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Trade War from an International Political
Economy perspective**

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The Rise of Neo-Mercantilism: the US-China Trade War from an International Political Economy perspective

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Abstract

International Political Economy (IPE) is the study of political conflict over economic outcomes, interpreted via three primary schools of thought: mercantilism, liberalism and Marxism. Whilst the first two schools have alternated in holding sway in international trade since the 16th century, it is a contemporary application of the mercantilist school, neo-mercantilism, that has been popularised since the beginning of Donald Trump's tenure as US president in 2016. The tariff war instigated with the US's sternest trade rival, China, in the name of correcting an entrenched American trade deficit, led to the implementation of sweeping tariffs, fragmenting a fissiparous trading scene and threatening to dismantle the postwar Liberal International Order (LIO). This paper briefly charts the evolution of the tariff war up to the end of 2025 and examines the neo-mercantilist framework and two of its offshoots. It then analyses to what extent tariffs achieved their economic objectives and whether meeting them even serves the US's interests at all.

"Chopsticks Mercantilism" is the somewhat euphemistic diplomatic parlance with which International Political Economy (IPE) experts acknowledge Chinese neo-mercantilist policymaking (Yu, 2019). Mercantilism was the predominant trading philosophy from the 16th to 18th century, before being marginalised in favour of

liberalised economic systems ruthlessly implemented by the respective hegemon of the era; it is now undergoing something akin to a renaissance in a world where US hegemony is faltering and the Chinese industrial powerhouse is challenging. The winds of change, previously simmering under the surface since the 2008 financial crash accelerated the realignment of economic titans, finally materialised when US President Donald Trump unleashed his tariff war in 2018, prompting Chinese retaliation and escalation. How did it come to this?

IPE is the study of political battles over economic exchange, where distributive consequences breed political competition and eventual policy decisions (Oatley, 2023). This involves substantial trade-offs between efficiency and robustness; a liberalised economic structure integrates the international flow of goods and services, lowering prices and maximising competition to deliver more efficient outcomes for consumers. The security of countries' trading arrangements is thus inherently jeopardised, as the slightest delay or friction can devastate the entire network.

It was a balance the US believed it had solved when it asserted itself as the hegemon in a unipolar world after the Cold War. The Liberal International Order devised to enshrine Western tenets of market liberalisation and cooperation flourished, as the US pursued "extending free trade area and promoting democratisation while integrating as many new members as possible", illustrated with the admission of Russia and China to the World Trade Organisation (Menguaslan, 2025). Yet mercantilism, which shall be defined in the next section, made a comeback in neo form during Trump's presidency, with his resolute determination to solve the persistent American trade deficit with partners including China, which had allegedly been taking advantage of the US economically.

Whether the deficit has been reversed and whether it even serves the US's interests to do so will also be explored in this paper, alongside an appraisal of how radical the Trumpian departure from globalisation is and how some scholars distinguish this modified mercantilism as offensive or aggressive. Presented alongside these debates will be IPE concepts including the trade balance, clearly critical to understanding the recent pivot towards protectionist policies, and Ricardo's Comparative Advantage theory, which some invoke to explain why Trump's tariffs undermine his ultimate goal.

Beyond the obvious repercussions on business competition and artificially inflated pricing for consumers, this tariff war should not be portrayed as an aberration, as it symbolises the dismantling of a ramshackle liberal order so carefully assembled in 1945. As mentioned, one chink in the armour of globalisation can spark the whole world to retreat to protectionism, rendering an investigation of the trade war both fascinating and pertinent.

Literature review and data analysis

Oatley (2023) outlines mercantilism as one of the three traditional schools of thought in IPE, alongside liberalism and Marxism. Each one offers divergent priorities and interpretations relating to the actors who benefit and suffer from the cycle of IPE, from theoretical consequences of resource allocation to political competition during policy deliberation and eventual policy decisions. Liberalism places the individual at the centre of its doctrine, whose personal welfare the state enriches through policies that utilise overseas investment and cooperation to deliver optimal economic outcomes. It rejects the notion that trade is a zero-sum game, instead embracing integrated supply chains and maximising efficiency. As a result, the state's role is inherently limited to correcting market failures and enforcing fundamental rights. Marxism frames trade as conflict between the oppressed working class and the wealthy bourgeoisie that controls the means of production. It believes that this structural inequality transcends borders to unite social classes based on their economic statuses.

Mercantilism is the foundation of this paper, whereby states are the central actors in a system where “national power and wealth are tightly connected”. The state actively intervenes in industries by guiding resources to those which advance its strategic interests, enabling it to acquire power and leverage for international trade. Intrinsic to classical mercantilism is the belief that some industries are superior to others; manufacturing, for instance, is ranked above rudimentary sectors like agriculture. *Neo-mercantilism* is a modern variation of the classical theme, defined by Lubis and Muslim (2024) as its post-war liberal order incarnation. Neo-mercantilism, they explain, considers the global economy as a zero-sum game, whereby the fiscal gain of exports is a loss to the importing country. To facilitate this, protectionist policies should be front and centre of a state's strategy, usually manifesting as tariffs or non-

tariff barriers such as quotas, elevated product standards and quarantine upon arrival. Intriguingly, the authors add that neo-mercantilists do not shy away from imposing sanctions on trading partners when they serve the state's interests. It therefore portrays neo-mercantilism as the practical application of classical theory in tangible economic conditions.

How this theory translates into economic reality is apparent when we examine the timeline of US-China relations since 2016. Lubis and Muslim (2024), in a descriptive summary of the trade war, chart the pathway from Trump's election campaign to rectify the \$347 billion trade deficit to China and "Make America Great Again". One year after his inauguration the deficit was even higher, at \$375 billion, prompting a veering towards protectionism with the formal imposition of tariffs on Chinese solar panels and washing machines. This extraordinary proclamation constituted the start of a spiralling trade war between the nations, as China reacted to every action with tariffs of its own throughout the years that followed.

The December 2019 Phase One Agreement attempted to draw a line under this detrimental reciprocal harm. Nevertheless, the experience of the previous 23 months meant that the nations effectively confined themselves to permanently scarred economic interdependence. Joe Biden's presidency never fully abandoned Trump's strategy: Trump's return and the universality of proposals such as the April 2025 Liberation Day confirmed that protectionism was no longer a discarded feature of the global trading regime.

A glance at the data shows that the trade war has been moderately successful, but took much longer than Trump may have anticipated for his policies to yield the results he expected (see Figure A1). The deficit actually rose in 2018 to \$418 billion, only starting to fall towards the end of Trump's first term. Biden's term saw the deficit drop below the \$300 billion mark and Trump's even less restrained policy platform caused it to plummet. Regarding China's position as the main individual trading partner of the US, Saridakis et al. (2025) discovered that China's share of US imports dropped sharply in the decade since 2015, losing 35% of its import share and even being supplanted by Mexico (see Table A1). This radical decoupling illustrates how consistently neo-mercantilist measures were implemented since Trump's first term,

with the Biden administration equally responsible for persisting with more isolated trade.

Shared responsibility across presidencies is a significant indicator that reducing the trade deficit by rowing back on some liberal precepts was less divisive than it may first appear. Indeed, Saridakis et al. (2025) argue that historical proclivity towards protectionism intimates that today's trade war may not be that unprecedented at all. Modern neo-mercantilist rhetoric is reminiscent of two key episodes in American history: the Great Depression and the economic shocks of the early 1970s. In language that may sound familiar, in 1930 President Hoover stated his ambition "of protecting the domestic interest and external competitiveness of the US's agricultural and manufacturing industries. Despite opposition from over one thousand economists ... the act raised tariffs on dutiable imports from 34.6% to 42.5%". This package exacerbated existing weakness in the economy, causing US GDP to shrink and markets to take flight. Its impact was so etched into the national memory that it figuratively inoculated Americans against mercantilism for four decades.

Sure enough, four decades later President Nixon was devising his New Economic Program to mitigate the disassembly of the gold standard and fixed exchange rates. Despite the dollar depreciating, this was not perceived to be enough to offset balance-of-payments problems, whilst inflation was already high. Nixon's decision to levy a 10% import duty as part of a broader economic package, framed as an "emergency" measure to mitigate rising costs (Saridakis et al., 2025), intended to improve the US's bargaining position by pressuring other countries to revalue their own currencies upwards. The December 1971 Smithsonian Agreement, February 1973 devaluation and March 1973 transition to floating currencies devalued the dollar to a rate that helped restore US competitiveness, demonstrating how mercantilist strategies could be unilaterally employed to boost the US's position globally. This episode therefore serves as a shrewd case study for contemporary tariff policy.

It is now helpful within our analysis of the tariff war to briefly dwell on the Chinese approach; specifically, how it maintains a favourable balance of trade. Yu (2019) writes that Chinese neo-mercantilism adopts a twin strategy, on international and domestic fronts. The international front is a plethora of policies taken straight from the mercantilist playbook: exchange rate manipulation – systematic Yuan devaluations

to incentivise exports – alongside tariffs and export subsidies, despite the WTO ruling that the latter are illegal. More unique is the domestic front: laws designed to benefit local companies at the expense of foreign firms, through policies such as tax incentives, generous bank grants and assisting with export financing. An additional rule is the slightly sinister law requiring foreign companies operating in China to transfer technology to the state, in order to assist local firms to catch up and innovate. China's deliberately weak patent system and the extent of state control mean that the technology can be utilised for espionage purposes, allowing local firms to grow quickly. As a result, Yu's account reinforces Lubis and Muslim's conception of neo-mercantilism as a coherent strategy but also suggests that China's lack of democratic process enables it to exploit procedures that often leave the US hamstrung.

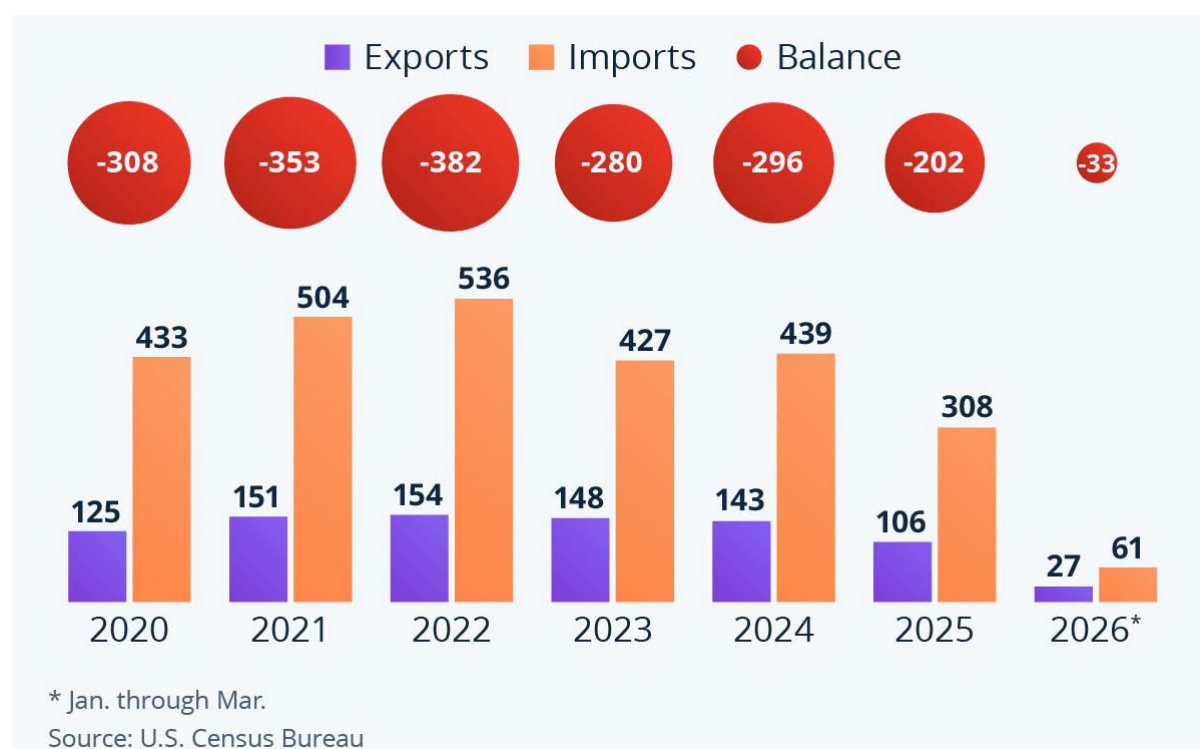
Some scholars in the discussion of neo-mercantilism go further in its scope, classifying it as offensive or aggressive. Bhala (2024) explicates *aggressive neo-mercantilism* as a “third type of economic distancing” that spurs security decoupling, conceived precisely for the current trade war. What distinguishes it as aggressive, according to Bhala, are three primary aspects to the decoupling process. Firstly, whereas the objective of traditional mercantilism was to limit the extent of unilateral globalisation, its aggressive counterpart actively attempts to unwind globalisation already achieved; in other words, fragmentation is the destination. Moreover, in contrast to conventional mercantilism, duties on raw materials are not necessarily low, because the two nations aim to “reconfigure their supply chains through both tariff and non-tariff means”. Thirdly, in a remarkable development, aggressive neo-mercantilists are prepared to ponder the prospect of a trade war escalating into a physical, violent war, rarely encountered within the classical framework.

In contrast, Menguaslan (2025) frames the current era as one of *offensive mercantilism*, embodying a more nuanced sentiment towards globalisation than Bhala's aggressive equivalent. Instead of undoing the Liberal International Order, it advocates manipulating it to uphold national interests. This strategy consists of measures that go beyond merely protecting the state from foreign trade, adopting forthright policies including “assertive economic diplomacy, generous trade credits [and] politically guided companies”. Menguaslan then quotes Holslag's claim that this is the polar opposite of protectionism, because its purpose is to unlock hitherto

inaccessible foreign markets. This claim begins to stretch credulity, because whilst more strident economic tactics would certainly penetrate distant trading zones, it would be missing the wood for the trees to mislay the inherent objective of offensive mercantilism: wielding economic policy to enhance national power. Accessing exotic markets may be the means to that end but no mercantilist would ever argue that it is an end in and of itself.

Technical terminology aside, the critical question is whether the entire American neo-mercantilist enterprise will work. Though Lubis and Muslim (2024) interpret tariffs primarily as neo-mercantilist tools, Saridakis et al. (2025) question whether these measures can actually achieve their economic objectives. Reshoring of US manufacturing is likely to backfire in that welfare and overall US performance losses are expected to surpass the gain derived from partial reshoring. They explain that “large value chains in increasingly complex industries such as sophisticated manufacturing have an inherent stickiness to any reshoring process ... because firms tend to choose their geographical location of production with consideration of the distance between stages in the value chain”. Therefore, rather than restoring the supply chain to American industries, firms will typically diversify backup arrangements in the event that a country on which they presently rely (in this case, China), loses favour in the eyes of the US. An archetypal example of this phenomenon is Apple’s 2025 decision to increase inventory stockpiling and component production in India as a substitute for China, not in the US.

Compounding this is the inevitability that blanket protectionism akin to what Trump has introduced comes at the expense of maximising American comparative advantage. This Ricardian theory states that the most efficient trading model is when a country allocates resources to goods that it produces comparatively cheaply, relying on trade to import what is cheaper to make elsewhere (Oatley, 2023). Even if a country maintains an absolute advantage in manufacturing goods over a trading partner, it still benefits the country to import what its partner produces comparatively cheaply, because this optimises overall welfare. In our context, blanket tariffs do not benefit industries in which the US already has a comparative advantage, because they invite retaliation from trading partners and disrupt the market balance that enables such industries to prosper. Furthermore, they render more expensive everything else imported, without a guaranteed corresponding welfare benefit at home.



Finally, the chart above depicts the China-US trade balance for the 2020-2025 period in billions of US dollars (U.S. Census Bureau, 2026). It supplements the chart in the Appendix (Figure A1) by illustrating the intricacies of the trade balance in more detail; rather than presenting the headline figure, important for our earlier analysis, here we can break down the data to understand whether the falling deficit is attributable to rising exports, falling imports or both. Since the end of Trump's first

term, by which time the Phase One Agreement had already been signed, we see that exports remained fairly stable until 2025 whilst imports fluctuated relatively wildly. Amusingly, the graphical depiction of the extent of neo-mercantilism within American international trade is almost a visual metaphor of the volatility within successive US administrations, in contrast to the consistency emanating from Xi Jinping's trade policy.

Conclusion

President Hoover's misguided 1930 economic stimulus is commonly cited in collective economic history as the epitome of how not to implement protectionism to strengthen a country's position. Yet for all its notoriety, statistically it may be dethroned from its perch by the ongoing trade war estimated to dent US GDP by 3.6%, compared to Hoover's paltry 1.4% (Saridakis et al., 2025). Even if the trade deficit continues on its downward trajectory, US output for 2025-2034 is forecast to contract by 0.9% and capital stock by 0.8%, relative to a tariff-free scenario, raising serious questions about whether Trump's flagship proposal is cutting off Uncle Sam's nose to spite his face. The counterargument that short-term difficulty will evaporate once companies reshore manufacturing remains contested, too; as the US is trying to reconfigure trade balances, it is likely to invest in industries with sophisticated technology, meaning that relatively few jobs will be created. A further fallacy is outpacing innovation that would otherwise be achieved internationally and then imported. These caveats and more lead us to conclude that, at best, tariffs will negate the drawbacks they cause by artificially damaging cooperation.

The repercussions of revitalised mercantilism will continue to send shockwaves through the international system. In the aftermath of the Second World War, the US devised a liberalised international order designed to consign to history the rivalries of protectionist economies. It financed the rebuilding of Europe, accelerated decolonisation by conditioning independence on adherence to free market principles and entreated China and Russia to join the institutions vaunted by liberals. Yet in 2026 mid-ranking Western powers are frantically shoring up their security as the dominant actors retreat from integration and return to power politics. This is nothing new, but nor does historical precedent inspire optimism.

Liberalised trading regimes reflect trust: they are hard to acquire and easy to lose. The US administration needs to ponder its commitment to the LIO, to its own people and whether the two may be more reconcilable than the Trump administration cares to admit.

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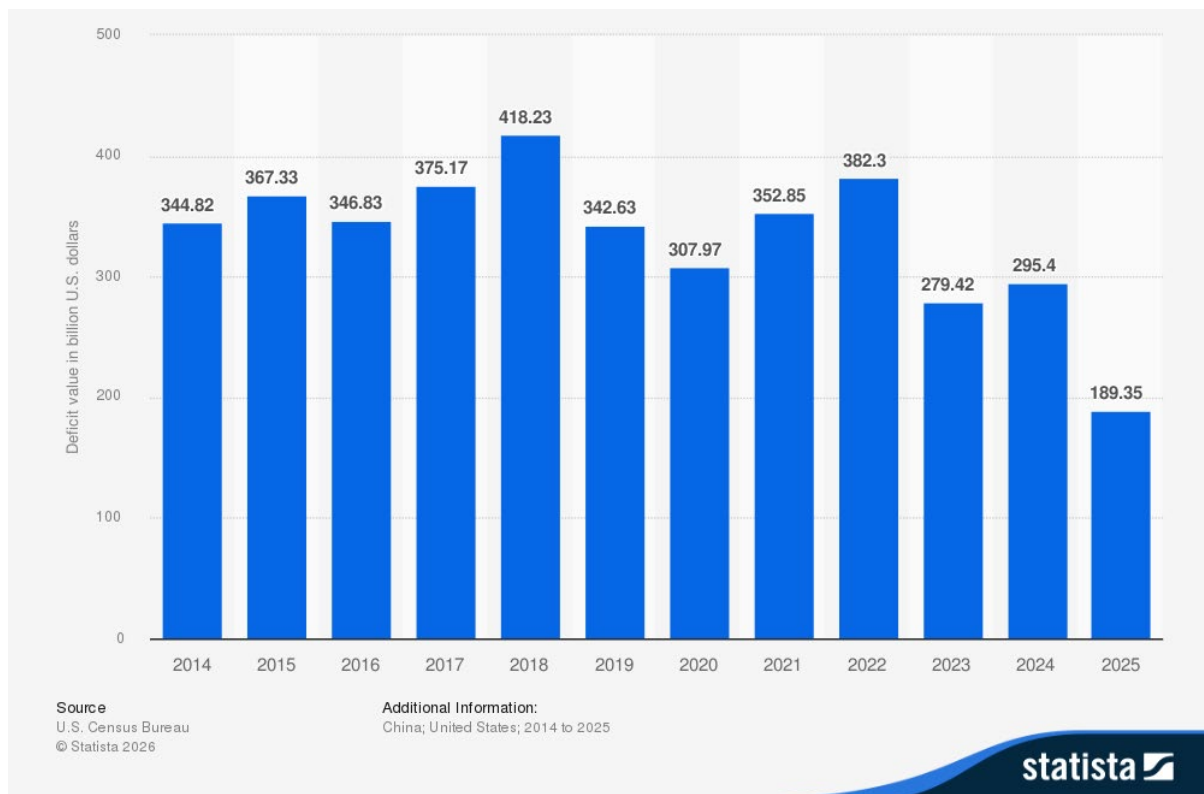
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Appendix

Figure A1

US goods trade deficit with China from 2014 to 2025 (in billion US dollars)



Note. Reprinted from U.S. Census Bureau. (February 10, 2026). United States goods trade deficit with China from 2014 to 2025 (in billion U.S. dollars) [Graph]. Retrieved July 12, 2026, from https://www.statista.com/statistics/939402/us-china-trade-deficit/?srsltid=AfmBOopQIQGaEI0yz64cNiZ6UqUJcxO_TTTWk-XXKDax5lo5EQLxkwNE

Table A1

Change in overall US import reliance with principal partners

Table 6. Change in overall import reliance with principal partners

Country	Share of US imports (%)		Percentage change	
	2015	2023	Import value	Import share
Canada	13.1	13.6	42.3	3.9
China	21.8	14.1	-11.1	-35.1
Mexico	12.9	15.2	60.5	17.2
Sum	47.8	42.8	22.85	-10.3

Note(s): The percentage values have been calculated using the unrounded numbers

Source(s): Authors' calculations using UN COMTRADE data

Note. Reprinted from Saridakis, G., Hosein, R., Mc Intosh, I.J., Muñoz Torres, R.I., Deo, A., Ramnath, R., & Jackson, K. (2025). Neo-mercantilism in action - Mexico, Canada, and China under Trump's 2025 tariffs: a trade perspective. *Critical Perspectives on International Business*, Advance online publication. <https://doi.org/10.1108/cpoib-03-2025-0077>