

GUEST ESSAY

Trump's Tariff Victory Is Not What It Seems

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Mr. Prasad is a professor of trade policy in the Dyson School at Cornell University and a senior fellow at the Brookings Institution.

It looks as though President Trump is winning the trade wars. Deals with the European Union, Japan, Britain and many other trading partners, which went into effect on Thursday, seem heavily one-sided. The United States gets to impose tariffs on imports from other countries and they agree to drop their tariffs on some U.S. imports to zero, buy more U.S. energy and other products and commit to increasing their investments in the United States.

In the end the victory will be Pyrrhic, especially for U.S. households and businesses and for America itself, given the expected damage to its relationships with other countries and its standing in the world.

There is little clarity about the meaning of countries' agreements to invest more in the United States. Moreover, few of the deals have been signed. And Mr. Trump's unilateral imposition of tariffs, usurping congressional power, faces legal challenges.

Hopes that the tariffs will help create jobs and bring down the U.S. trade deficit might also be hurt by other Trump policies. Many businesses, such as American automakers, may be left worse off relative to their foreign competition because they face high tariffs on imported steel and aluminum, as well as engines and other components. And since it is far from clear that the trade deals negotiated so far will stick, the uncertainty will crimp business investment. None of this is good for job growth.

Will the trade deficit improve, at least? Certainly, imports ought to shrink as tariff barriers go up. But this is another case in which Mr. Trump's actions will make things worse. In the past, U.S. exports related to tourism, education and financial services helped offset a good chunk of the trade deficit on manufactured products. Mr. Trump's attacks on U.S. educational institutions and his harsh anti-immigration policies will deter students and tourists from coming to the United States, hurting such service exports. Ever larger government budget deficits suggest that the United States will still be living beyond its means. The profligacy of the U.S. government (and consumers) will result in higher imports, while borrowing from the rest of the world to finance that consumption will drive up the dollar, dampening exports and keeping trade deficits high.

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Why are other major powers genuflecting to Mr. Trump? Even as growth in the U.S. economy is losing momentum, other economies are in worse shape and far more dependent on exports. Losing access to U.S. consumers, particularly at a time when their other export markets are foundering, would damage their economies. Countries securing deals are celebrating 10 percent to 15 percent tariffs as an improvement over the higher tariffs that Mr. Trump had threatened.

Even better for the United States, tariff revenues have soared since April, reaching a total of nearly \$100 billion, three times more than was collected during the same period last year. Mr. Trump has talked about distributing some of these revenues to American households as tariff rebate checks.

That would help, because the brunt of the tariffs is being borne by American consumers and businesses rather than overseas exporters. Consumers are beginning to feel the effects in terms of higher prices while businesses are absorbing lower price markups on their sales as well as higher prices paid on intermediate goods and raw materials, which now face tariffs.

Promises by other countries to encourage their companies to invest in the United States could prove empty. With all the uncertainty that Mr. Trump has fomented in U.S. policies and the increasing fragility of the rule of law, overseas companies may be reluctant to expand their U.S. operations despite prodding by their governments.

Mr. Trump has been least effective in dealing with China, once the most prominent target of his ire on trade. China quickly figured out the pain points for the U.S. economy and used them to the fullest. China dominates the processing of rare earth minerals, which are crucial for U.S. high-tech industrial firms. By

restricting exports of those minerals and with its ability to absorb the worst of the Trump tariffs at least temporarily, China has gotten to a stalemate rather than unconditionally surrendering to Mr. Trump's demands.

What's worse, by easing restrictions on sales of advanced computer chips to China, Mr. Trump has undercut a tool that limited China's ability to compete with the United States in artificial intelligence and other new technologies. Mr. Trump's belligerence on trade has succeeded in twisting the arms of its allies rather than those of its biggest rival, to whom he has made multiple concessions while receiving little in return.

Perhaps some good will come out of all of this. Mr. Trump could be setting off a new era of lower tariffs around the world. World Trade Organization rules require that its members treat their trading partners equally, so countries that drop all tariffs on U.S. imports should in principle extend the same courtesy to their other trading partners. Of course, Mr. Trump has shredded the rules-based system of global trade administered by the W.T.O., so it is unlikely that other countries will feel duty bound to follow those rules. Instead, there is likely to be a free-for-all that creates a great deal of uncertainty on tariffs and other barriers to trade around the world.

Mr. Trump has in many ways been harshest in his treatment of America's closest allies. Any country that signs a trade deal with the United States now knows that such an agreement could prove ephemeral. Canada and Mexico thought they were protected from tariffs by the United States-Mexico-Canada Agreement that Mr. Trump himself negotiated in his first term, after tearing apart the North American Free Trade Agreement. One Trump Truth Social post is all it would take to override any agreement.

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