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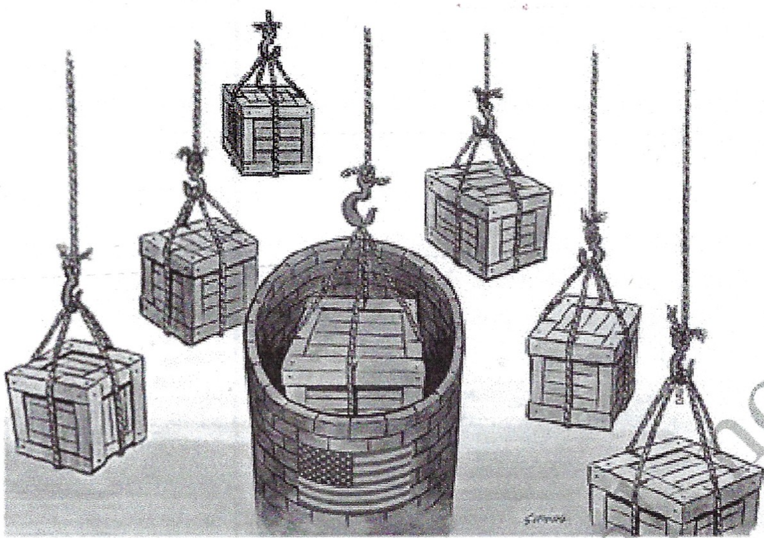
Other nations are busy expanding commercial ties, as the U.S. economy is increasingly isolated.



World Trade Grows Without the U.S.

By Phil Gramm and Donald J. Boudreaux

The 1930 Smoot-Hawley tariffs helped bring about a global depression. Nothing of the sort has happened in the wake of President Trump's "Liberation Day" tariffs, even though their rates approach those of Smoot-Hawley. But that's no reason for complacency. The world has changed since 1930 in ways that ensure the damage of Mr. Trump's trade war will be borne primarily by the U.S. and its workers.

Here's the key difference: After President Herbert Hoover signed the Smoot-Hawley Tariff Act in 1930, 25 countries imposed retaliatory tariffs, triggering a worldwide trade war—economic fratricide. There was "a headlong stampede to protectionism and restriction in imports," in the words of economic historian Charles Kindleberger. According to the League of Nations, the real value of world trade plummeted by more than 65% between 1929 and 1933. Almost no direct retaliation occurred after Mr. Trump announced his tariffs in April.

The 1930 reaction to Smoot-Haw--ley was driven by nationalism mixed with the fear that under the gold standard, countries hit by U.S. tariffs would have to settle their trade deficits in gold, depleting their gold reserves and money supply, further depressing their wages and prices.

Note

Today the gold standard is gone, and the trade balance affects exchange rates rather than the money supply. Governments no longer have to worry about trade deficits causing deflation. Our trading partners remember the pain of the Depression-era trade war and how postwar trade expansion rebuilt Europe and Asia, enabling one of the longest periods of peace among major powers since the fall of Rome. They also have relatively more to lose than the U.S. does from a trade war: Our 10 largest trading partners on average export and import 55.5% more of their gross domestic product than the U.S. does.

Canadian Prime Minister Mark Carney no doubt expressed the feelings of many of our trading partners when he said the U.S. was "no longer a reliable partner" and that Ottawa must "pivot our trade relations elsewhere." Canada has responded to U.S. tariffs by launching a trade expansion effort, including a meeting between Mr. Carney and Xi Jinping that Mr. Carney called a "turning point" in Canada-China relations and trade.

Dramatic improvements in transportation and communications have made it much easier for exporters and importers to find alternative markets for their goods and services and to locate new suppliers for inputs needed in their production processes. The rise of small-volume carriers such as FedEx, UPS and DHL along with the significant fall in freight rates have made trade diversion and diversification easier and more profitable. As important, the cost of instant international communication and search has fallen to near zero.

The current trade diversion began when Mr. Trump's first-term tariffs led China to shift its exports to other countries. Under Mr. Trump's second-term tariffs, Chinese exports to the U.S. fell by 69% from February through September, but Chinese exports to other regions rose. Over these same months, Chinese exports to Association of Southeast Asian Nations member states were up by 61%, to Japan and Korea by 41%, to Africa by 35%, to the European Union by 28%, and to India and Latin America each by more than 10%. Oxford Economics analysts estimate China will close out 2025 having exported 8.3% more than last year, with its exports then holding steady in 2026. U.S. exports, by contrast, are projected to fall next year by 3.4%.

In August, Canadian exports to the U.S. were about 10% below the 2024 average, but our northern neighbor is weaving commercial ties with other nations, including China, India, Indonesia and the United Arab Emirates. Canada has reached a new trade expansion agreement with the EU and joined the EU in a defense production partnership.

Meanwhile in Asia, India's recent easing of tensions with Beijing is fueling exports to China. According to India's Economic Times, these exports are "helping New Delhi partly soften the blow of steep US tariffs." India has also negotiated a free-trade agreement with the U.K. and hopes to complete a similar agreement with the EU by year's end.

Bloomberg reports that "the new contours of global commerce are starting to emerge as governments redraw trade alliances and companies seek other markets to avoid the highest US tariffs since the 1930s."

As trade is diverted around the U.S., other countries will continue to specialize in producing goods and services for which they have a comparative advantage. This specialization and the trade that sustains it will enhance efficiency and fuel economic growth in those trading nations. America's economy will become increasingly isolated, to our detriment. Before tariffs, well over half of U.S. imports were inputs used by American producers. Keeping tariffs high will deny these producers access to many of the world's lowest-cost inputs. Obliged by Mr. Trump's protectionism to produce goods we could buy cheaper abroad and shielded from the competition that drives peak performance, U.S. producers will become less efficient and less competitive on the world market. American firms that relied on export markets to build economies of scale will shrink their operations to match their shrinking customer bases. Growth in worker productivity and real wages will fall, and the prices that American families pay for goods and services will rise. U.S. economic growth will slow. Higher input costs produced by tariffs—especially the 50% tariff on steel, aluminum and copper—will also increase defense procurement costs. American-made weapons and other defense products will become pricier and less competitive on the world market. This is ironic in light of attempts to justify the tariffs with appeals to national security.

Expanding world trade built the modern world, liberated Eastern Europe, won the Cold War, and expanded America's prosperity and influence. Building a tariff wall around America won't stop trade; it will simply divert it. If tariffs remain high, America's wealth and power will wane while that of other countries will grow.

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