361	119 715	193 646	12.1	4.9
Belgium	41 363	21 309	20 054	25	11.9
Bulgaria	591	312	278	4	1.5
Czechia	619	751	-133	1	1.2
Denmark	13 728	2 543	11 185	25	6.6
Germany	67 926	23 002	44 924	10	5.1
Estonia	21	55	-34	0	1.7
Ireland	56 641	7 365	49 276	42	9.5
Greece	830	448	383	4	1.1
Spain	8 951	7 786	1 165	6	4.0
France	17 851	7 875	9 976	7	3.1
Croatia	659	215	445	8	2.2
Italy	27 971	14 015	13 957	9	5.8
Cyprus	152	118	34	5	2.4
Latvia	262	117	145	5	3.0
Lithuania	443	84	359	4	0.6
Luxembourg	31	6	25	1	0.3
Hungary	2 564	2 176	388	8	5.6
Malta	135	324	-189	8	10.6
Netherlands	27 614	14 720	12 895	10	3.4
Austria	9 859	3 914	5 945	16	9.2
Poland	1 922	1 285	638	2	1.1
Portugal	1 599	505	1 094	7	1.8
Romania	904	1 043	-138	3	3.0
Slovenia	22 335	7 787	14 549	69	17.1
Slovakia	87	298	-211	0	1.4
Finland	1 533	232	1 301	5	1.1
Sweden	6 769	1 433	5 336	8.2	2.5

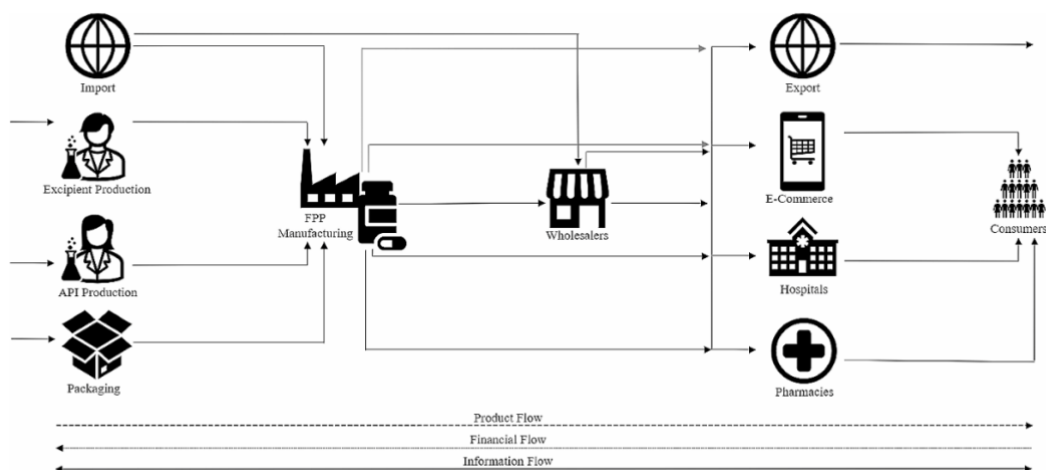
3.2 Pharmaceutical Supply Chains (PSCs)

Even by the standards of international trade, the production of medicinal products is highly complex, arguably among the most strategic yet fragile of all industrial sectors (Murphy, 2025). The pharmaceutical supply chain (PSCs) involves a sophisticated interaction between suppliers, sub-suppliers, manufacturers, wholesalers, retailers, and regulatory oversight bodies.

Pharmaceutical products are generally composed of two primary inputs: active pharmaceutical ingredients (APIs) and excipients. APIs are the components responsible for producing the intended pharmacological effect, while excipients are inactive substances included to support manufacturability, composition, and the overall performance of the finished pharmaceutical product (FPP). At the supply stage, these ingredients and raw materials are either imported or locally produced through primary production, which can be further categorised into excipient production, auxiliary material provision, and API synthesis (Schleifenheimer and Ivanov, 2024). APIs and other raw materials flow from mines and large, specialised chemical plants, mostly located in China

and India. Thanks to low labour costs, economies of scale, and targeted industrial investments, these countries have become global powerhouses in the production of APIs. India sent \$8.7bn worth of generic drugs to the U.S. last year, a third of its generic drug exports. However, India relies heavily on China for the active ingredients in those drugs (Murphy, 2025).

The components are then delivered to drug product manufacturers, where they are formulated into tablets, ointments, liquids, and other dosage forms. Final products are packaged, commonly into tubes, blister packs, or vials and must undergo continuous and stringent safety, environmental, and quality checks throughout the process before being cleared for distribution. While finished goods were traditionally shipped to pharmaceutical wholesalers, they are now also distributed directly to pharmacies, hospitals, online retailers, and international markets (see Figure 6) (Schleifenheimer and Ivanov, 2024).



(Figure 6) Product supply chain in the pharmaceutical sector. (Schleifenheimer and Ivanov, 2024).

Despite the pharmaceutical sector's highly fragmented and complex supply chains, companies have actively kept parts of them hidden, even from the U.S. Food and Drug Administration. This means that the U.S. government has no full picture of who produces what, where it is made, or which materials are involved. Even for Trump this lack of

visibility might turn any attempt to impose targeted tariffs on pharmaceuticals into a shot in the dark (Murphy, 2025).

3.3 Disruptions in the Pharmaceutical Market During the Pandemic

Given the complexity of PSCs, the imposition of tariffs would have potentially disastrous effects on the sector and on global public health, especially in the wake of the recent shock caused by the COVID-19 pandemic.

When the Coronavirus outbreak began, it caused widespread market disruptions that impacted global economies and industries, especially the pharmaceutical one. On the demand side, consumption patterns increased toward vaccines and other COVID-related pharmaceutical products, while demand for other goods declined (Schleifenheimer and Ivanov, 2024). In particular, personal protective equipment (PPE), such as surgical face masks, gloves, face shields, and medical gowns, was among the most highly demanded items, as these became curcial for preventing the spread of the virus, especially with the rapid rise in the number of patients requiring hospital care. The consumption of PPE during the pandemic generated substantial positive externalities: the public health benefit of widespread PPE use far exceeded the private benefit, due to COVID's high transmissibility through airborne particles. It was estimated that the social value of each cloth mask worn by a member of the public in the United States ranged from \$3,000 to \$6,000, while each N-95 respirator used by a hospital worker could be worth over one million dollars in social value (Bown, 2022).

This shift in demand was further intensified by general panic buying, particularly for over-the-counter cold medicines, fever and pain relievers such as paracetamol, multivitamins, and immune boosters, all products widely perceived as useful for reducing COVID symptoms.

However, major challenges emerged in the supply side too. New hygiene, social distancing and safety regulations reduced the efficiency of operations, while many factories, especially in China, were temporarily shut down due to lockdowns. Moreover,

production priorities shifted toward COVID-related products, which led to delays and imbalances in the production of other goods (Schleifenheimer and Ivanov, 2024).

The global supply of APIs and excipients was affected by severe shortages, due to increase in demand and export restrictions imposed by main producer countries such as China and India. These restrictions, combined with labour shortages and transport delays, contributed to an unstable and unpredictable supply, resulting in higher prices and longer delivery times.

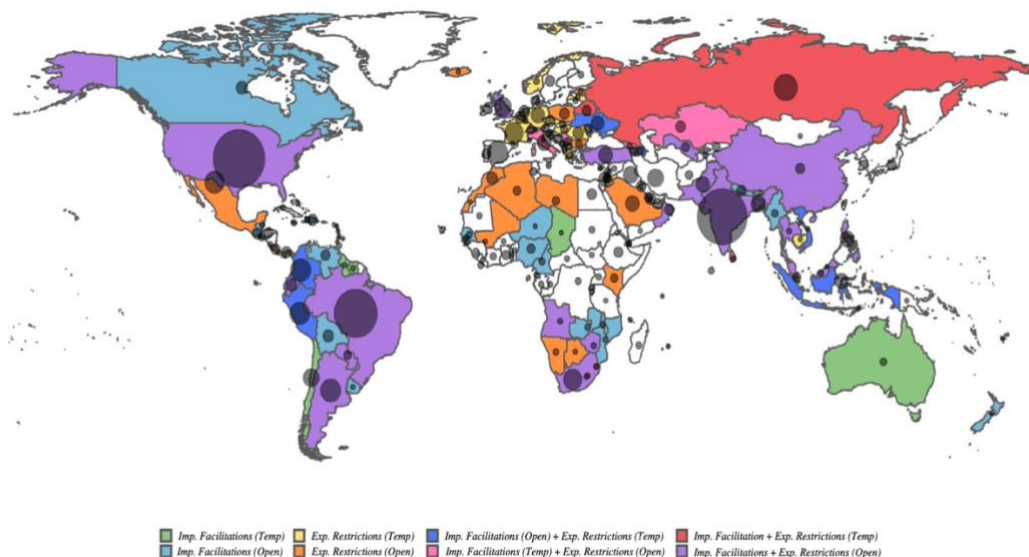
With demand rising sharply and supply remaining limited, global production of PPE was unable to meet the sudden surge in needs. Although some domestic manufacturing capacity existed, it proved insufficient. John Polowczyk, who led the U.S. government's PPE Supply Chain Task Force in 2020, noted that the U.S. manufactured approximately 500 million nitrile gloves annually before the pandemic, yet during the crisis the country was consuming 1.8 billion gloves per week, far beyond domestic production capacity. In the EU, the European Commission acknowledged in March 2020 that PPE production within the Union was highly concentrated in a small number of member states, namely the Czech Republic, France, Germany, and Poland. For some PPE items, especially in the United States, there was almost no pre-pandemic domestic production. Reliance on imports was unavoidable.

3.4 Pharmaceutical Trade Policy Responses

PPE shortage led to political backlash, particularly from the United States and several European countries, which criticised international trade structures and accused China, the world's largest PPE supplier, of restricting exports and distributing counterfeit products. Although the Chinese government denied these allegations, the crisis prompted policymakers to launch investigations. Shortly after taking office in January 2021, U.S. President Joe Biden issued an Executive Order asserting: *This will never happen again in the United States, period. We shouldn't have to rely on a foreign country, especially one that doesn't share our interests or our values, in order to protect and provide for our people during a national emergency* (Bown, 2022).

All these disruptions revealed the fragility of global PSCs, leading to sharp decline in production capacity, widespread shortages of both raw materials and finished goods, and a dramatic increase in cost and time needed to deliver essential medical products. Politically and economically, the pandemic brought the pharmaceutical and healthcare sectors at the centre of public debate. Governments, policymakers, and the media focused their attention on ensuring the continuity of essential medical supplies and strengthening supply chain resilience. As a result, many countries adjusted their trade policies to better prepare for future disruptions (Evenett et al., 2021).

In this scenario, countries adopted heterogeneous trade policy responses to the pandemic, combining different forms of export restrictions and import liberalisation. Some governments used both instruments, others focused on only one, while many did not implement any trade measures at all. These responses also differed in terms of duration (temporary vs. open-ended measures). This variation is illustrated in Figure 7, where countries are divided, according to their trade responses. Countries that did not adopt any trade measures are represented in white, while the size of each bubble corresponds to the total number of COVID-19 cases (Evenett et al., 2021).



(Figure 7) Source: COVID-19 data from John Hopkins University CSSE database, 9 October 2020.

The United States and the European Union both implemented stricter export controls during the COVID-19 pandemic, especially on critical medical supplies, hoping to secure domestic availability in a time of global shortage. However, their approaches differed a lot. The U.S. adopted a more unilateral and protectionist stance, even restricting exports to close allies like Canada and Mexico. In contrast, the EU pursued a more coordinated and temporary strategy, applying export controls with internal exemptions to preserve trade within the bloc and maintain market unity.

The U.S. Trade Policy Response

The United States found itself unprepared to face global disruptions. The Section 301 tariffs imposed during the first Trump administration remained in effect, and despite anti-China rhetoric Americans continued to rely heavily on Chinese exports for their PPE supplies. The 2018 tariffs, applied to many essential medical products which eventually increased costs and causing early pandemic unpreparedness. Although U.S. industry associations urged the government to ease tariffs, the Trump administration delayed action. Exemptions for critical PPE items were not granted until mid-March 2020.

In order to address domestic shortages, the U.S. invoked the Defense Production Act (DPA), compelling companies like 3M to increase respirator imports from their Chinese facilities. The DPA was also used to raise export controls on American made PPEs, initially restricting shipments to neighbouring trading partners such as Canada and Mexico. However, such restrictions were revised within weeks due to diplomatic and humanitarian concerns, and U.S. exports to both countries ultimately increased in volume by the end of 2020.

In terms of industrial policy, the U.S. government allocated over \$1.2 billion in subsidies to expand domestic production of PPE and related materials, including N95 respirators, surgical masks, hospital gowns, and melt blown filtration fabric. These efforts reshaped the domestic PPE industry but had delayed effects, with most production increases occurring in late 2020 and into 2021 (Bown, 2022).

The EU Trade Policy Response

Even within the European Union, the initial response was neither prompt nor coordinated. The absence of a unified trade strategy led Member States in early 2020 to act unilaterally in securing access to PPE and other essential medical equipment. National governments rather prioritised their own interests, fracturing the internal market and undermining the EU's foundational principles of solidarity and the free movement of goods.

The initial EU's response to the pandemic was marked by a wave of unilateral export bans imposed by individual Member States, particularly those with significant domestic PPE production. On March 3, 2020, France requisitioned all respiratory protection masks for domestic use. The following day, Germany implemented a ban on PPE exports, including shipments to other EU countries. The Czech Republic also adopted similar restrictive measures. These national decisions severely destabilised the internal circulation of essential medical goods at a time when countries like Italy were experiencing serious shortages (Bown, 2020). This *every country for itself* approach not only intensified political tensions within the Union but also exposed the absence of coordinated emergency mechanisms to manage the distribution of critical supplies during the early stages of the crisis.

In response to the growing crisis and fragmentation, the European Commission intervened on March 15 by implementing an EU-wide export authorization regime through Regulation (EU) 2020/402. The measure attempted to prevent further export bans among Member States, *Europeanising* the pandemic response by restoring the functionality of the internal market. However, while internal restrictions were collapsed, the regulation maintained external export controls for all shipments outside the EU. It applied to five key categories of medical products: face shields, protective garments, mouth-nose-protection equipment, hospital gloves, and protective spectacles and visors. The combined extra-EU export value of these goods was estimated at \$12.1 billion in 2019.

On the one hand, this shift benefited intra-EU distribution; on the other, it had significant external diplomatic consequences. The new export controls disrupted the EU's

trade relationships with partners such as Switzerland and Norway, both of which are deeply integrated into EU medical supply chains despite not being members of the Union. In addition, many low- and middle-income countries in Africa, the Balkans, and Eastern Europe, some of which relied on the EU for over 50% of their PPE imports, suddenly found themselves cut off from critical medical supplies at a time of urgent global need (Bown, 2020).

In addition to humanitarian concerns, the policy also risked retaliatory measures and further fragmentation of global trade. The EU imports roughly \$17.6 billion worth of the same medical products on which it had imposed restrictions. It was thus highly vulnerable to countermeasures by trading partners, especially the United States and China (Bown, 2020). To avoid a diplomatic fallout, the Commission amended the regulation just days later, on March 20, to exempt exports to EFTA countries (Bown, 2020).

At the same time, the EU faced critical supply-side challenges. As shown by Bown (2022), PPE imports from China dropped sharply in Q1 2020 by 4% to 25% depending on the product, exacerbating shortages. Even when Chinese exports resumed in April, prices soared, increasing by 1250% for masks and 700% for protective garments compared to December 2019. Europe's attempt to substitute imports with intra-EU trade or domestic production proved insufficient in the short term, as internal manufacturing was harmed by lockdowns and supply disruptions (Bown, 2022).

The trade policy responses of the EU, the United States, and most other countries during the pandemic prioritised internal coordination and short-term supply security, but this came at the expense of damaging global supply chains, straining trade relations, and restricting the international flow of essential medical goods. In the case of the U.S. and especially the EU, this crisis exposed a significant reliance on external suppliers of medicals products, particularly China, and sparked a broader debate on the need to strengthen resilience in such a critical sector.

Countries preferred to pursue fragmented and inward-looking strategies, rather than embracing cooperation. According to Bauer and Lamprecht (2021), a more cooperative global approach would have led to more efficient outcomes, enhancing overall welfare and supporting the needs of more vulnerable nations.

Years have passed since the end of the pandemic, and the trade policies adopted during that period can now be critically assessed. Restrictions on pharmaceuticals and medical equipment significantly increased final prices, by up to 80% of the ex-factory price in some cases, due to their compounding effects across supply chains. The resulting decline in trade volumes led to fewer choices and reduced availability in hospitals and pharmacies. The World Health Organization has long advocated for such barriers, yet the pandemic made clear that this recommendation remains largely unfulfilled (Bauer and Lamprecht, 2021).

3.5 Tariff Uncertainty in the Post-Pandemic Pharmaceutical Sector

Although global trade remained significantly influenced by the legacy of coronavirus, it began a gradual recovery by 2023 (ECB, 2024). Nevertheless, the possibility of tariff imposition in the pharmaceutical sector remains highly uncertain. WTO regulations prohibit the use of medicines as leverage in trade disputes, yet former President Donald Trump has repeatedly demonstrated distrust towards the organisation. Most recently, he signed an executive order requiring pharmaceutical companies to lower drug prices in the U.S. to levels equivalent to those paid in other developed countries. The order set a 30-day deadline for compliance and warned that failure to achieve significant price reductions could trigger the introduction of tariffs and export restrictions. (Financial Times, 2025).

These developments have raised alarm among major European pharmaceutical firms, including Bayer, Novartis, Sanofi, Novo Nordisk, and Gedeon Richter, who warned that tariffs could accelerate the relocation of pharmaceutical production and investment to the U.S. The same firms have already experienced significant losses after *Liberation Day* announcements: the Stoxx 600 Health Care Index, already on a downward trajectory since Trump's initial tariff threats in March, dropped by 5.9% on the day. Among the worst affected were AstraZeneca (−7%), Sanofi (−6.4%), GSK (−5.71%), and Novartis and Roche (both down nearly 6%) (The Guardian, 2025).

According to the European Federation of Pharmaceutical Industries and Associations (EFPIA), the uncertainty generated by these proposed tariffs is aggravated pre-existing structural issues such as Europe's slow regulatory approvals and fragmented intellectual property framework. These factors are diminishing the EU's attractiveness as a hub for pharmaceutical investment with respect to the U.S., which instead offers faster approvals, stronger IP protections, and more favourable capital conditions (Burger and Fick, 2025).

The EFPIA urged EU Commission President Ursula von der Leyen to take *rapid and radical action* to prevent a damaging exodus of pharmaceutical investments from Europe to the US (The Guardian, 2025). According to the association, EU pharmaceutical companies had planned investments totalling €164.8 billion between 2025 and 2029. Yet, 10% of this (approximately €16.5 billion) is now considered at risk over the next three months due to growing uncertainty (The Guardian, 2025).

While such relocation might make the United States relatively *better off* than the EU in the short term, the broader consequences are far from positive. Industry stakeholders have also raised serious concerns about the impact on global pharmaceutical supply chains, warning that additional tariffs could further expose the fragile interdependencies and hidden vulnerabilities of medical supply networks aggravated by the pandemic (Murphy, 2025).

The U.S. relies heavily on imports for medicines, ingredients, and medical equipment, much of it from China. Yet, the precise extent of this dependency is difficult to determine due to incomplete data and political biases that often obscure the true picture. Even if the US successfully reshored its pharmaceutical production, these new supply chains would not be immune to their own shocks.

Moreover, this strategy risks creating a new class of pharmaceutical oligarchs dependent on government support. Companies may be compelled to align with the administration in order to access funding and benefit from favourable policies. The United States, while frequently criticising China for exercising excessive control over global supply chains, would in effect adopt a similar approach, thereby acquiring the same coercive power it so strongly condemns in its anti-China rhetoric (Murphy, 2025).

3.6 Modelling the Impact of Tariff Policy on Global Pharmaceutical Access

The prospect is a repetition of pandemic-era chaos: rising prices, medicine shortages, and systemic uncertainty. According to Bauer and Lamprecht, tariffs on medicines and pharmaceutical inputs reduce overall availability by increasing both production costs and the price of imported drugs. In their study, they modelled the effects of tariff policies on access to medicines by simulating three scenarios: (1) tariff increases imposed by both the US and the EU; (2) tariff increases to bound WTO rates by all jurisdictions on all medical products; (3) the global elimination of all tariffs on medical goods. Although the study was conducted in the immediate aftermath of the pandemic, it provides valuable insight into the possible impact of future tariff measures in this sector, particularly given that such measures are increasingly likely in the coming months.

In the first scenario, Bauer and Lamprecht examine the consequences of unilateral or bilateral trade enforcement actions, specifically the imposition of tariffs on pharmaceuticals and APIs by the United States on imports from the European Union, or vice versa. This scenario is particularly relevant, not only because it remains a plausible outcome, but also because it illustrates how even isolated bilateral protectionist measures, especially retaliatory ones, can severely disrupt global value chains and restrict access to essential medicines, even in the short term.

The model assumes a 25% tariff increase on medicines and APIs that are currently subject to zero or low duties. Although the measures are initiated by either the US or the EU, their effects would rapidly become global, impacting major supplier countries such as China and India. According to the authors' estimates, Chinese exports of pharmaceuticals would decrease by 81%, and their exports of chemical products would decline by 8%. Indian pharmaceutical exports would fall by 35%, while chemical product exports would drop by 7%. These declines would have disastrous repercussions, as both China and India are the main suppliers of inputs in the global market for medicines. A reduction in their export capacity would therefore translate into widespread supply shortages and rising drug prices across multiple regions.

The second scenario presented by Bauer and Lamprecht represents a more extreme generalisation of the first. While less likely in the short term, it models a *worst-case scenario* in which all countries simultaneously raise tariffs on medical goods up to their WTO-bound rates. This simulation is designed to illustrate the systemic consequences that could arise if protectionist logic spreads globally, either through policy imitation or retaliation. Unlike bilateral disputes, this scenario portrays a world where multilateralism erodes, and trade policy becomes increasingly fragmented and confrontational.

The results are alarming. A global increase in tariffs to bound levels would significantly reduce both import and export volumes of medical goods, including medicines, APIs, medical equipment, and personal protective equipment. The worst consequences would be borne by economically less developed and less diversified countries. Many of these already impose high tariffs on pharmaceuticals while simultaneously lacking the manufacturing capacity to substitute imports with domestic production. In such contexts, tariff hikes would lead to acute shortages. According to the study's estimates, low-income countries would experience a 53% decline in pharmaceutical imports, while upper-middle-income countries would face a reduction of 24.5%. The countries most severely affected would include Indonesia (–44%), Brazil (–35%), and India (–13%), all of which are heavily reliant on imported medicines.

In the short to medium term, these countries would struggle to compensate for lost imports. While some production might be reshored over time, this would only occur in countries with sufficient industrial capacity and investment infrastructure, conditions that are rarely met in the most affected regions. Patients in lower- and middle-income countries would suffer the most, especially in their access to innovative medicines. These drugs are typically protected by intellectual property rights and are not easily replaced by local generics, making price increases or unavailability a likely outcome. Ultimately, such scenario would worsen health inequalities and undermine international public health objectives.

The third scenario proposed by Bauer and Lamprecht models a globally coordinated policy shift: the complete elimination of import tariffs on medicines, APIs, and other medical goods. In contrast to the first two scenarios, which highlight the risks of protectionism, this liberalisation scenario demonstrates the positive outcomes that could

result from removing trade barriers in the pharmaceutical sector. It offers a policy vision aligned with global health objectives, particularly regarding equitable access to essential medicines.

According to their estimates, the abolition of all import tariffs would lead to a notable expansion in global pharmaceutical trade, enhancing both the quantity and diversity of available medicines. The benefits would be particularly visible in upper-middle income countries, where pharmaceutical imports are projected to rise by 4.4%. Among the most positively affected countries, Brazil would see a 7.5% increase in pharmaceutical imports, followed by China (7.1%) and India (5%). These gains would translate into a broader range of treatments available to patients, particularly in jurisdictions where affordability and variety remain constrained under the current system. The removal of tariffs would improve access to existing medicines, facilitate a broader range of treatments, provide innovative medical goods and reduce the time lag between availability in high-income countries and adoption in the rest of the world.

Conclusions

The aim of this paper was to explore the deep causes behind the rise of Donald Trump and his protectionist trade policies, and to assess their potential impact on trade relations with the European Union, particularly in the pharmaceutical sector.

The first chapter presented a literature review on the rise of protectionist measures. Baldwin's *The Political Economy of Trade Policy* identified the economic self-interest approach and the social concerns approach as the main theoretical explanations for protectionist trade policies. The chapter then shifted from theory to real-world developments, examining how decades of unregulated hyper-globalisation led to the erosion of the American middle class and a shift in voting behaviour towards more protectionist parties. This phenomenon was defined as *The Backlash of Globalisation*, and it contributed to the rise of Donald Trump and his protectionist trade agenda.

Chapter Two traced several decades of trade relations between the United States and the European Union, from the end of the Second World War to the present day, when Trump imposed 20% tariffs on the EU under the pretext of addressing the trade deficit. The analysis concluded that Trump's justification was largely misleading, as it oversimplified the complexities of transatlantic trade.

Finally, the dissertation assessed the potential impact of new U.S. tariffs on the European Union, with particular attention to the pharmaceutical sector. It demonstrated the high level of interdependence between the two economies in this field. Pharmaceutical trade had already come under pressure during the COVID-19 pandemic, when many countries prioritised national interests over global cooperation. This led to severe disruptions in supply chains, resulting in shortages and rising prices. A similar, or even worse, scenario could unfold if Trump were to impose tariffs in this sector.

At present, we are still navigating a sea of uncertainties. The situation continues to evolve rapidly and unpredictably, and very little research is available so far, given how recent these events are and how quickly they can change, especially since Donald Trump's statements and positions often shift dramatically. The current scenario is worryingly uncertain.

Moreover, the impact estimates provided by Bauer and Lamprecht in Section 3.6, while informative, are based on a model developed shortly after the pandemic and may not fully reflect today's geopolitical and economic landscape. Nonetheless, it is hoped that the present analysis has contributed to a better understanding of the dynamics at play and provided a useful foundation for further research.

This paper was initially motivated by a central question. Can tariffs meaningfully benefit the American working class? Specifically, can they address the structural decline caused by decades of deindustrialisation, or are they primarily symbolic measures, populist in nature, designed to appeal to voters rather than to deliver long-term economic solutions?

Let me briefly consider the so-called Trumpism phenomenon. A right-wing, nationalist, and conservative political movement. It is characterised by a populist

approach, centred on issues of social inequality, and marked by a cynical attitude towards both the establishment and globalisation. At its core, it displays illiberal tendencies, a strong protectionist stance, a vision of economic nationalism.

As seen through the paper, this phenomenon did not emerge out of nowhere. It is product of its time. Decades of hyper-globalisation have eroded the American industrial base. Factories closed and relocated where labour was cheaper. Entire communities, once sustained by manufacturing jobs, were left behind. It is no surprise that many embraced Trump's message, finally, someone was speaking for them. But that does not mean the solution he offered was the right one.

Tariffs are not the answer. In fact, they are likely to hurt the very groups they claim to protect. As seen in Section 1.5, the tariffs introduced during the previous trade war of 2018 led to price increases that were passed directly on to consumers (completely tariff pass through), particularly those on lower incomes, who depend on affordable imports. This scenario, probably even worse, is likely to happen once again.

Moreover, as discussed in Section 2.6, manufacturing no longer plays the central role it once did in the U.S. economy. Today, only about 8% of the American workforce is employed in the sector. Even in the best-case scenario, that figure cannot grow significantly. The country lacks both the skilled workers and the infrastructure to rebuild industrial capacity on a national scale. While tariffs may temporarily shield specific industries, like steel, they tend to raise costs further along the supply chain, often resulting in more job losses than gains. For every steel job saved, up to 60 or 80 jobs in other sectors may be lost.

Uncertainty is another concern. The lack of a clear and stable trade strategy affects everyone, from markets to small business owners. No one can predict whether tariffs will be raised, lowered, or reversed. In such conditions, how can governments, firms, or investors plan for the future?

More broadly, this strategy feels like an attempt to solve a 21st-century problem with a 20th-century tool. As Richard Baldwin rightly pointed out, tariffs may have made sense in the past, when goods were produced entirely within national borders. But today, GVCs

dominate manufacturing. Most products are assembled from components sourced from multiple countries. Imposing tariffs on intermediate goods, such as Chinese parts, makes U.S. manufacturing less competitive, not more. Just think about the disruption caused to the pharmaceutical supply chain during the COVID-19 pandemic seen in Chapter 3.

There are also more issues not fully explored in this paper. The fastest-growing part of the global economy is in services, particularly online and professional services, which tariffs simply cannot reach. Another is automation: cheaper labour, the main reasons jobs moved abroad, is becoming and will become less relevant. When robots build goods, there is little logic in shifting factories based on wage differences. Tariffs aimed at protecting labour-intensive industries are responding to a reality that is already disappearing.

I therefore believe that the answer in the end is yes: Trump's tariff policy appears to be more effective at winning votes than at actually improving the conditions of the American working class. And once the results become fully visible, and some already are, it will likely prove to be a failure even in electoral terms.

Bibliography

Al Jazeera. (2023, October 6). *The October 1973 war: How it led to the first Arab recognition of Israel*. Al Jazeera. <https://www.aljazeera.com/news/2023/10/6/the-october-1973-war-how-it-led-to-the-first-arab-recognition-of-israel>

Alter, K. J., & Steinberg, D. (2007). The theory and reality of the European Coal and Steel Community. In S. Meunier & K. McNamara (Eds.), *Making history: European integration and institutional change at the 50th anniversary of the Treaty of Rome* (pp. 89–104). Oxford University Press. <https://doi.org/10.1093/oso/9780199218677.003.0005>

Antràs, P., & Chor, D. (2022). Global value chains. In E. Helpman, K. Rogoff, & G. Gopinath (Eds.), *Handbook of International Economics* (Vol. 5, pp. 297–376). Elsevier. <https://doi.org/10.1016/bs.hesint.2022.02.005>

Attinasi, M. G., Boeckelmann, L., Hespert, L., Linzenich, J., & Meunier, B. (2024). *Global trade in the post-pandemic environment*. In *ECB Economic Bulletin* (Issue 1/2024). European Central Bank. https://www.ecb.europa.eu/press/economic-bulletin/focus/2024/html/ecb.ebbox202401_01~d1c3b1b0a5.en.html

Baldwin, R. E. (1989). The political economy of trade policy. *Journal of Economic Perspectives*, 3(4), 119–135. <https://doi.org/10.1257/jep.3.4.119>

Baldwin, R. E., & Martin, P. (1999). Two waves of globalisation: Superficial similarities, fundamental differences (NBER Working Paper No. 6904). National Bureau of Economic Research. <https://doi.org/10.3386/w6904>

Barsky, R. B., & Kilian, L. (2000). *A monetary explanation of the Great Stagflation of the 1970s* (NBER Working Paper No. 7547). National Bureau of Economic Research. <https://doi.org/10.3386/w7547>

Bauer, M., & Lamprecht, P. (2021). *How tariffs impact access to medicines*. Geneva Network. <https://geneva-network.com/research/how-tariffs-impact-access-to-medicines/>

Blatt, B., Paris, F., & Singer, E. (2025, April 4). *The hidden decisions behind Trump's tariff formula*. *The New York Times*. <https://www.nytimes.com/interactive/2025/04/04/upshot/trump-tariffs-reciprocal.html>

Bordo, M. D. (1993). The Bretton Woods international monetary system: A historical overview. In M. D. Bordo & B. Eichengreen (Eds.), *A retrospective on the Bretton Woods system: Lessons for international monetary reform* (pp. 3–108). University of Chicago Press. <http://www.nber.org/chapters/c6867>

Bown, C. P. (2020, March 19). *EU limits on medical gear exports put poor countries and Europeans at risk*. Peterson Institute for International Economics. Retrieved from <https://www.piie.com/blogs/trade-and-investment-policy-watch/eu-limits-medical-gear-exports-put-poor-countries-and>

Bown, C. P. (2022). How COVID-19 medical supply shortages led to extraordinary trade and industrial policy. *Asian Economic Policy Review*, 17(1), 114–135. <https://doi.org/10.1111/aepr.12359>

Brown University Department of History. (2018). U.S.-China trade tensions. The Choices Program. <https://www.choices.edu/wp-content/uploads/2018/12/U.S-ChinaTradeTensions.pdf>

Burfisher, M. E., Lambert, F., & Matheson, T. (2019). *NAFTA to USMCA: What is gained?* (IMF Working Paper No. 19/73). International Monetary Fund. <https://www.imf.org/en/Publications/WP/Issues/2019/03/26/NAFTA-to-USMCA-What-is-Gained-46680>

NAFTA to USMCA: What is Gained? (IMF Working Paper No. 19/73). International Monetary Fund. <https://doi.org/10.5089/9781498303286.001>

Burger, L., & Fick, M. (2025, April 8). *European pharma companies warn Trump's tariffs could expedite shift to US*. Reuters. <https://www.reuters.com/business/healthcare-pharmaceuticals/drugmakers-warn-eu-that-us-tariffs-further-weaken-sector-europe-sources-say-2025-04-08/>

Caliendo, L., & Parro, F. (2022). Trade policy. In E. Helpman, K. Rogoff, & G. Gopinath (Eds.), *Handbook of International Economics* (Vol. 5, pp. 219–295). Elsevier. <https://doi.org/10.1016/bs.hesint.2022.02.004>

Cho, S. (2010). The demise of development in the Doha Round negotiations. *Texas International Law Journal*, 45(3), 573–602. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1670281

Colantone, I., Ottaviano, G., & Stanig, P. (2022). The backlash of globalization. In E. Helpman, K. Rogoff, & G. Gopinath (Eds.), *Handbook of International Economics* (Vol. 5, pp. 405–477). Elsevier. <https://doi.org/10.1016/bs.hesint.2022.02.007>

Coppolaro, L. (2019). *Globalizing GATT: The EC/EU and the trade regime in the 1980s–1990s*. Retrieved from <https://www.research.unipd.it/retrieve/e14fb26e-dc02-3de1-e053-1705fe0ac030/LCoppolaro-GlobalizingGATT.pdf>

Council of the European Union. (2024, May 30). Council sets higher tariffs on Russian and Belarusian grain products [Press release]. <https://www.consilium.europa.eu/en/press/press-releases/2024/05/30/council-sets-higher-tariffs-on-russian-and-belarusian-grain-products/>

Council of the European Union. (2025, April 8). *EU–US trade: Facts and figures*. <https://www.consilium.europa.eu/en/infographics/eu-us-trade/>

European Commission (2018) – “*EU adopts rebalancing measures in reaction to US steel and aluminium tariffs*” https://ec.europa.eu/commission/presscorner/detail/en/IP_18_4220

European Commission. (2025, March 12). *Commission responds to unjustified US steel and aluminium tariffs with countermeasures* [Press release]. https://ec.europa.eu/commission/presscorner/detail/en/ip_25_740

European Parliament. (2016, January 25). *The Transatlantic Trade and Investment Partnership (TTIP): Challenges and opportunities for the internal market and consumer protection* (Document No. 23_160125). https://www.europarl.europa.eu/meetdocs/2014_2019/documents/deea/dv/23_160125_/23_160125_en.pdf

Eurostat. (2023, November). *International trade in medicinal and pharmaceutical products*. European Commission. Retrieved May 16, 2025, from https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_medicinal_and_pharmaceutical_products

Evenett, S. J., Fiorini, M., Fritz, J., Hoekman, B. M., Lukaszuk, P., Rocha, N., Ruta, M., Santi, F., & Shingal, A. (2022). Trade policy responses to the COVID-19 pandemic crisis: Evidence from a new data set. *The World Economy*, 45(2), 342–364. <https://doi.org/10.1111/twec.13119>

Fajgelbaum, P. D., & Khandelwal, A. K. (2022). The economic impacts of the US–China trade war. *Annual Review of Economics*, 14, 205–228. <https://doi.org/10.1146/annurev-economics-051420-110410>

Federal Reserve History. (n.d.). *Oil shock of 1978–79*. Federal Reserve History. <https://www.federalreservehistory.org/essays/oil-shock-of-1978-79>

Franzese, R. J., Jr. (2019, February 20). The comparative & international political economy of anti-globalization populism. Centre for Competitive Advantage in the Global Economy (CAGE), University of Warwick. Originally prepared for the *Oxford Research Encyclopedia of Politics*. <https://doi.org/10.1093/acrefore/9780190228637.013.638>

Freeman, R., & Baldwin, R. (2020). Trade conflict in the age of COVID-19. *VoxEU – Centre for Economic Policy Research (CEPR)*. <https://cepr.org/voxeu/columns/trade-conflict-age-covid-19>

FT Reporters. (2025, May 7). *Trump tracker: US tariffs*. *Financial Times*. <https://www.ft.com/content/2c473393-35fb-479d-8bba-236a1a98087c>

Fu, J. (2021). *International trade liberalization and protectionism: A review*. In *Proceedings of the 2021 3rd International Conference on Economic Management and Cultural Industry (ICEMCI 2021)* (pp. 2480–2486). Atlantis Press. <https://doi.org/10.2991/assehr.k.211209.403>

Giuffrida, A. (2018, May 10). *Five Star and League move closer to forming Italian government*. *The Guardian*. <https://www.theguardian.com/world/2018/may/10/five-star-league-closer-forming-italian-italy-government>

Horton, B. (2021, August 3). *Lessons from Trump's assault on the World Trade Organization* [Interview with K. Hopewell]. Chatham House. <https://www.chathamhouse.org/2021/08/lessons-trumps-assault-world-trade-organization>

Hossain, M. U. (2023, July 5). *Is it Airbus vs. Boeing or EU vs. USA? A tale of illegal subsidy*. SSRN. <https://doi.org/10.2139/ssrn.4817811>

International Monetary Fund. (2025, April). *World economic outlook: April 2025*. <https://www.imf.org/en/Publications/WEO>

Irwin, D. A. (1995). The GATT in historical perspective. *The American Economic Review*, 85(2), 323–328. <https://www.jstor.org/stable/2117941>

Irwin, D. A. (2012). *The Nixon shock after forty years: The import surcharge revisited* (NBER Working Paper No. 17749). National Bureau of Economic Research. <https://doi.org/10.3386/w17749>

Jones, C. I. (1997). On the evolution of the world income distribution. *Journal of Economic Perspectives*, 11(3), 19–36. <https://doi.org/10.1257/jep.11.3.19>

Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2023). *International economics: Theory and policy* (12th ed., Global ed.). Pearson Education Limited.

Lawrence R. (2025, April 9). *Explainer: How do tariffs work and how will they impact the American and global economy?* Harvard Kennedy School. <https://www.hks.harvard.edu>

Mendoza, E. G., & Quadrini, V. (2009). Financial globalization, financial crises and contagion (NBER Working Paper No. 15432). National Bureau of Economic Research. <https://doi.org/10.3386/w15432>

Milner, H. V. (1987). Resisting the protectionist temptation: Industry and the making of trade policy in France and the United States during the 1970s. *International Organization*, 41(4), 639–665. <https://doi.org/10.1017/S0020818300027605>

Moss, D. A., Brennan, K. P., Gorin, M. B., & Lee, M. (2001). Free trade vs. protectionism: The great Corn-Laws debate. Harvard Business School. <https://www.hbs.edu/faculty/Pages/item.aspx?num=27914>

Murphy, F. (2025). *How Trump's trade war will break global medicine supply chains*. *BMJ*, 389, r648. <https://doi.org/10.1136/bmj.r648>

O'Carroll, L. (2025, April 9). *EU drug companies warn of exodus to US as Trump threatens import tariffs*. *The Guardian*. Retrieved from <https://www.theguardian.com/business/2025/apr/09/eu-drug-firms-warn-of-exodus-to-us-as-trump-threatens-import-tariffs>

OECD. (2025). *OECD Economic Outlook, Interim Report March 2025: Steering through uncertainty*. OECD Publishing. <https://doi.org/10.1787/89af4857-en>

Ortiz-Ospina, E., Beltekian, D., & Roser, M. (2024, April). *Trade and globalization*. Our World in Data. <https://ourworldindata.org/trade-and-globalization>

Politi, J., & Palma, S. (2024, November 6). Donald Trump unleashed: What a second term will bring. *Financial Times*. <https://www.ft.com/content/1fb6ab71-0466-4717-aabc-8000cafb13b4>

Pollack, M. A., & Shaffer, G. C. (2010). Introduction: Transatlantic governance in historical and theoretical perspective. In M. A. Pollack & G. C. Shaffer (Eds.), *Transatlantic governance in the global economy* (pp. 1–41). Rowman & Littlefield. Minnesota Legal Studies Research Paper No. 10-25. <https://doi.org/10.2139/ssrn.1600889>

Rodrik, D. (2023). Dani Rodrik says more.... *Project Syndicate*. <https://www.project-syndicate.org/onpoint/an-interview-with-dani-rodrik-trade-protectionism-development-redistribution-globalization-2023-10>

Rodrik, D. (2024). The two faces of free trade. *Project Syndicate*. <https://www.project-syndicate.org/commentary/free-trade-can-be-progressive-or-regressive-depending-on-policy-context-by-dani-rodrik-2024-03>

Roll, D. (2015). *The “Marshall Plan” speech – George C. Marshall (June 5, 1947)*. National Recording Registry, Library of Congress. https://www.loc.gov/static/programs/national-recording-preservation-board/documents/MarshallPlanSpeech_Roll.pdf

Sapir, A., & Mavroidis, P. C. (2021). China and the WTO: An uneasy relationship. *VoxEU – Centre for Economic Policy Research (CEPR)*. <https://cepr.org/voxeu/columns/china-and-wto-uneasy-relationship>

Schleifenheimer, M., & Ivanov, D. (2024). Pharmaceutical retail supply chain responses to the COVID-19 pandemic. *Annals of Operations Research*. <https://doi.org/10.1007/s10479-024-05866-0>

Schoenbaum, T. J. (2023). The Biden administration's trade policy: Promise and reality. *German Law Journal*, 24(1), 102–124. <https://doi.org/10.1017/glj.2023.8>

Stokes, B. (2022, November). *Setting the table: More than half a century of US-EU relations* (PE 739.278). European Parliamentary Research Service. https://www.europarl.europa.eu/RegData/etudes/IDAN/2022/739278/EPRS_IDA%282022%29739278_EN.pdf

United States Trade Representative. (2025). *Reciprocal tariff calculations*. Executive Office of the President. https://ustr.gov/sites/default/files/files/Issue_Areas/Presidential%20Tariff%20Action/Reciprocal%20Tariff%20Calculations.pdf

Urata, S. (2002). Globalization and the growth in free trade agreements. *Asia-Pacific Review*, 9(1), 20–32. <https://doi.org/10.1080/1343900022014156>

Vance, J. D. (2017). *Hillbilly elegy: A memoir of a family and culture in crisis*. HarperCollins Publishers.

Wolf, M., & Baldwin, R. (2025). Martin Wolf talks to Richard Baldwin: What's the future of global trade? *Financial Times Podcast – The Economics Show*. <https://www.ft.com/content/07acaf4b-19e5-4d96-8ea7-2d7acc7940ce>

Wolfe, R. (2015). First diagnose, then treat: What ails the Doha Round? *World Trade Review*, 14(1), 7–28. <https://doi.org/10.1017/S1474745614000342>

Wolfe, R. (2015). First diagnose, then treat: What ails the Doha Round? *World Trade Review*, 14(1), 7–28. <https://doi.org/10.1017/S1474745614000342>

World Trade Organization. (2018, May 18). *Immediate notification under Article 12.5 of the Agreement on Safeguards to the Council for Trade in Goods of proposed suspension of concessions and other obligations referred to in paragraph 2 of Article 8 of the Agreement on Safeguards: European Union* (G/SG/N/12/EU/1,

G/L/1237). https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=245249&CurrentCatalogueIdIndex=0&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=False&HasSpanishRecord=False

Ziegler, Tamas Dezso, TTIP and Its Public Criticism: Anti-Globalist Populism versus Valid Dangers (November 30, 2016). Legal Supplement: Studies in International Economics, 2016, Vol. 2, No. 2 (pp. 19-51), Available at SSRN: <https://ssrn.com/abstract=2930039>