

In the Name of “Rebalancing”: An Assault on Trade

The US has imposed a harsh global trade regime to reorder the world economy. Amid the chaos, new possibilities may emerge.

10 Nov 2025 • [Mona Ali](#)

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Introduction

On 2 April 2025, which he dubbed “Liberation Day”, President Donald Trump announced that he would impose “reciprocal tariffs” on the rest of the world. Having declared a national emergency, invoking the International Emergency Economic Powers Act (IEEPA), the White House slapped levies on about ninety countries for not showing “reciprocity” in their trade relations with the US. Trump’s executive order reiterated a mantra in Biden’s foreign policy circle that US market access is a “privilege not a right.” Following a spike in interest rates in the US Treasury market, Trump announced a ninety day pause on tariffs — above a new baseline of 10 per cent duties on all imports — for countries willing to negotiate trade deals with him.

In the name of “rebalancing” the US trade deficit — imports of goods and services exceeding exports — Trump has weaponised access to the US market. His unilateral decision is but the latest in a series of violations of law, rules and norms on the part of the White House. While the Court of International Trade (CIT) has judged the sweeping tariffs imposed under IEEPA to be unlawful, a federal appeals court has put the ruling on hold, pending the White House’s appeal to the Supreme Court. Fearing that the Supreme Court will uphold the CIT’s decision, Trump has complained that should tariffs be removed, it “would literally destroy the United States of America.” About forty legal briefs have been filed by various groups including the US Chamber of Commerce, petitioning the Supreme Court to remove Trump’s tariffs.

Trump’s rationale for imposing a harsh trading order on the rest of the world is to reduce the “large and persistent trade deficit” which he argues has hollowed out US manufacturing. His executive order refers to the goods deficit as “an unsustainable crisis.” The very fact that “rebalancing” the trade deficit is now official US policy is remarkable if not entirely novel.

Washington’s turn to protectionism has imperial precedents: in 1932, Britain imposed ten per cent tariffs on manufactured imports. At the same time, it gave former colonies in its orbit, such as Australia and Canada, privileged access to its domestic market in exchange for a reduction in their tariffs on British goods. Britain also had a Gold Standard reserve; a vast hoard of colonial funds deposited in London. This is an apt precedent for Treasury Secretary Scott Bessent’s proposed sovereign wealth fund, based on direct contributions made by other states.

Attempts to force trade rebalancing through tariffs or other unilateral measures are, to some extent, likely to be subverted. Trump’s warnings that he would impose tariffs early in his second term led to a sharp increase in imports as businesses sought to preposition inventories (particularly gold, as well as medical and pharmaceutical goods). Thus, in the first quarter of 2025, contravening his trade policy’s goal, the US current account deficit temporarily increased to six per cent of GDP. Not only has Trump’s assault on trade hurt US partners, but in the months following Liberation Day, US manufacturing employment has trended downward, opposite to what was intended. Regardless of their outcome, these measures — alongside a reliance on military force in US foreign policy — represent a kind of brutish dominance and an attempt at the violent reordering of the international system. This has created new alliances and relationships in response.

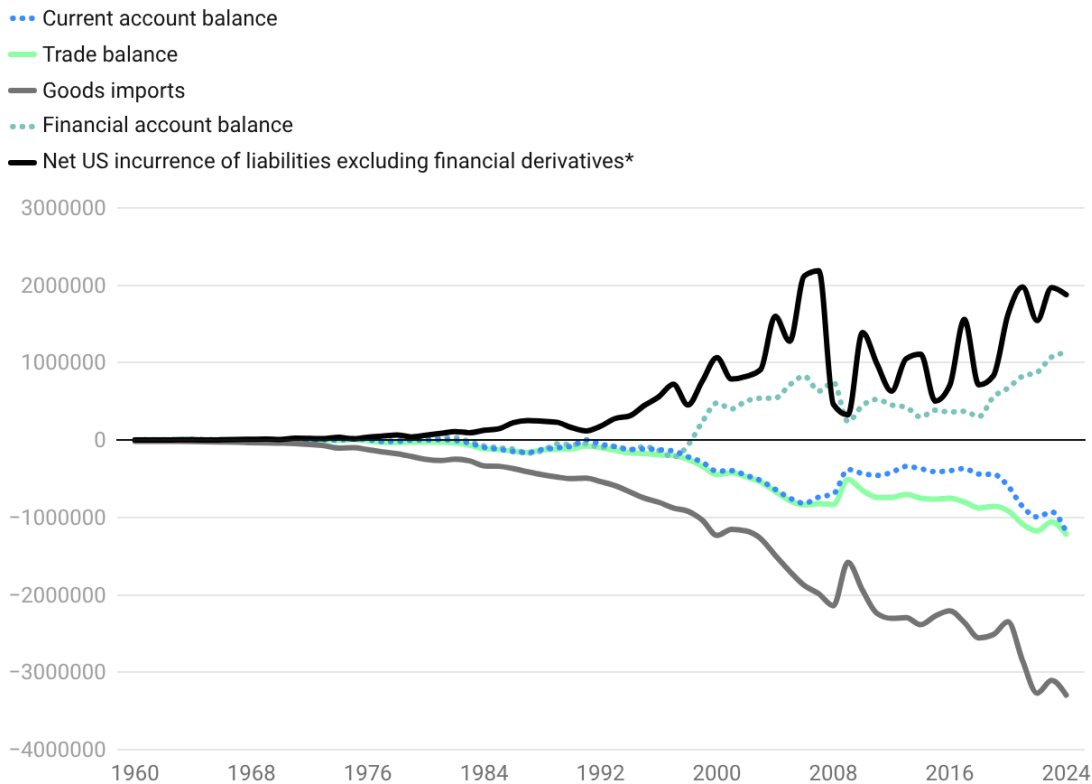
The End of Exorbitant Privilege?

The US current account deficit was an unprecedented \$1.18 trillion in 2024. It was shaped, for the most part, by a \$1.2 trillion deficit in merchandise trade (Fig. 1). Relatively small but positive net services exports slightly uplifted the current account. US net primary income earnings, which have tended to be positive up until recently and are associated with the “exorbitant privilege” of US external balance sheets — the ability of the US to earn more on its overseas assets despite much greater foreign liabilities — have turned negative. Although

financial inflows ¹ amounted to \$1.88 trillion, larger than the trade deficit, the headline figure emphasised by pundits and policymakers is the trade deficit — understandable, given that goods imports amounted to \$3.3 trillion.

Figure 1: US Financial Inflows Exceed US Trade Deficit but Are Dwarfed by US Goods Imports

US financial account, current account and various subcomponents (financial inflows, trade balances and goods imports), 1960-2024 (USD, millions)



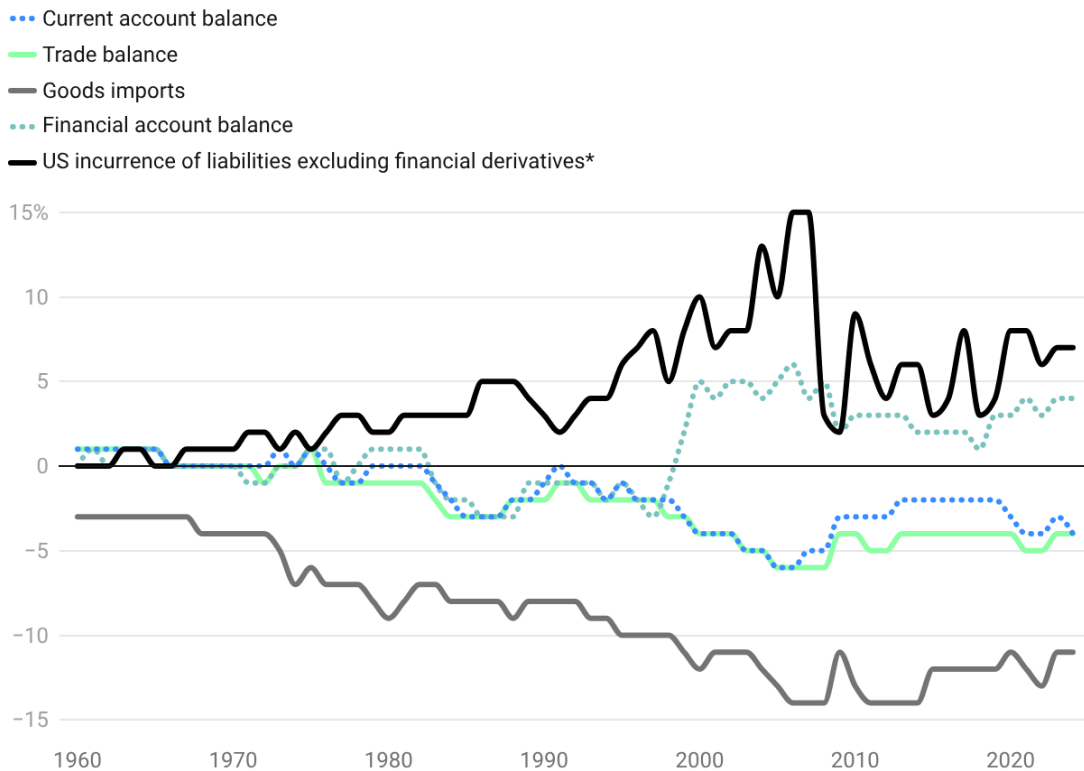
*Net increases in liabilities / financial inflow (+)
Author's calculations

Source: US Bureau of Economic Analysis. • Created with Datawrapper

Much has changed since 2008 when the economist Martin Feldstein wrote that the trade deficit was a gift received by the US from the rest of the world. ² In Feldstein's view such gift giving was unsustainable — market forces would unwind these imbalances. The empirical record paints a murkier picture: while financial and trade imbalances have increased in absolute dollar amounts (Fig. 1), when scaled to US GDP (Fig. 2), external imbalances are smaller than they were in the years leading up to the Great Financial Crisis of 2008. In the US balance of payments accounts, the trade account makes up the largest share of the current account — as is also the case for the UK.

Figure 2: External Balances Are Smaller Today than in the Lead up to the Global Financial Crisis

US imbalances as a share of GDP, 1960-2024 (%)



*Net increase in liabilities / financial inflow (+)
Author's calculations

Source: US Bureau of Economic Analysis, World Bank. • Created with Datawrapper

In 2006–2007, for instance, financial inflows into the US topped fifteen per cent of GDP while goods imports hovered around fourteen per cent of GDP (Fig. 2). The last time that the trade deficit sharply contracted was during the Great Recession, as US households pulled back spending, including on imports. By October 2009, amid a deepening economic crisis, unemployed workers in the US topped 15.7 million. As the economy recovered from the crisis, the trade deficit expanded. ³

The mainstream view of trade imbalances is associated with a finance-led perspective, perhaps the most famous of which is Ben Bernanke's "global saving glut" hypothesis. Bernanke, who would go on to serve as Chair of the Federal Reserve, argued that the US trade deficit was the unintended consequence of financial flows, which themselves were driven by fundamental forces such as demographics in the rest of the world. In short, the rest of the world's savings ploughed into US assets were the "tail" wagging the trade deficit "dog".

Financial and trade imbalances are of a piece in Bernanke’s analysis. Other analysts have argued that trade imbalances are always driven by financial ones but this is somewhat slipshod: while net financial inflows militate against the correction of trade deficits through, for instance, currency depreciation, financial surpluses (or savings and investment imbalances) themselves don’t *induce* trade deficits. Accounting identities are not causal linkages.⁴ In the heterodox view of global imbalances, US financial and trade imbalances derive from the centrality of the dollar and the US market in global financial and trade networks.⁵ As long as the status quo ante remains, so will US financial and trade imbalances. But if the status quo is in flux, what does that mean for global imbalances?

Chimerica

America’s rising trade deficit is somewhat imperfectly mirrored in China’s rising trade surplus. In fact, China’s trade surplus has been the leading counterpart to the US trade deficit since 2014.⁶ Unsurprisingly, the two behemoths of the world economy are the largest contributors to global imbalances. China’s export dominance has been fundamental to a shift in US policymakers’ pivot from a neoliberal stance of benign neglect towards global trade imbalances to one of muscular state interventionism.

The new view in Washington regarding US balance of payments deficits crystallised during the Biden administration. From this perspective, far from being the chief beneficiary of monetary primacy, the US is seen as burdened by having to absorb the world’s exports. The US trade deficit is said to be the result of China and other export-oriented economies taking advantage of the large and open US market to prop up their own growth regimes. The cost of absorbing the rest of the world’s trade surpluses, it is argued, has been the decimation of US manufacturing capacity and competitiveness. Unemployment is, in part, the result of automation. And yet US unemployment in the 2000s acquired the moniker “China Shock” after influential economists estimated that imports from China had resulted in 2-2.4 million job losses. However, as the study’s authors also noted, US employment was already in decline, prior to China’s entry into the World Trade Organisation.

In 2010, Chinese and US manufacturing were similar in terms of value added. US policymakers attributed China’s success as a gargantuan export engine to its

massive state subsidies, “currency manipulation” and the suppression of domestic consumption. As early as 2015, Trump accused China of undervaluing the yuan and threatened it with blanket tariffs. In 2023, Jake Sullivan, National Security Advisor for the Biden administration, drew attention to China’s massive industrial subsidies which, according to him, tipped the balance of international competitiveness in clean energy and critical technologies in China’s favour. ⁷ While Washington grappled with Beijing’s supremacy across a range of high value technologies from vertically integrated electric vehicle production to artificial intelligence, China grew as the world’s manufacturing behemoth.

Between 2000 and 2024, the US current account deficit averaged about one per cent of world GDP, while China’s current account surplus averaged about 0.3 per cent of world GDP. ⁸ Despite its much smaller contribution to trade imbalances, China has been made Washington’s bogeyman. While Trump’s new tariff regime is the most vociferous attempt at reducing trade imbalances, US policy has long headed in this direction — the need for “rebalancing” was discussed by Janet Yellen, Biden’s Treasury Secretary in 2010, when she was Vice Chair of the Federal Reserve.

This interventionist stance towards the US trade deficit may be contrasted with another view perhaps best exemplified by the twentieth century economist Charles P. Kindleberger, who argued that the US runs a current account deficit so that it can throw dollars into the world economy. ⁹ Kindleberger’s “hegemonic stability” thesis linked US balance of payments deficits to its hegemonic role in the world and advocated a softer position of “benign neglect” towards US imbalances (at the time external balances were a far smaller share of US GDP than they are today.) Kindleberger went so far as stating that the US serving as the world’s banker was a mission akin to peacekeeping. ¹⁰

Today’s turn towards rebalancing has different postwar parallels. In the Bretton Woods era, stability in the international monetary system hinged on the relationship between dollar and gold. ¹¹ By the late 1960s, as foreign holders converted their dollar holdings into gold and speculative pressures on the dollar built up, maintaining gold-dollar parity become more challenging. In August 1971, the rapid haemorrhaging of US gold reserves led President Richard Nixon (on the advice of a committee headed by Paul Volcker) to suspend the convertibility of dollars into gold. Reacting to Nixon’s decision, the economist Paul Samuelson blamed Japan for the sorry state of the US balance of payments.

An artificially depressed yen, Samuelson argued, had led to Japanese imports flooding the US market. The only beneficiaries, he argued, were vested interests in Japan. ¹² Substitute China for Japan and it may seem that the same arguments circulate today. However, China’s size and dominance across a whole range of advanced tech products as well as rare earths and magnets poses a novel challenge to the US economy in general and its military industrial complex in particular.

In his inaugural presidential speech in 2017, Trump vowed to end “American carnage”, partly defined as a decline in US manufacturing. He soon imposed tariffs on solar panels, washing machines, steel and aluminium imports. Trump’s 2019 sanctions on the tech giant, Huawei, are widely regarded as a watershed moment in China, spurring greater domestic competition and innovation in the drive for self-sufficiency in advanced technology. Gina Raimondo, US Secretary of Commerce under Biden, recently conceded that sanctions on Huawei had spectacularly backfired. In 2020, Trump signed a “Phase One” trade agreement with China. In it, he extracted commitments that the latter would purchase more US goods, yet in the end China only purchased about sixty per cent of the goods promised.

Not only did the Biden administration maintain Trump’s first-term tariff regime, it dramatically raised tariffs on high tech imports including 100 per cent tariffs on electric vehicles, an industry marked by the dominance of Chinese firms. ¹³ Trade rebalancing — or, cutting China’s trade surplus down to size — became a talking point of the Biden administration, as it fashioned a new era of pugilistic economic statecraft, euphemised by Jake Sullivan’s “small yard, high fence” dictum. Restricting a core set of imports from China on the grounds that they posed a national security threat informed the two key pieces of legislation associated with “Bidenomics” — the Inflation Reduction Act (IRA) and the CHIPS Act. Accordingly, the US Department of Commerce’s Bureau of Industry and Security placed export controls — in the words of Secretary Raimondo “a powerful national security tool” to counter China’s “military-civil fusion strategy” — on advanced semiconductor chips and related manufacturing equipment.

As the second Trump administration has gone about rolling back or destroying Biden-era IRA investments, domestic production in energy and advanced semiconductor chips has continued to be framed, as Trump demanded in 2015, as a national security concern. Stephen Miran, chair of the Council of Economic

Advisors and newly appointed member of the Board of Governors of the Federal Reserve, has defined Trump’s industrial policy as “tariffs, deregulation, full expensing [of capital investments] and energy independence.” Adopting industrial policy to pursue economic competition with China, Trump has arranged for the US government to take a ten per cent equity stake in the semiconductor giant, Intel. [14](#)

Rejecting the neoliberal stance of disregarding trade deficits, both the Biden and Trump administrations chose active state intervention. The Biden administration’s aggressive yet contained stance towards China — a limited number of subsidiaries of China’s high-tech firms were placed on the Bureau of Industry and Security’s “entity list” which essentially barred them from official dollar networks — has transmuted into a generalised if somewhat chaotic assault on countries running trade surpluses with the United States.

Having already imposed ten per cent tariffs on China in early February 2025, Trump ratcheted up tariffs on China’s exports following Liberation Day. China followed suit, slapping an even higher tariff rate on US imports. At their peak in 2025, average US tariffs on China’s imports were almost 135 per cent while China’s average tariffs on US imports amounted to nearly 148 per cent. Following trade negotiations in Geneva, both countries dramatically lowered tariffs in May. At the end of August, US tariffs on imports from China stood at a bit less than sixty per cent while China’s tariffs on US imports were about thirty per cent.

In September, as the financial terms of a future TikTok deal were released (in which the firm’s majority ownership would go to a consortium of US shareholders but the Chinese parent company would receive half of US profits), it appeared that China might even strike a better-than-expected trade agreement with the Trump team than it would have under a Democratic administration. And in ongoing US-China trade talks, when President Xi offered massive foreign investment in the US in exchange for removing national security-related restrictions on China — reversing a decade-long trend of increasing US policy hawkishness — it looked as if détente in US-China relations was foreseeable.

In early October however, Sino-American trade tensions flared up as China announced new export licenses on products containing even trace amounts of Chinese rare earths or technology. Previously, starting with Trump’s first term,

sectoral carveouts granted US firms importing certain semiconductor products, rare earth magnets, oil equipment and renewable energy parts temporary exclusions from tariffs. In the western press, China’s actions have been likened to the Arab states’ oil embargo of 1973.

China argued that it was only responding to the United States imposing more technology restrictions as well as docking fees on Chinese-linked ships. With regard to the former, the US Bureau of Industry and Security had exponentially expanded its entity list to sanction many more foreign affiliates of Chinese firms.

On October 15, having already threatened China with an additional 100 per cent tariffs days earlier, Trump declared that the US was in a trade war with China. Then Bessent announced the administration’s most comprehensive industrial policy thus far — one that seemed straight out of a Biden administration wish list, including price floors across a range of US industries, a US buffer stock in critical minerals and greater state control over the defence industry by curtailing stock buybacks while coercing more spending on research and development — justified by the threat posed by China’s “command and control” economy.

China responded to all three modalities of US economic coercion — tariffs, export controls and sanctions — with its own coercive policy instruments. In late October, bilateral talks ended with a “standing down of weaponry without actual decommissioning.” The US agreed to bring down some of its tariffs and paused fees on Chinese ships. China agreed to pause its global rare earth export control regime for a year — which will keep their production onshore — and to purchase US soybeans for its pigfeed.

After the declaration of a temporary truce, Bessent commented that “the deficit country always wins, the surplus country loses.” While this may have been true a decade ago, given the evolution of China’s economic heft, it is not the case anymore. Bessent added a conciliatory note that the US did not want to “decouple” from China, only to “derisk” its supply chains from the threat posed by China’s dominance. Given the lack of US industrial capacity and comprehensive industrial policy, this is a challenging ambition.

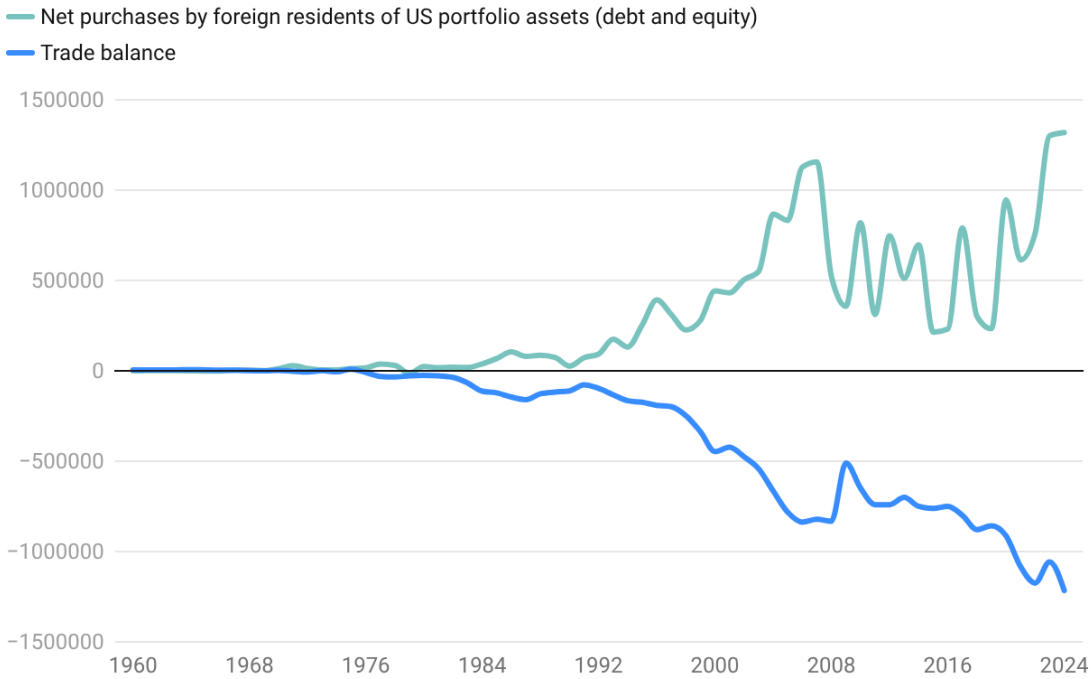
American Exceptionalism

Rebalancing the US trade deficit often appears to be in the realm of rhetoric rather than policy. In a speech to executives in South Korea, in his typically rambling stream of consciousness style, Trump said “you can’t have deficits and you can’t have....debt all over the place.” The new tariff deals are indeed somewhat incoherent. The US runs a goods surplus against Brazil and Switzerland and a deficit against Mexico and China. Yet current tariff rates on Mexico (25 per cent) and China (20 per cent) are less than those imposed on Switzerland (39 per cent) and Brazil (50 per cent). India, also facing a 50 per cent tariff rate, has been penalised for purchasing Russian oil, yet Russia (whom Trump has sanctioned) faces the same 10 per cent tariff rate as Ukraine. [15](#)

But why is it that “rebalancing” has come to mean reducing the trade deficit and not the relatively larger net incurrence of US financial liabilities to the rest of the world? As Stephen Miran correctly points out, demand for dollar assets is structurally embedded in the global financial system. In a 2024 policy position paper, Miran takes a financial view of the trade deficit somewhat like Bernanke’s. He argues that the structural demand for dollars has led to dollar overvaluation which, in turn, has made for persistent US trade imbalances. Yet, curiously, Miran’s analysis of the US balance of payments focuses on trade rather than financial flows. In fact, financial inflows to the US have been particularly noteworthy in the years 2023-2024. Higher interest rates and a strong dollar have meant that the US has of late attracted about 40 per cent of cross-border financial flows — an extraordinary uphill flow of global financial capital. As Fig. 3 shows, purchases of US debt and equity (portfolio investment) by foreign residents were an unprecedented \$1.3 trillion dollars: these portfolio inflows exceeded the \$1.2 trillion trade deficit. Purchases of US public and corporate debt by foreign residents amounted to more than a trillion dollars. The net acquisition of longer-term US Treasuries bonds and notes alone amounted to almost half a trillion dollars (\$478 billion) while purchases of short-term Treasury bills and certificates were an additional \$131 billion.

Figure 3: Foreign Residents' Net Purchases of US Portfolio Assets Exceed Trade Deficit

Net portfolio inflows (debt and equity) and trade deficit, 1960-2024, (USD, millions)



Author's calculations

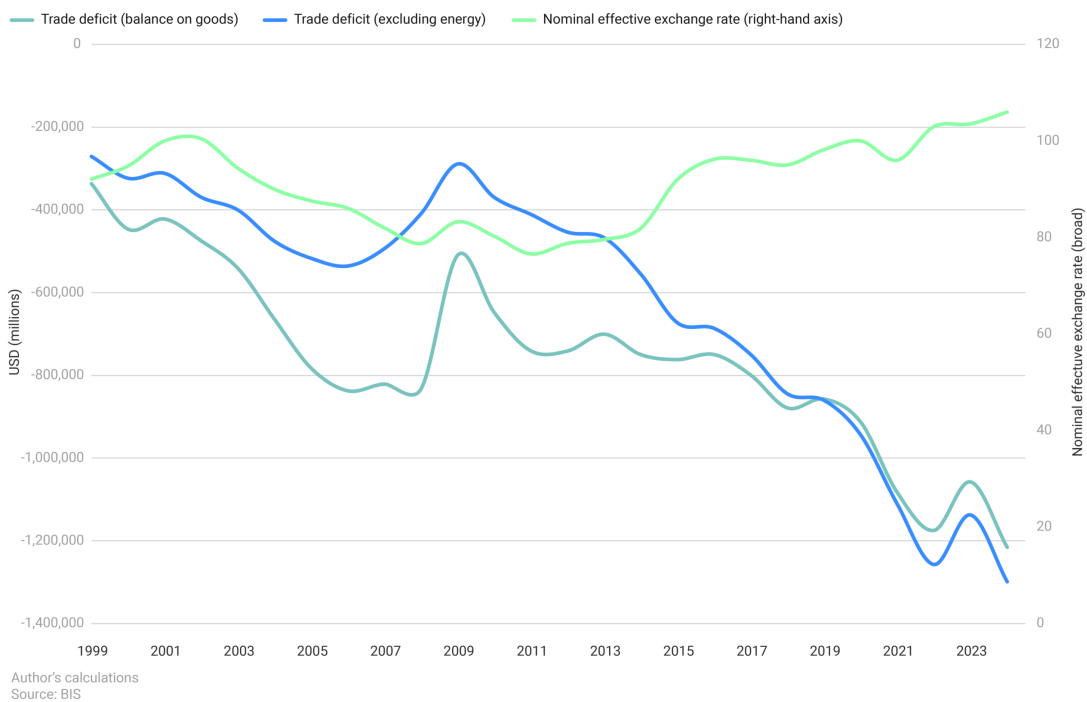
Source: US Bureau of Economic Analysis. • Created with Datawrapper

The scale of US borrowing from the rest of the world (in the form of Treasuries or other debt instruments) derives from the dollar's exorbitant privilege. But US Treasuries are not just the predominant safe asset preferred by sovereign reserve managers, they are also financial instruments critical to the day-to-day business of private fund managers. This is why more foreign owned Treasuries are housed on corporate balance sheets than public ones. Higher interest rates and dollar appreciation enhance the return on dollar denominated assets. The extraordinary scale of US external borrowing — at nominal interest rates of five per cent or less for US Treasuries — indicate the elasticity of US external balance sheets. Tax cuts laden in Trump's One Big Beautiful Bill Act are bound to expand the federal deficit and, in a higher interest rate environment, will lead to increased debt servicing costs. Interest payments on US borrowing this year already exceed a trillion dollars. This, among other reasons, is why Trump has repeatedly pressured the Chair of the Federal Reserve, Jerome Powell, to cut interest rates.

It is clear from Miran’s multipronged approach to rebalancing that he understands that lower interest rates and a cheaper dollar will not be sufficient to rebalance the trade deficit. For a variety of reasons — from the predominance of dollars in international trade to, somewhat ironically given Washington’s animus towards Beijing, the large presence of Chinese exporters in the US — import prices tend to be more stable in the US compared to other OECD countries. ¹⁶ While the dollar has depreciated by ten per cent this year, this will have a limited impact on the US trade deficit. While (lagged) exchange rates are loosely correlated with the US trade deficit — over the last decade, roughly speaking, as the dollar appreciated so did the trade deficit — this is not always true: between 2003 and 2008, for example, the trade deficit expanded, even though the dollar depreciated (Fig. 4).

Figure 4: The Nominal Exchange Rate is Only Loosely Correlated to the Trade Deficit

The trade deficit and the nominal exchange rate



Miran’s scheme for restructuring the international financial system seeks to strengthen US balance sheets and preserve dollar dominance by unilaterally imposing a new dollar order — what has been called a “Mar-a-Lago Accord” — on the rest of the world. Conditioning access to dollars is the United States’ most powerful tool of economic coercion. Miran has proposed devaluing the dollar by coercing foreign governments to swap out their shorter-term Treasuries for longer term century bonds. Not dissimilar from Janet Yellen’s call

for deepening trade between friends, Miran deploys a friend/enemy distinction in the official dollar-sphere. Allies who agree to finance the US government on a long-term basis will be given access to the Federal Reserve’s swap-line as well as the US security umbrella. Those who fail to give up their short-term Treasuries must pay user fees. Miran even suggests that China’s Treasury reserves could be put in escrow.

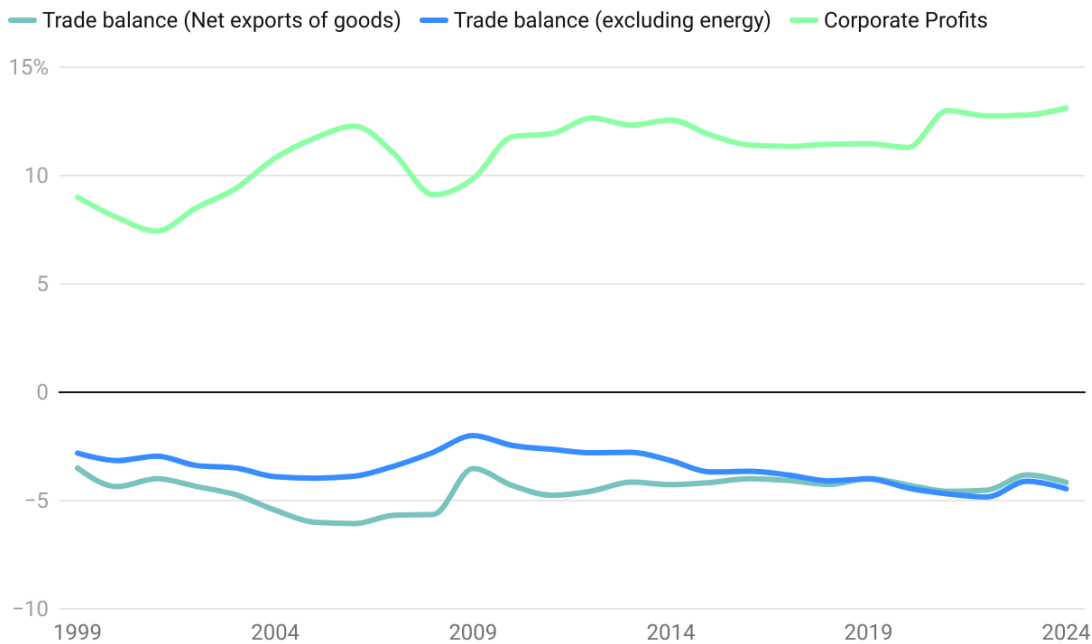
Through the last several years of geopolitical turbulence, gold prices, which surged immediately following Liberation Day tariff announcements, have, until recently, been on an upward streak. Foreign central banks gold holdings are edging close to their holdings of US Treasuries. The question is: will non-state holders of Treasuries, particularly the behemoth firms in global finance, finally price in their riskiness and divest from the dollar into other safe assets such as gold?

Since 2022, there has been a marked increase in cross-border loans in renminbi to emerging and developing economies amid a concurrent decline in dollar denominated credit. Just like the bond market volatility during the week following Liberation Day, which prompted Trump to put his new tariff order on pause, sharp declines in the demand for Treasuries and other dollar assets may similarly put the Mar-a-Lago Accord on hold. ¹⁷ Despite its ten per cent devaluation this year, the dollar is still quite expensive in historical terms.

While American exceptionalism in the global economy is usually understood in financial terms, it also derives from the fact that US corporations capture the bulk of profits across a whole host of global value chains. Reduced costs from economies of scale and cheaper labour involved in overseas production redound to US firms and consumers. It turns out that the US trade deficit is correlated with corporate profits (Fig. 5). The Trump administration has intervened to safeguard these profits. In an agreement with the G7, Scott Bessent has secured the exemption of large US-parented multinational corporate groups from the newly established global minimum corporate tax regime — defeating years of efforts by the UN and the OECD to tackle corporate tax avoidance.

Figure 5: The US Trade Deficit is Correlated with Corporate Profits

Trade balance and corporate profits as a share of US GDP, 1999-2024 (%)



Author's calculations.

Source: US Bureau of Economic Analysis, World Bank. • Created with Datawrapper

The Trump Effect

Since “Liberation Day” Trump has launched a volley of tariffs, export controls and extortionary profit-sharing agreements on countries and companies alike. Trump’s measures are inconsistent and rely on imperial coercion, including of US allies. This inconsistency, as well as a military strategy predicated on the use of brutal violence, is unlikely to bring stable inward investments that support domestic manufacturing.

Trump’s maximum pressure campaigns extend to profiteering from adversaries and allies. Along with tariffs, his administration has imposed profit-sharing agreements on new trade and investment deals. Japan has pledged \$550 billion in new investment to develop core US industries, with the US taking ninety per cent of the profits. Bessent has signed a revenue sharing agreement with Ukraine in the shape of a joint reconstruction investment fund in mineral and fossil fuel extraction. Following a summit with President Zelenskyy and the G7 in August, Trump suggested giving Ukraine undefined US security guarantees in exchange for the embattled country purchasing \$100 billion in US weapons

paid for by Europe. Touting what it proclaims as “The Trump Effect,” the White House announced that foreign commitments to invest in the US amount to \$8.9 trillion. The biggest (trillion dollar plus) contributions are from the UAE, Qatar and Japan. While this administration’s imperiousness — extracting tribute and punishing allies — is undeniable, coercing foreign capital onshore challenges traditional notions of imperial extraction.

Moreover, US foreign policy has put these alliances in constant flux. Although Qatar has contributed more than \$8 billion to house the largest US military base in the Middle East, the US stood by as Israel’s air force bombed Doha in September, targeting Hamas negotiators involved in talks to end Israel’s genocide in Gaza. A few weeks later, the White House issued an executive order guaranteeing Qatar’s security. The Trump administration’s reliance on overwhelming blunt force — symbolised by Homeland Security’s arrest of 475 South Korean workers at an Hyundai electric vehicle battery plant under construction in Georgia — will make firms think hard about the riskiness associated with foreign direct investment in the US. Trump’s forceful agenda, which equally seeks to rely on inward foreign investment to revive US manufacturing, looks unlikely to succeed in its own terms. This is why in South Korea, Trump offered eye watering inducements to foreign investment in the United States including full expensing of capital spending for several years.

The ruthless pursuit of tribute has defined the second Trump administration’s policies at home and abroad. Unsurprisingly, US firms, too, have not been spared Trump’s stick. In exchange for permitting Nvidia and AMD AL to sell their advanced semiconductor chips in China, Trump has negotiated that the US government will receive fifteen per cent of their future sales revenues.

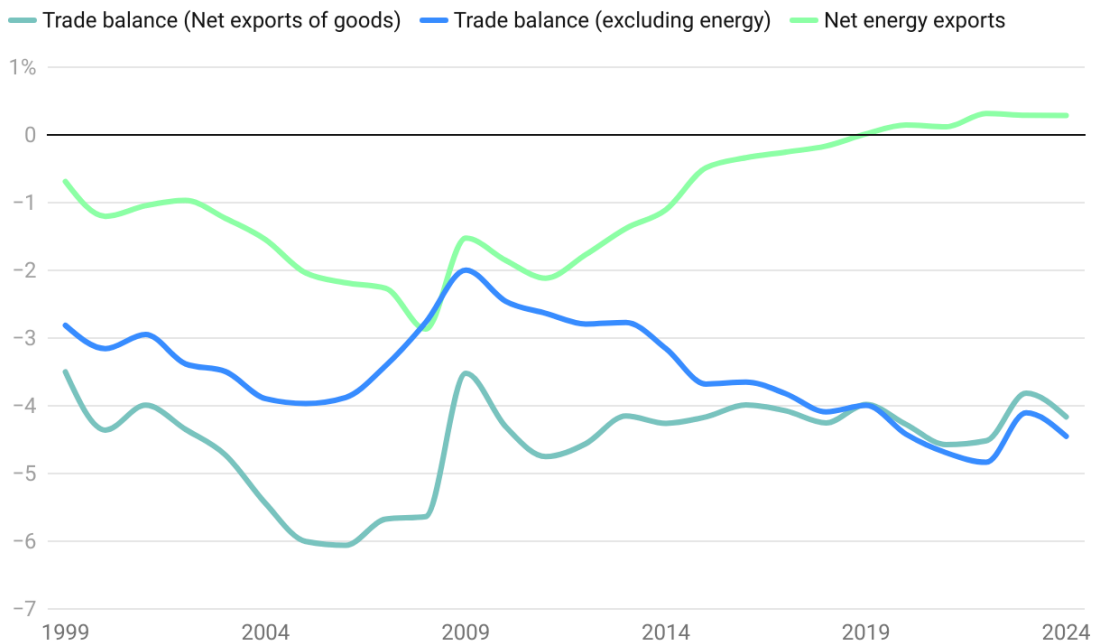
In his early days in office, Trump reversed Biden’s block on Nippon Steel’s acquisition of US Steel and secured a “golden share” for the government in the now Japanese-owned subsidiary. However, this dealmaking has been accompanied by a reliance on military force. Trump has imposed a new Monroe Doctrine on the Western Hemisphere, deploying National Guard troops in Los Angeles and Washington DC, striking boats in the Caribbean and Pacific over unconfirmed accusations of drug trafficking, and ordering covert CIA operations in Venezuela. The announcement that the US would re-occupy its former air base in Bagram, Afghanistan — because of its alleged proximity to a nuclear weapons manufacturing site in China — indicates that the pursuit of

dominance in the direct US sphere of influence will be accompanied by continued competition with great power rivals.

Attempts at military dominance have been accompanied by exuberance in Washington regarding the supposed revival of US energy dominance. Greenlit by Trump’s lifting of Biden’s pause on construction in 2024, there has been a rapid expansion in US LNG terminals. However, declining demand in a subdued global economy threatens the growth prospects of relatively expensive US hydrocarbons. China’s retaliation against Trump’s new tariffs has meant that it has not imported any US LNG since February. As markets priced in a global recession following Liberation Day, oil prices fell. Saudi Arabia has also ramped up its oil supply, which means that expensive US hydrocarbons are not likely to attract foreign demand. While net US energy exports have moved from negative two per cent of GDP in 2011 to positive territory, they are too small to significantly reduce the trade deficit (Fig. 6). Like many other advanced economies, US trade continues to be dominated by manufactured goods not commodities. Furthermore, US trade balances are determined more by imports than exports. While US imports (excluding energy imports, which exhibit price volatility) have remained stable at almost ten per cent of GDP since 2010, (non-energy) exports have declined from eight to six per cent of GDP. Relying on a boom in US exports — energy, which is a very small share of US trade, or otherwise — to rebalance the trade deficit appears unreasonably optimistic.

Figure 6: US Energy Exports Have Not Reduced the Trade Deficit

Energy exports and the trade deficit as a share of US GDP, 1999-2024 (%)



Author's calculations.

Source: US Bureau of Economic Analysis, World Bank. • Created with Datawrapper

New Alliances

Dollar hegemony means that the US has been able to run the world's largest current account deficit without experiencing a loss of investor confidence in its currency. ¹⁸ For rebalancing to be sustained, fundamental changes in the international trading and financial system will be required. Despite the dip in the demand for dollars and US treasuries in the days following Liberation Day, foreign investors have continued to pour into dollar assets, if only to hedge themselves against US shocks. The dollar still dominates global trade and global finance — with the latter being orders of magnitude larger than international trade— but dollar exposure now requires hedging.

The true “Trump effect” is ratcheting uncertainty into an increasingly multipolar international system. Trump's violent rupturing of the rules of international trade has disrupted the facade of partnership between the US and its core allies in Europe and Japan. Hegemonic dysfunctionality can strengthen other geopolitical alliances, as evidenced by the security guarantee pact signed between Saudi Arabia and nuclear power Pakistan in September. The US'

aggressive unilateralism has also strengthened bonds amongst the BRICS+ nations. In the recent summit of the Shanghai Cooperation Organisation in Tianjin, amid displays of unity between China, Russia, North Korea and India, President Xi called for new mode of global governance against the US-led world order.

China’s foreign direct investment in clean-tech manufacturing is already at the scale (in inflation-adjusted dollars) of the Marshall Plan. Much like China’s outward investments today, the Marshall Plan was impelled by the US’ push for external markets to absorb excess domestic production. Leaving motivations aside, deepening cooperation between China and developing countries around green infrastructure has catalysed a clean energy transition in several low-and middle-income economies. Given China’s unequivocal dominance in this arena, the energy transition already underway has far reaching geopolitical consequences — although what shape this will take is for now indeterminate.

While analysis of US external balance sheets suggests that eliminating a trillion-dollar-plus trade deficit over the next four years looks unlikely, the use of tariffs aligns with the administration’s unwillingness to bear the costs of being a global hegemon. Hypothetically, if the US trade deficit declines in a sustainable way, this could mean reduced reliance on the US market and, to some extent, even on the US dollar. In the short term, however, by unilaterally imposing trade barriers on the world’s single-largest market, Trump has disrupted international trade flows. The new volatility has led to a greater appetite for hedging dollar-holdings — paradoxically, financial globalisation has reached new peaks. For now, the future of rebalancing appears unclear. Imperial chaos, while violent and disruptive, will still upturn the existing order and create opportunities for new alliances and unexpected geopolitics.

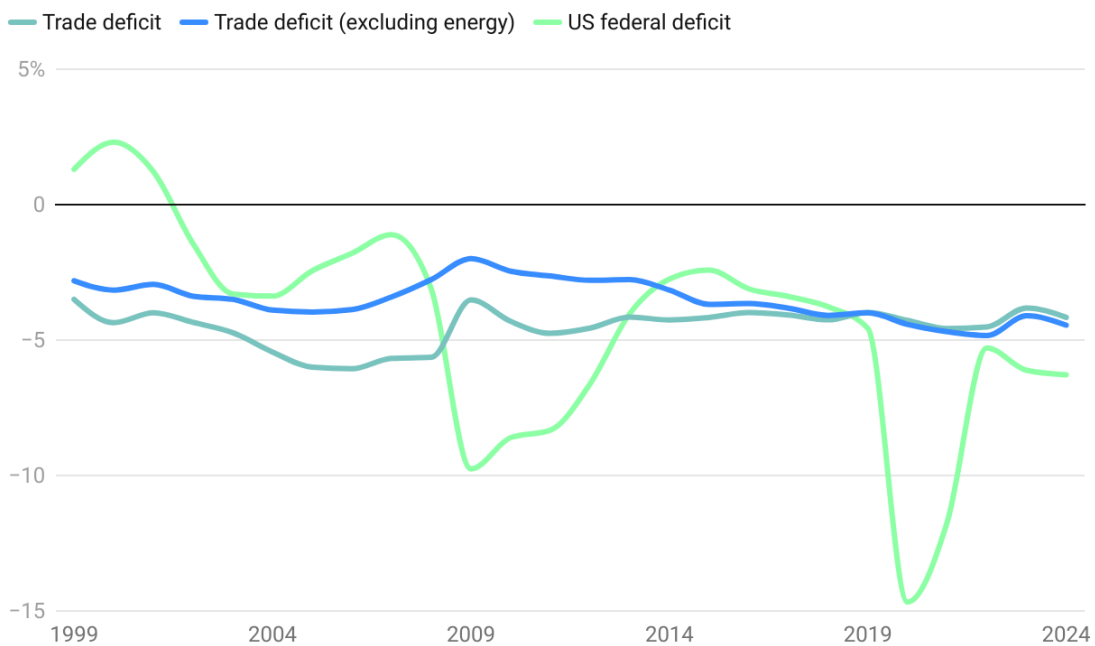
Appendix

Finance-led perspectives on the US trade deficit often attribute external imbalances to domestic ones, such as fiscal profligacy. Consequently, advocates of this approach argue that reducing the US budget deficit will reduce the trade deficit. This logic dominates mainstream policy discussions and even influenced Elon Musk’s DOGE cuts. As Fig. A1 reveals, federal budget deficits are presently mirrored in trade deficits, yet that is not always the case. The claim that budget deficits induce trade deficits is contestable. For instance,

when the US economy moved from a recessionary trough to recovery between 2009 and 2015, the federal deficit shrank while the trade deficit — particularly the non-energy trade deficit which removes volatile commodity prices — increased. This was also true during the post-Covid recovery from 2020 to 2022. There is not a strong positive correlation between the (relatively cyclical) US federal deficit and the (relatively secular) trade deficit when mapped over the last quarter of a century.

Figure A1: The Federal Deficit and Trade Deficit Are Not Always Twinned

The federal deficit and the trade deficit as a share of US GDP, 1999-2024 (%)



Author's calculations.

Source: US Bureau of Economic Analysis, World Bank. • Created with Datawrapper

1. In technical terms, net US incurrence of liabilities (excluding financial derivatives).
2. In one sense the US trade deficit is a gift to the rest of the world. This has to do with some longstanding structural characteristics, i.e. the relatively greater income elasticity of US goods imports relative to US goods exports ([what is known as the Houthakker – Magee asymmetry](#)). In short, US imports grow more in response to US GDP increases than US exports do in response to increased prosperity in the rest of the world. This asymmetry in trade structure helps explain the persistence of the US trade deficit as well as its positive spillover effects on growth in the rest of the world. Other economies such as the UK, Australia and Canada also exhibit this asymmetry in their trade.
3. The US trade deficit contracted again, albeit more slightly, with the inflationary shock of 2022.

4. In balance of payments accounting, the current account balance (CA) plus the financial account balance (FA) plus the capital account balance (KA) plus statistical discrepancy (SD) must add up to zero. $CA + KA + FA + SD = 0$. Keeping aside the *de minimus* capital account and statistical discrepancy, the current account more or less mirrors (along the x-axis) the larger and far choppier financial account. The balance of payments accounts are based on double entry bookkeeping so transactions offset each other. Transactions do not necessarily offset in two different accounts (CA and FA). They can offset in one account (FA) alone.
5. Mona Ali, "Global imbalances and asymmetric returns to US foreign assets: fitting the missing pieces of the US balance of payments puzzle", *International Review of Applied Economics*, 2016, 30, pp.167-187.
6. As a group, [oil exporters](#) contributed more to global trade surpluses in 2003-2006 and 2021-2022, I owe this [insight](#) to Brad Setser.
7. Treasury officials in the Biden administration argued that China's macroeconomic imbalances – excess saving, under-consumption and excess supply ([overcapacity](#)) – had negative spillover effects on the rest of the world. However, consumption itself is skewed across the income distribution scale: [the top ten per cent](#) of richest US households determine close to [half](#) of the nation's consumption expenditures. While we do not have the corollary numbers for China, a reorientation towards domestic demand would not, in and of itself, guarantee that a greater share of consumption spending will arise from China's working class.
8. Author's calculations based on [IMF External Sector Report, 2025, chapter 1 data, Figure 1.1.](#)
9. Emile Despres, Charles P. Kindleberger, and Walter S. Salant, "The Dollar and World Liquidity: A Minority View", *The Economist*, 5 February 1966, pp.526-529.
10. Charles P Kindleberger, *Power and Money: The Economics of International Politics and the Politics of International Economics*, Basic Books: 1970.
11. Various arrangements such as exchange rate management and dollar swaps with other central banks helped mitigate gold outflows from the US.
12. The US merchandise trade balance [had turned negative](#), for the first time in the postwar era, in 1971. By 1972, the US bilateral trade deficit with Japan was greater than its deficit with Canada.
13. In 2024, at a presidential campaign debate with Vice President Kamala Harris, Trump complimented Harris for following his aggressive stance on China, ["She's going to my philosophy now. In fact, I was going to send her a MAGA hat."](#)
14. This involves the US government purchasing \$8.9 billion in Intel common stock – \$5.7 billion of which comes from previously promised CHIPS Act money.
15. On 14 November 2025, the Trump administration announced that it would reduce Switzerland's tariffs to 15 per cent, in keeping with the general tariff imposed on EU states.
16. Other contributing factors include the fact that firms tend to price to the large US market as well as the declining share of commodities in the US import basket.
17. A small tax on portfolio inflows is unlikely to shrink the more than \$60 trillion stock of US external liabilities.
18. Ali, "Global imbalances and asymmetric returns to US foreign assets: fitting the missing pieces of the US balance of payments puzzle", *International Review of Applied Economics*.