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Trump 2.0

New American Protectionism and Tariffs

Berçin Yiğitaslan
Yağmur Uzunırmak

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INTRODUCTION

> *"I will immediately begin an overhaul of our trade system to protect American workers and families. Instead of taxing our citizens to enrich other countries, we will impose tariffs and taxes on foreign countries to enrich our citizens."*[1]

Donald Trump began his second term as the forth-seventh President of the United States with the above statement on January 20, 2025. That same day, he signed a series of presidential orders that offered early clues about how his new term would unfold. His first term (2017-2021) had likewise opened with headline-grabbing measures—a travel ban on several Muslim-majority countries, a suspension of new immigrant admissions, and plans for a wall along the Mexican border. However, Trump's stronger showing in the 2024 election, combined with the Republican Party's increased control of both chambers of Congress, ensured that his administration's decisions would receive a stronger backing from the legislative branch Indeed, the executive orders he signed on Inauguration Day, his statements to the press, and his press-open meetings with foreign leaders sent shockwaves through diplomatic circles, financial markets, and the American public—even if none of them came entirely as a surprise. Among those, the "America First Trade Policy" presidential order commissioned a Department of Commerce-led study aimed at developing a trade policy more aligned with US national interests[2]. Trump argued that trade policy was a matter of national security and called for a comprehensive reassessment of America's trade relationships in order to reduce dependence on foreign suppliers. Despite widespread criticism, the President in April announced a new set of reciprocity-based tariffs, unleashing another wave of volatility in U.S. markets and the global economy.

The aim of this report is to analyze the impact of the tariffs announced during the first four months of President Trump's second presidential term on both the U.S. economy and the global economic system. To this end, we first explore the broad ideological currents—chiefly American exceptionalism and economic nationalism, that shape the Trump Administration, illustrating them with examples from Trump's 2024 presidential campaign. The evidence presented throughout will demonstrate that the discourse and actions of what this report refers as "Trump 2.0" are not mere populist rhetoric, but a strategic choice intended to preserve U.S. leadership in the world economy. In this respect, findings of the report diverge from accounts that attribute these developments primarily to President Trump's personality. Alongside glob-

1 - Trump, Inauguration Speech, 20.01.2025, https://www.whitehouse.gov/remarks/2025/01/the-inaugural-address/ , Date of Access: 09.05.2025.

2 - "America First Trade Policy", https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/, Date of Access: 09.05.2025.

al trade data and the United States' bilateral trade balances with selected partners, this report will present capital, productivity, and profitability-related indicators and introduce for the first time the Cognitive Workforce Index (CWI) and the Foreign Trade Risk Index (FTRI). Following a dedicated analysis of U.S.–China bilateral trade, the report will identify several deficit-prone sectors—the Achilles' heel of the Trump 2.0 tariffs) and, by using concrete quantitative evidence, document the degree of foreign dependence in strategic industries and business lines that have drawn growing criticism from the Administration in recent years. Finally, the concluding section assesses the risks and opportunities that the dramatic reshaping of the global trading order under Trump 2.0 may hold for Türkiye.

CHAPTER 1. THE NEW AMERICAN EXCEPTIONALISM AND THE RETURN OF PROTECTIONISM

> *"You have huge automobile manufacturing plants that you are building right now in Mexico, and you plan to sell us these vehicles without hiring American workers. No, we will not allow that. If I am elected, we will impose a 100% tariff on every vehicle that crosses the border and you will not be able to sell them."*[3]

In 2018, when the CEO of the American automotive giant General Motors announced that it would close its plant in Youngstown, Ohio, and lay off a total of 16,000 employees, he was the target of Donald Trump's media outrage. In response to a question, Trump said, "*GM continues to invest in other countries, but they're laying off workers here,*" as a message to manufacturers that have shifted their production base from traditional automotive producing states such as Michigan and Ohio to abroad. "*I will deal with this in other ways.*" Trump's "other ways" have taken the form of new tariffs, the withdrawal of tax incentives and, where appropriate, public punishments. For Trump, such shutdowns were not just an economic decision, but an attack on national honor. The Trump 2024 campaign criticized the closure of factories in the Midwest, the decline of the nation's manufacturing base in key sectors, rising unemployment, and the offshoring of long-standing regional industries to Mexico and Southeast Asia.On the other hand, he promised to protect American producers and workers against cheap products from China and other countries. In the November 2024 election, Donald Trump secured 54.09% of the vote in the constituency where the factory is located—a district that had consistently voted Democratic since 1972—marking the highest share for a Republican presidential candidate there since the interwar period.

Trump's remarks of March 16, 2024 cited above, although far from intellectual jargon, are ideologically grounded and in line with the agenda of Republican conservative American politics. Trump's campaign rhetoric of "bringing manufacturing back to the US", "strong tariffs", reducing the trade deficit", etc. was based on the broader perspective that trade policies are part of US national security. Trump promised to fulfill a key national security need by reducing US economic dependence on other countries, and in his new trade policy, which he called the "America First Trade Policy", he said: "*Americans benefit from and deserve an 'America First' trade policy. That's why I'm creating a robust and revitalized trade policy that encourages investment and productivity, advances our nation's industrial and technological advantages, defends our economic and national security, and - above all - benefits American workers, manufacturers, farmers, ranchers, ranchers, entrepreneurs, and businesses.*"[4] This ideological approach, which Trump exemplifies at every

3 - Donald J. Trump, Dayton, Ohio Rally, 16.03.2024.

4 - "America First Trade Policy", https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/ , Date of Access: 09.05.2025.

opportunity, is rooted in the idea of American exceptionalism, which is based on the assertion that the United States has a unique leadership role and moral superiority in history and the global order. The French writer Alexis de Tocqueville was one of the first to use the term exceptionalism in his nineteenth century book *Democracy in America*. Tocqueville saw America's Puritan roots, its commercial habits, its pursuit of art and science as a mixture unlike any other country. For him, the United States of America and American society was "exceptional" for its democratic ideals, its social structure, and its constant drive for economic development. Since the seventeenth century, American Exceptionalism has been expressed in different terms: "*city on a hill,*" "*refuge for humanity,*" "*torch of liberty,*" and "*leader of the free world,*" to name just a few. Overall, this idea has continued and will probably continue to influence the foreign policy of the United States. From military interventions in Iraq and Afghanistan to its role in global organizations such as the United Nations, and in countless other examples, American policymakers have spoken of the country's exceptional responsibility to protect freedom and justice in the world. However, how this idea is articulated has varied greatly from one president to the next.

American exceptionalism has manifested itself in two main forms at different times, depending on the president and the party in power. **Missionary exceptionalism** holds that the United States should act as the world's savior and moral leader, and the proactive export of democracy, freedom, a market economy, free trade, and similar values underpins this outlook. This view is often called liberal interventionism. On the other hand, **Exemplary exceptionalism** argues that the United States should look inward, build an ideal society at home, and inspire other nations by example rather than by direct intervention abroad. During his first term, President Trump adopted a version of American exceptionalism centered on economic nationalism and "America First" policies, rejected the globalist vision of previous presidents and placed U.S. interests and sovereignty above international agreements and obligations. In so doing, he challenged the traditional missionary exceptionalism that sought to promote American values overseas. Instead, he embraced exemplary exceptionalism, aiming to keep the United States strong and prosperous.

Donald Trump and Republican Party's strong win in 2024 elections, , marks a turning point in the practice of American exceptionalism. His election after the Democratic President Joe Biden era, which had continued a classic missionary foreign-policy agenda, represents a transition between the two main schools of exceptionalism. The United States now stands on the brink of a historic break with the free-trade order it founded and long championed, the clearest evidence of that shift. The sweeping electoral win allows Trump and the Republican Party to advance a more aggressive "America First" agenda and remake U.S. foreign policy from the ground up. Control of both the executive and legislative branches lets him shield the nation from global issues he deems peripheral while intervening forcefully—economically or militarily—where he sees fit. Having just passed its first 100 days, the Trump administration has used this political capital freely, adopting a missionary stance on select crises such as the Russia-Ukraine war, Israel's activities in the occupied Palestinian territories, and the Iran negotiations, yet simultaneously running a kind of exemplary exceptionalism experiment that

elevates U.S. prosperity, security, and power with little regard for the effects on the global order or international norms.

In a 2024 interview with CNN before dropping out of the race for health reasons, President Joe Biden said that "*Trump cannot solve the problems of the twenty-first century with tariffs from the twentieth century*". Yet this is exactly what Trump is trying to do; his rhetoric on foreign trade and the actions he has taken so far have precedents in the twentieth century Republican tradition. President McKinley (1897-1901) paved the way to the highest tariffs in history with the McKinley Tariff Act of 1890 during his term in the House of Representatives. Another Republican President Herbert Hoover (1929-1933), while promoting protectionism with the Smoot-Hawley tariff law, introduced after the Great Depression of 1929, actually triggered a global trade/tariff war between the Depression-hit countries. As a recent example, Republican President Ronald Reagan (1981-1989) tried to protect the US automotive industry with "voluntary export restrictions" and high customs walls against Japanese automobile manufacturers. Reagan even explained this protectionist reflex with the concern to defend strategic sectors; in this sense, it was similar to Trump's promise to eliminate threats to the US automotive industry from China and Mexico during his election campaign. Trump repeated similar promises in every speech he made during the campaign. He advocated for broad protectionist tariffs to shift the U.S. economy back toward a production-based model, arguing that globalization and the nation's free trade policies had become a source of weakness rather than strength. In some of his speeches, he has said that the US's record-breaking annual trade deficit has ceased to be an economic indicator and has become a symbol of national shame. There was ample evidence to support this political rhetoric. In particular, he portrayed the trade deficit between China and the United States as an exploitation of the American free trade regime and therefore of American farmers, workers and even factory owners. This and similar political messages resonated across the country, but more so in some states. The most striking example is the region eccompassing Ohio, Indiana, northern Illinois , Wisconsin, Michigan, Pennsylvania and northern New York , formerly known as the "*steel belt*" or the "*factory belt*" and known for their manufacturing-based economies, now known as the "*rust belt*". With changing and globalizing industries, states like Ohio, Michigan, Pennsylvania and Wisconsin were particularly hard hit. Since the early 2000s, tens of thousands of factories in the automotive and textile sectors have closed, and employment in the manufacturing sector has fallen by as much as 35 percent. The 2020 population of Detroit, one of the largest cities in this region, has fallen by 32% compared to its 2000 population. In other major cities in the region: Cleveland, Ohio by 22%, Flint, Michigan by 35%, St. Louis, Michigan by 14% and Pittsburg, Pennsylvania by 10%. According to the US National Bureau of Economic Research, in the 10-year period between 1994 and 2004, around 600,000 manufacturing jobs shifted to Mexico following the NAFTA agreement with Canada and Mexico[5] This is the basis for Trump's claim that "*NAFTA is the worst treaty in human histor*y".

5 - Economic Policy Institute, https://files.epi.org/page/-/Supp%20Table%20A_Mexico-5-2-11.pdf , Date of Access: 09.05.2025.

Structural and disruptive changes in the region's economies have eroded the Democrats' traditional working-class base, while Trump's message has tapped into voter frustration. Political messages such as "*Washington has abondoned you. I'll bring you back*" were not only an economic promise for the locals but also a romantic and identitarian hope for a comeback. Indeed, in the elections, in all but two of the above-mentioned states - the Democrat's strongholds of New York and Illinois - Trump outpolled the Democratic Party candidate Kamala Harris. In short, Trump positioned himself as the new defender of American industry, using the "rust belt" states as a laboratory for his new economic nationalist discourse.

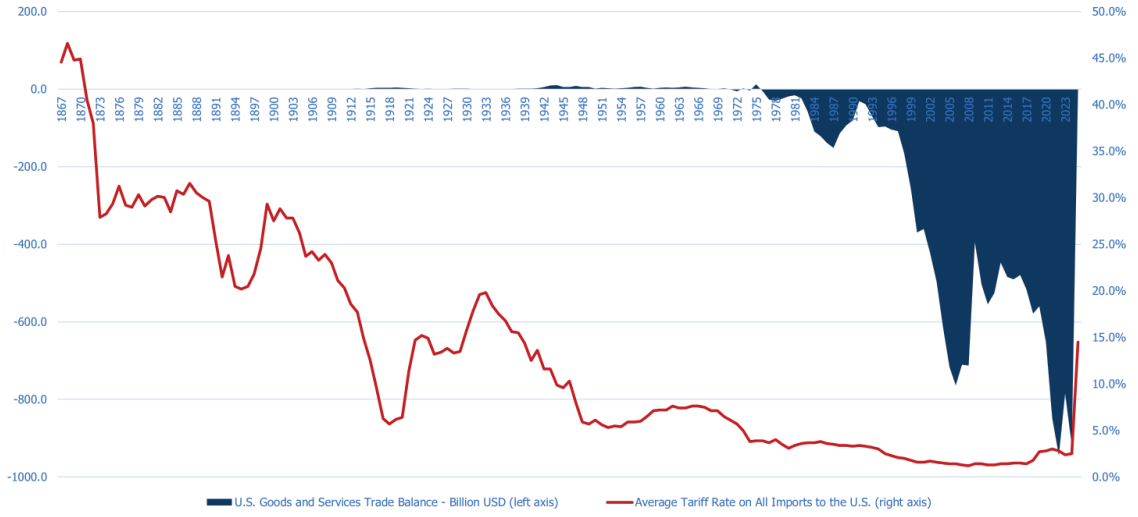
As a result, Trump 2.0 has been shaped not only by economic concerns but also by identity and ideological motivations. With Trump 2.0, American interests have been placed at the center of foreign trade policies. The idea that the US is "exceptional" is redefined as a privilege to be protected by building walls, rather than as a mission. Historical precedents, Trump's rhetoric, which has evolved since 2016 but remains essentially the same, and Trump's practice when he has the opportunity, prove that in the first quarter of the twenty-first century, Trump has embraced a more reactive school of classical American exceptionalism: the exemplary exceptionalism.

CHAPTER 2. THE TRANSFORMATION OF US FOREIGN TRADE

In an interview with Bloomberg Editor-in-Chief John Micklethwait at the Economic Club of Chicago in October, just before the presidential election in November 2024, Donald Trump made some remarkable statements[6] . *"We're going to lower taxes even further for companies that are going to manufacture their product in the US. We're going to protect those companies with strong tariffs."* and "*We're going to bring companies back.*" Trump stressed that he views tariffs as an essential tool to revitalize the manufacturing sector and to keep the US from being "robbed" by other countries through trade imbalances. He added that attracting firms back will require not only tariffs but also a range of incentives, including fast-track permitting.

When we evaluate Trump's emphasis on "*protection through strong tariffs*" in this interview through data, the historical transformation in the US trade policy is striking. Figure 1 reveals that despite the gradual decline in average tariff rates since the late 19th century, there has been a significant deterioration in the balance of trade in goods and services.

Figure 1: Changes in the U.S. Average Tariff Rates and Trade Balance Over the Years



Source: NBRE

Especially with the accelerated globalization process since the 1980s, the US trade deficit deepened and became chronic with tariff rates falling to historically low levels. This shows that Trump's adoption of tariffs as the main policy tool is not accidental and that the tendency to revert to protectionist measures against the structural imbalances caused by the free trade-based approach in the past is strengthening.

However, it should be emphasized that decisions on global trade are not limited to the trade balances of countries, but also political and ideological attitudes play a decisive role. Particu-

6 - The Economic Club Of Chicago. (2024). *Donald J. Trump,* https://econclubchi.org/event/donald-j-trump/ , Date of Access: 09.05.2025.

larly from the perspective of the US and other highly prosperous Western countries, the fact that China's current state and social structure differs from democratic and liberal norms has led these countries to develop more cautious and sometimes restrictive policies against China's rising global influence. Therefore, an era has entered in which trade policies are shaped not only by economic considerations but also by geopolitical and ideological concerns.

Figure 2 provides an indication of Trump's "*bring back the corporations*" rhetoric emphasized in the cited interview and the reasons for his aggressive economic policies against China. An analysis of the change in global manufacturing exports of the world's five largest economies shows that China, which had only a 0.8% share in 1980, has become a decisive actor in the global manufacturing market, increasing its share to 20% by 2022. In contrast to India's limited rise, the US, Germany and Japan experienced significant declines in manufacturing exports. Therefore, the tariffs imposed by the US and measures to promote domestic production should be seen not only as a trade measure but also as part of the struggle for global leadership in the face of China's growing manufacturing power.

Figure 2: Change in Global Manufacturing Exports

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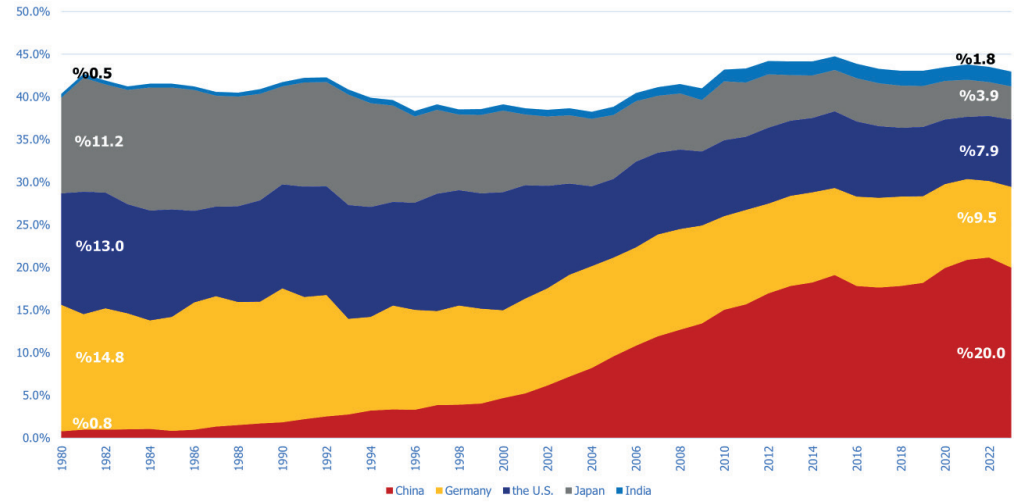

Source: WITS, IoSS Calculations

The first two figures presented so far illustrate the fundamental changes in the dynamics of US foreign trade over time, and in particular the transformation of the manufacturing industry in the face of China's rise. However, it is clear that this transformation is not only limited to global trends, but also has tangible effects directly on the US balance of trade. In fact, for the US, the distribution of foreign trade by country and the countries in which trade deficits are concentrated more clearly reveal the structural dimension of the problem and the priority areas for policy development. Therefore, it is of great importance to go beyond global trends and identify the countries where the foreign trade deficit originates and analyze the trade relations with these countries. In this framework, Figure 3 below details the foreign trade balance of the US as of 2023 and presents a comprehensive breakdown of the countries with the largest foreign trade deficit and their contribution to the total deficit.

According to the figure, by 2023, US exports reached USD 2.97 trillion, while imports were USD 3.70 trillion. This situation caused the US to run a total foreign trade deficit of USD 730 billion in 2023 alone. The three largest sources of this deficit were China (USD 304.6 billion), Mexico (USD 157.4 billion) and Canada (USD 122.4 billion). Thus, while almost half of the trade deficit (41.7%) originated from China alone, the combined share of the first three countries accounted for 80% of the total US foreign trade deficit. This clearly demonstrates that the US global trade deficit is largely concentrated in a few countries and that trade relations with these countries play a decisive role in the balance of trade.

Figure 3: U.S. Trade Balance with Top 10 Trading Partners and Other Countries, Billion USD, 2023

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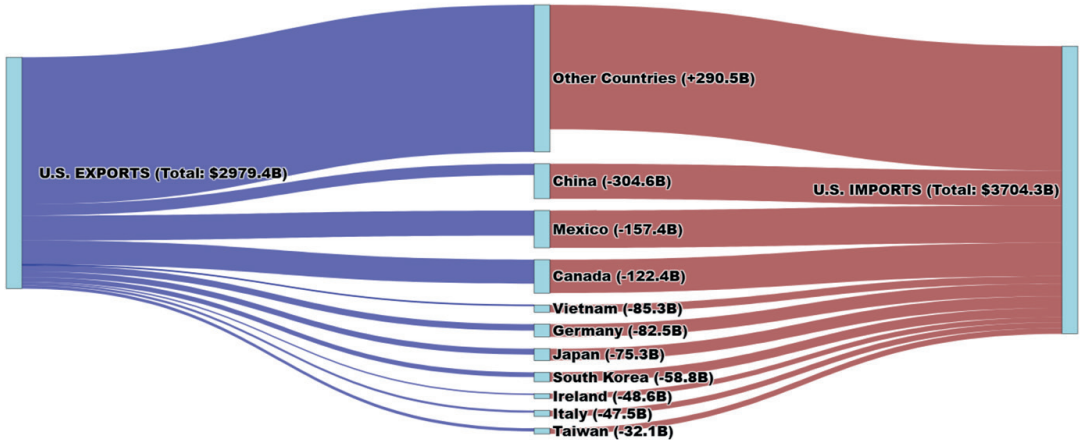

Source: UNCTAD, Harvard Atlas, IoSS Visualization

In order to understand the picture of the US foreign trade balance and the policies that Trump wants to implement, it is useful to look at the structure of export and import baskets on a sectoral basis. As Figure 4 shows, as of 2023, the services sector accounted for the largest share of US exports. Accounting for 34.5% of total exports, services exports stand out as an important factor reflecting the country's global competitiveness. The strong exporting structure of the US, especially in areas such as finance, software, patent licenses and professional consultancy, is reflected in the data.

Services are followed by 'machinery' with 11.5%, 'minerals' with 11% and 'chemicals' with 10.6%. On the other hand, sectors such as 'electronics' (6.5%), 'agricultural products' (7%) and 'vehicles' (5.9%) are also important components of exports.

Figure 4: Export Basket of United States by Sectors, 2023

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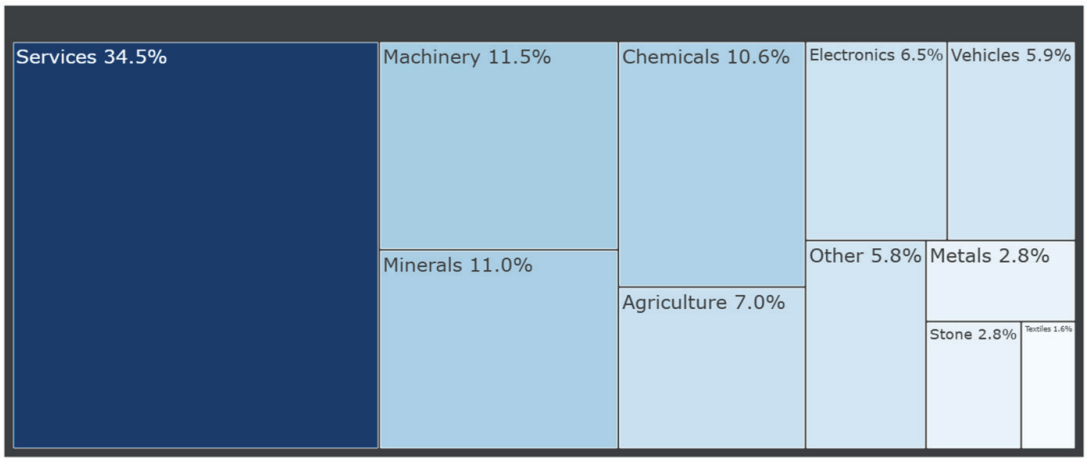

Source: Harvard Atlas, IoSS Visualization

On the other hand, Figure 5 reveals in which sectors the US imports the most goods and services from the world as of 2023. Accordingly, the services sector also has a significant share in imports, accounting for 20.2% of total imports. However, the diversity and high shares of the sectors following services more clearly demonstrate the US' dependence on global supply chains. In particular, machinery (16.6%), electronic products (11.4%), vehicles (11.3%), and chemicals (10.7%) illustrate the US dependence on imports of high-tech and industrial goods. This table is striking in that it shows that despite its industrial production power, the US sources many technological and intermediate goods from global markets.

Figure 5: Import Basket of United States by Sectors, 2023

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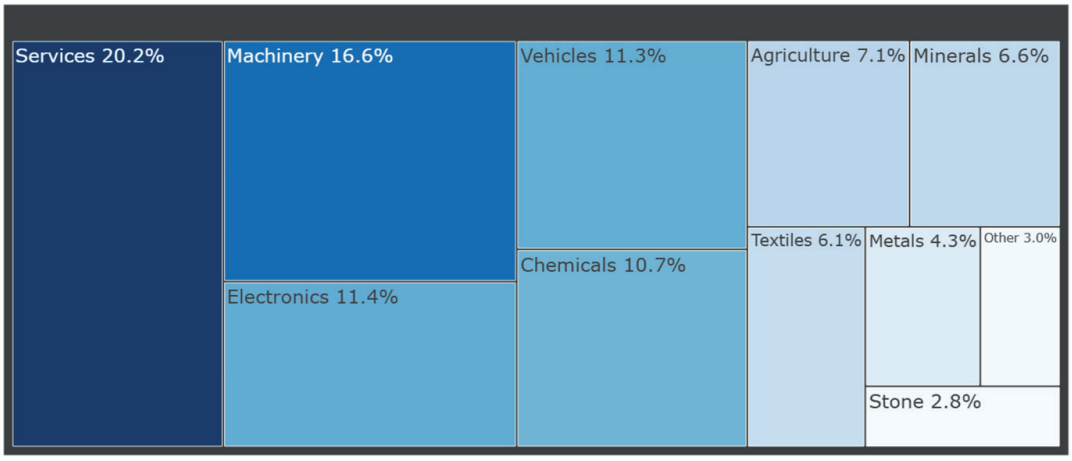
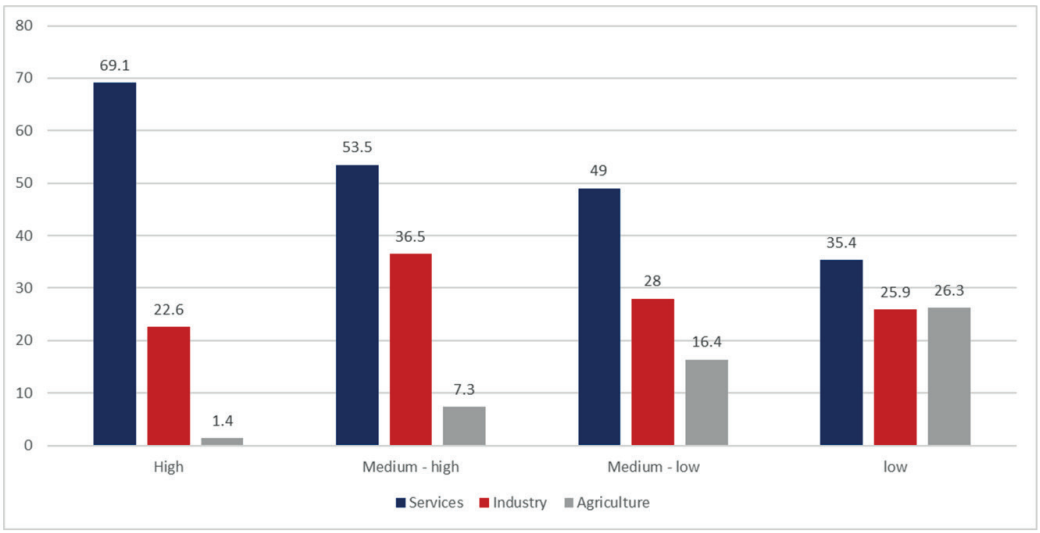


Source: Harvard Atlas

This sectoral breakdown of the US export-import balance is actually consistent with the economic and social differentiation of countries according to income groups. As a matter of fact, Figure 6 clearly reveals this structural difference. In countries with rising income levels, the share of the services sector increases rapidly, while the weight of industry and agriculture in the economy declines.

Figure 6: The Share of Economic Sectors in GDP by Income Group of Countries, %



Source: World Bank

The predominance of services in US exports and the concentration of imports in areas such as industrial products and electronics can be read as a natural consequence of this global structure. In today's world, where production is shifting to developing countries while developed countries are moving towards an information and service-oriented economic model, the US balance of trade reflects not only trade relations but also its position in the global value chain and its structural economic transformation.

Figure 7, which shows the course of sectoral transformation in countries by income groups over time, reveals how the structural change in economies is differentiated at different income levels. In the 2000-2022 period, the share of services increased from 66.7% to 69.1% in high-income countries, while the share of the industrial sector declined from 26.6% to 22.6%. This picture shows that developed economies are experiencing a service-oriented economic transformation and that industry is losing relative importance.

However, the transformation in middle- and upper-middle-income countries is different. While the share of services has increased in these groups, the share of the industrial sector has also risen. This shows that industrialization is still the driving force of growth and development for these income groups. In the low-income group, the share of services declined while the industrial and agricultural sectors maintained their weight in the economy.

Figure 7: The Change in Share of Economic Sectors in GDP by Income Group of Countries, %, 2000 - 2022

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Services

	High	Medium - high	Medium - low	Low
2000	66.7	50	45.8	39.3
2022	69.1	54.5	49.6	33.3
Difference	2.5	4.4	3.8	-6

Industry

	High	Medium - high	Medium - low	Low
2000	26.6	35.7	27.1	25.8
2022	22.6	36.8	28	26.3
Difference	-3.9	1.1	0.9	0.5

Source: World Bank

In sum, while there is a significant shift from industry to services in the high-income group, the middle-income group experiences a more balanced transformation process in which both industry and services grow together. These findings are critical for making sense of the concentration of services in exports and industrial products in imports, which is also observed in the foreign trade structure of the US, in the context of global economic transition dynamics.

The last analysis in this area reveals the relationship between the level of development and the sectoral composition of economies. This analysis takes GDP per capita as a measure of development and examines the relationship between it and the share of manufacturing industry in the economy. According to Figure 8, there is a general downward trend in the share of manufacturing industry as the level of development increases. It is noteworthy that among the countries with higher GDP per capita than China, except Ireland, there is no other country where the share of manufacturing industry is as high as China.

Figure 8: Income Levels of Countries and Share of Manufacturing: Global Distribution, 2023

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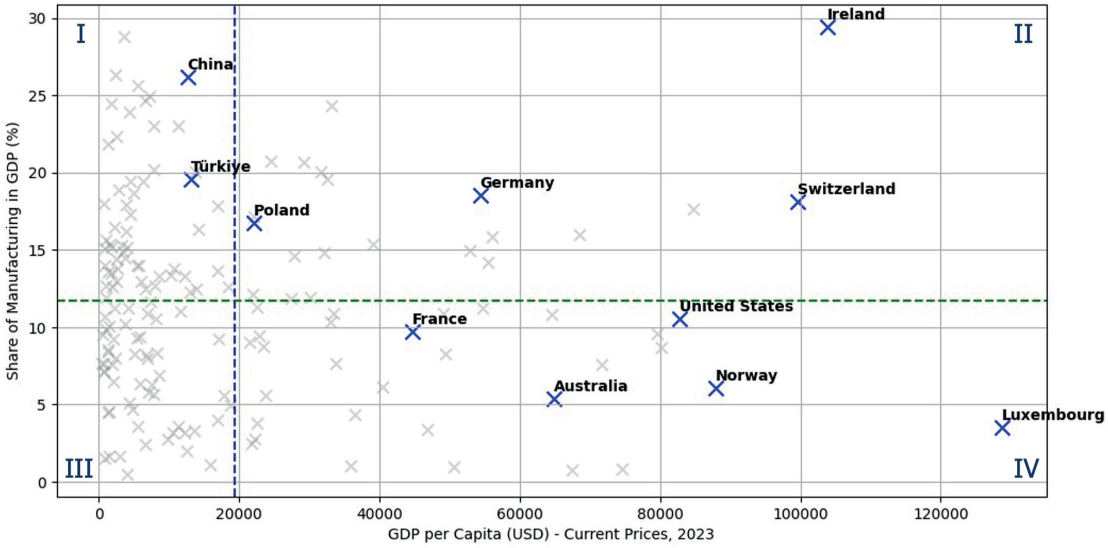


Source: World Bank, IoSS Calculations

Therefore, the analyses conducted so far have revealed that there is a significant relationship between the income levels of countries and the weights of economic sectors. In high-income countries, services are more prominent, while in middle-income countries, the industrial sector continues to be the main driver of economic growth. The sectoral distribution of the US export and import basket is also consistent with this general trend.

However, one of the important elements is that the balance of trade is determined by qualitative differences at the product level, not just at the sectoral level. The product-level analysis in this report shows that although the US produces in sectors such as machinery and vehicles, it is still dependent on imports in the high value-added and complex product groups of these sectors. For example, products such as high-tech machinery parts, electronic components or high-end vehicle equipment have a significant share in US imports.

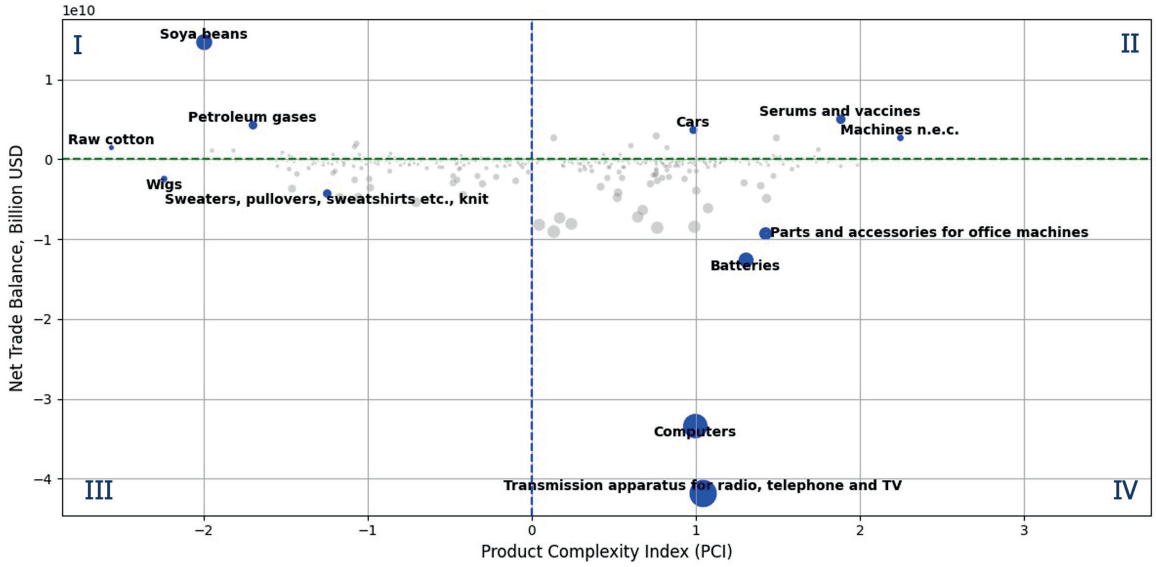
In order to understand this situation more clearly, it is critical to look at the US trade balance from the perspective of product complexity[7] . In this framework, the top three countries (China, Mexico and Canada), which account for 80% of the US trade deficit, are selected and the US trade balance with these countries is analyzed in terms of product complexity (complexity index). Figure 9 sheds light on the US trade with China, which has the largest trade deficit and is subject to the harshest tariffs, in terms of product complexity.

The analysis shows that the US has a total foreign trade deficit of USD 68.3 billion in low complexity products (Quadrants I-III) and USD 255 billion in high complexity products (Quad-

7 - For product complexity details see, https://atlas.hks.harvard.edu/rankings/product , Date of Access: 09.05.2025.

rants II-IV)[8] . Accordingly, although the US runs a deficit in both low- and high-complexity products, the larger deficit in high-complexity goods is the main factor shaping the overall trade picture.

Figure 9: U.S. Net Trade Balance with China According to Product Complexity Index, 2023



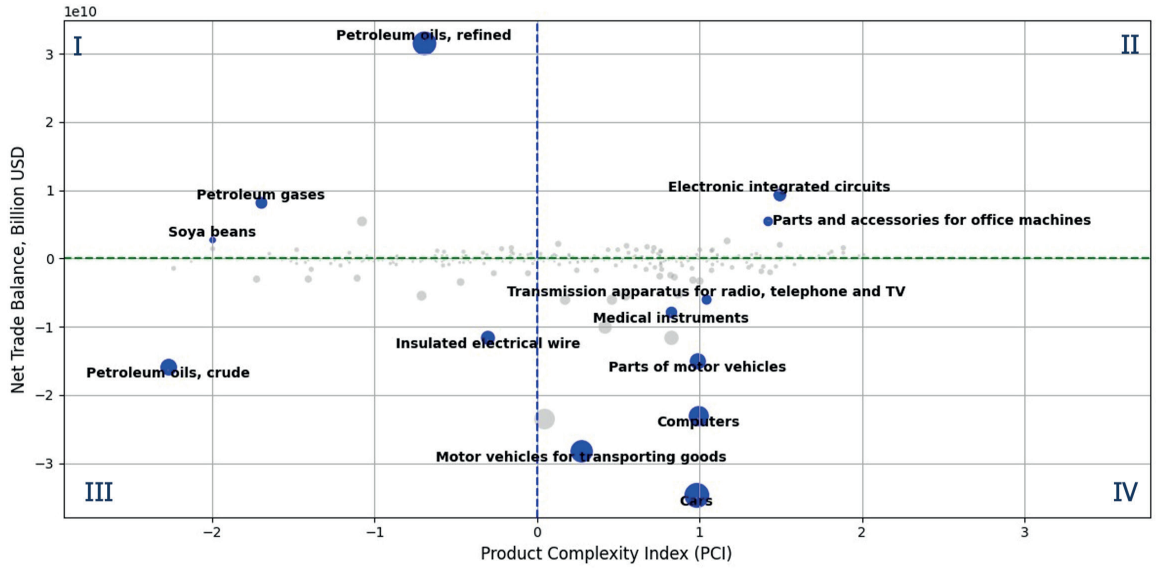
Source: Harvard Atlas, IoSS Calculations

As can be seen in the graph, the US tends to run a trade surplus in low-complexity products (such as soybeans and petroleum gas), while it runs a significant trade deficit in high-complexity products (such as computers, broadcasting equipment, electric batteries and motor vehicle parts). This picture shows that the US has relatively limited competitiveness in high-tech and sophisticated products and has become import-dependent in these product groups.

Let us continue the analysis with Mexico, Mexico, the second-largest source of the US trade deficit. According to Figure 10, in the first and second quadrants, the US runs a trade surplus of $77.8 billion and $77.6 billion, respectively. In the third quadrant, which includes medium-low complexity products, the trade deficit is relatively limited ($76 billion). However, the picture changes markedly in the fourth quadrant. In this quadrant, which includes high-complexity products that also run a trade deficit, the US trade deficit reached a very high level of 236.9 billion dollars.

8 - Note: US foreign trade with China, Mexico and Canada is analyzed on the basis of products purchased by the US from selected countries. Therefore, the sum of the values given for the quadrants may not reflect the overall trade balance.

Figure 10: U.S. Net Trade Balance with Mexico According to Product Complexity Index, 2023



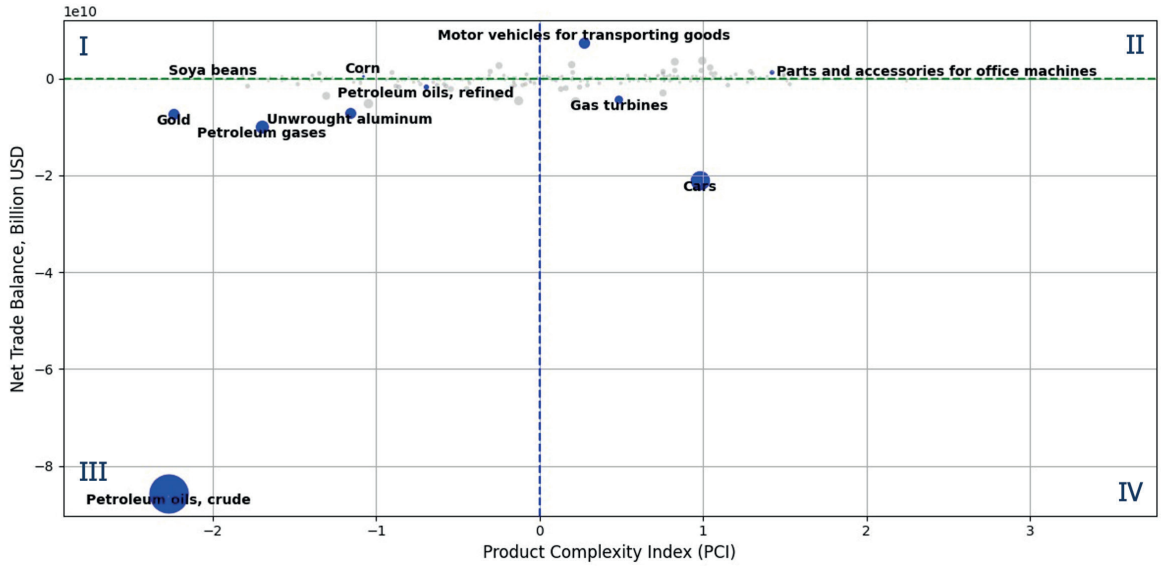
Source: Harvard Atlas, IoSS Calculations

This imbalance has been driven by the fact that in recent years, many developed and developing country companies in Asia, especially China, have invested in Mexico to avoid tariffs and geopolitical risks. Mexico's geographical proximity, the advantages offered under NAFTA/USMCA and the competitive nature of labor costs have transformed Mexico into a production and supply base for the production and re-export of high-tech products. This trend has led to a widening trade deficit in trade between the US and Mexico, especially in high complexity products.

Finally, let us analyze the graph for Canada, the third-largest source of US trade deficit. Figure 11 for Canada reveals a different picture from the other two countries. While the US trade deficit in high-complexity products is remarkable in its trade with Mexico and China, the deficit in trade with Canada is mainly concentrated in low-complexity products.

As a matter of fact, an analysis of quadrant data shows that the third quadrant paints the most unfavorable picture with a huge deficit totaling 167.8 billion dollars. On the other hand, the deficit in the fourth quadrant is more limited with 60.3 billion dollars. On the other hand, it is noteworthy that the US has achieved a certain balance in its trade with Canada in the first and second quadrants, with a trade surplus of 28.3 and 77.4 billion dollars, respectively.

Figure 11: U.S. Net Trade Balance with Canada According to Product Complexity Index, 2023



Source: Harvard Atlas, IoSS Calculations

This shows that trade with Canada is predominantly based on commodities and low value-added products. In particular, low-complexity products such as “petroleum oils (crude)”, “petroleum gases” and “gold” constitute the largest trade deficit items of the US vis-à-vis Canada.

Thus, unlike the cases of China and Mexico, the main reason for the trade deficit with Canada is the US dependence on imports of energy and commodity products rather than technology and high complexity. This differentiation suggests that the strategies and competitive dynamics to be applied in trade with Canada should have a much more unique structure compared to other countries. The analysis reveals that the trade deficit with Canada is not mainly due to a lack of advanced technology or sophisticated production, but to a dependence on energy and raw material imports.

However, as in the cases of China and Mexico, the overall picture shows that the structural problem in the US balance of trade is not limited to such commodity-based trade items. Especially in trade with production-oriented countries such as China and Mexico, the fact that foreign trade deficits largely stem from high-complexity products indicates that the root of the problem lies in the lack of qualified production capacity.

Compared to these countries, the US struggles to maintain its competitiveness in sophisticated product groups and has to import these products instead of producing them in the domestic market. Therefore, the analysis reveals that the US needs to pursue differentiated policies for low and high complexity products in order to sustainably improve its trade balance.

Analyses by sector and product complexity provide important clues about the US trade deficits. In this report, the steps that can be taken to address these problems will be discussed in detail. Before doing so, however, it is necessary to assess the rise of China, which is at the

center of global competition and has become a direct target of the Trump administration. The rise of China, which has the largest share in the US foreign trade deficit, will be highly influential on the policies to be implemented by the US.

CHAPTER 3. RISING CHINA: STRATEGIC RIVAL OR INDISPENSABLE TRADING PARTNER?

"The economic relationship between China and the United States is too extensive and intertwined to be severed without dire consequences for both countries."

In a book on China, Henry Kissinger, the memorable former US Secretary of State, assesses the relationship between the US and China with aforamentioned words. The diplomatic and economic relations between the two countries, which began to develop relatively late in the 1970s, quickly led to the transformation of the two countries into two interdependent economic giants. In particular, different US administrations and Presidents, and to a lesser extent the Chinese leadership, have not hidden their displeasure at the increasingly complex situation of economic interdependence. In the 1970s, President Nixon saw the need to integrate China into the international system, while President Carter advocated normalization, citing human rights abuses. In the 1980s, the Reagan administration shaped relations with China with a strict anti-communist agenda, while the Bush presidency was a period of relatively successful diplomatic attempts to soften discontent. The dilemma for US administrations, especially since the late 1990s, has been the simultaneous increase in economic engagement and competition between the two countries. During the first terms of Clinton, Obama and Trump, the ongoing strategic competition with China manifested itself in non-trade areas, while trade relations became the subject of cooperation rhetoric. While the rhetoric and actions of different US Presidents on China have varied, overall, US foreign policy has consistently been based on competition that recognizes interdependence. Until January 20, 2025, when Donald Trump took office as the second US President. Never before has a US President attempted to change the dynamics of relations between the two countries in such a sharp and, some would say, rude way as Trump has.

The Trump administration's more hawkish and confrontational departure from the China policies of previous US administrations has in fact made the "strategic rival or indispensable trading partner" dilemma between the two countries more visible. In order to accurately assess this complex relationship and the future direction of bilateral economic relations, it is necessary to go beyond political rhetoric and historical turning points to examine in depth the economic fundamentals and performance of the two superpowers. China's meteoric economic rise since the 1990s and its increasing weight in the global system make this analysis imperative. This is because the kind of an actor that "Rising China" will become in the global system largely depends on the quality and sustainability of the country's economic progress. In other words, it is about the deeper structural factors that make this rise possible and determine its long-term prosperity and international competitiveness. This section of our report will pro-

vide a comparative analysis of the fundamental dynamics of the US and Chinese economies, examining the main determinants of differences in prosperity between the countries, such as capital accumulation, the quality of human capital, technological development or labor productivity, in order to provide a snapshot of the US-China economic competition.

Differences in living standards over time and across countries have had a decisive impact on human welfare. While some countries have achieved significant improvements in the quality of life of their societies by steadily increasing their per capita incomes, others have struggled to escape the low-income trap and their growth performance has remained limited. Figure 12 provides a striking picture of how the growth performances of countries have diverged in the recent past. As of 1960, countries such as Sweden, Canada and Switzerland, which were relatively close to the US in terms of per capita income, maintained their positions to a large extent by achieving similar growth rates in the following period. On the other hand, not all countries with low income levels at the beginning achieved the same success. While some countries, such as Liberia and Madagascar, were stuck at low growth rates, most of them remained around the world average and achieved limited convergence. On the other hand, a small number of countries, such as China, South Korea and Ireland, stood out for their high growth performance and managed to close the gap with the more prosperous countries to a significant extent.

Figure 12: Relative Welfare and Growth Rate of Economies

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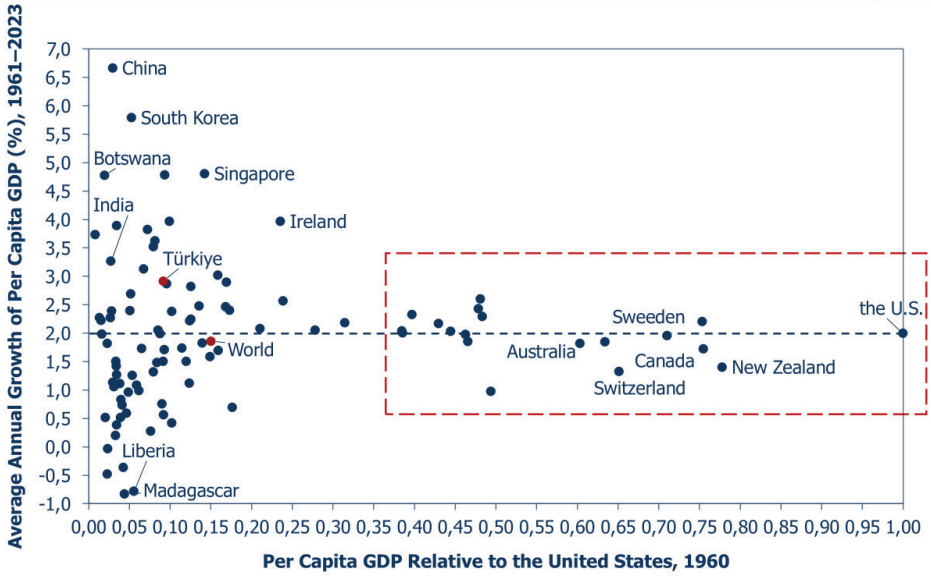

Source: World Bank, IoSS Calculations

Welfare differentials across countries have become one of the main areas of investigation in social sciences, especially in macroeconomics, and various theories and models have been developed in this context. These models provide important insights into the differentiation of countries in terms of welfare. Therefore, in this section of the report, while evaluating the trade balance and welfare developments between the US and China, a comparison will be made between the US and China on the basis of the basic components of these economic models: capi-

tal accumulation, labor force quality and technological development or labor efficiency. In this way, it will be revealed which factors play a decisive role in China's economic development. These analyses will also help to understand the areas in which China differs from the US in particular.

1) The Role of Capital in the Economic Growth of Countries and US-China Comparison

To start our analysis with capital formation, Figure 13 analyzes the relationship between the rate of gross fixed capital formation[9] and the growth in GDP per capita over the period 1980-2022. This analysis shows the impact of capital on the economic performance of countries. Quadrant II in the figure shows the countries with above-average performance in terms of the share of fixed capital formation in GDP and growth rate. Countries such as China, South Korea, Singapore and Ireland, are in the second quadrant, indicating that they exhibit a strong growth performance with high fixed capital investments. On the other hand, countries in quadrant IV, such as Nigeria and the Democratic Republic of Congo, have low growth rates despite high capital formation rates. This shows that investment alone does not guarantee growth and that capital efficiency and productivity play a critical role.

Figure 13: The Role of Capital on Economic Growth

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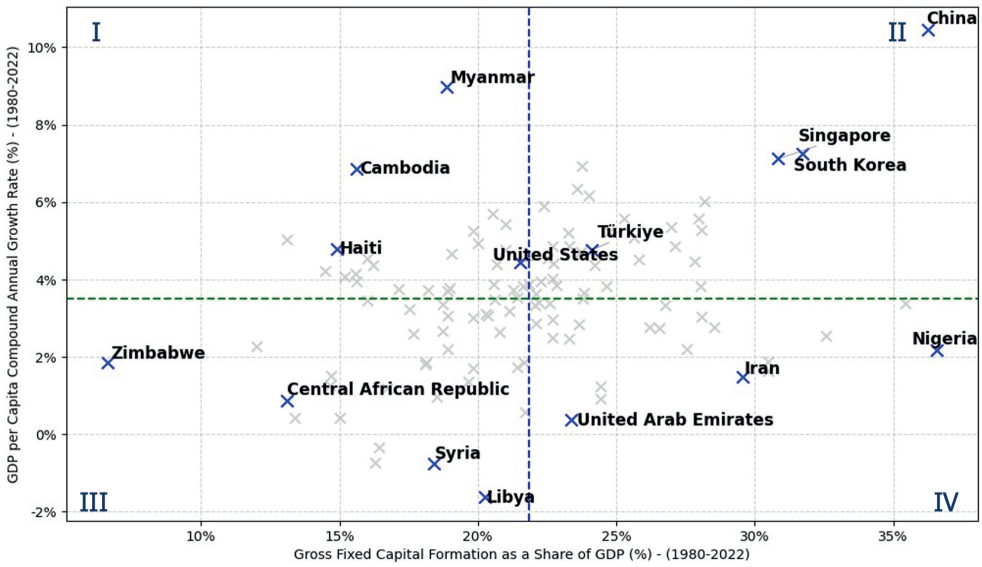


Source: World Bank, UN Data, IoSS Calculations

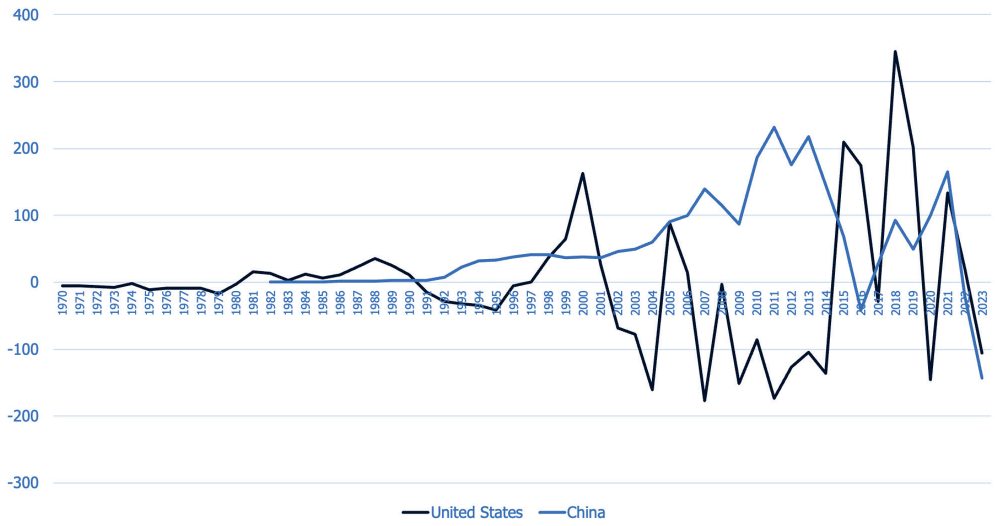
Therefore, the analysis reveals that capital is an important factor for economic growth, but it is not sufficient on its own. Nevertheless, the decisive role of capital accumulation for achieving sustainable growth cannot be denied. In this context, it would be useful to examine how the US and China have performed in terms of capital provision over time.

Let us start our analysis on the capital axis by looking at how the US and China perform in

9 - Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings.

terms of foreign direct investments. Figure 14 presents data on the net foreign direct investment (FDI) performance of the US and China over the 1982-2023 period. In this period, China achieved a positive balance with net FDI inflows totaling USD 2.29 trillion, while the US posted a net FDI deficit of USD 77.9 billion in the same period. In other words, while China strongly attracted global investment capital in the period in question, the US became a country where capital outflows were more dominant.

Figure 14: Net Foreign Direct Investment Flows of the U.S. and China, Billion USD



Source: World Bank

In addition to foreign direct investment, another variable that allows us to compare the US and China is capital stock data. A country's capital stock is broadly defined as the reproducible portion of national wealth and includes all resources that contribute to the production of goods and services. Capital formation is therefore a critical indicator for understanding the productive capacity and future growth potential of an economy. Therefore, it is of great importance to go beyond foreign direct investments and analyze the capital stock of countries. In this context, it is necessary to take a closer look at how the capital stocks of China and the US have changed over time and how their performance in this area has progressed.

Figure 15 shows the performance of the US and China in terms of capital stock between 1970 and 2019. In 1970, China's capital stock stood at USD 928 billion, while the capital stock of the US was approximately USD 21.4 trillion. This shows that by 1970, the US had approximately 23 times more capital stock than China. However, the growth in China's capital stock in the following years has been quite remarkable.

By 2019, China's capital stock had reached approximately USD 99.6 trillion. This shows that China's capital stock increased approximately 107 times between 1970 and 2019. The capital stock of the US during the same period rose to approximately USD 69.1 trillion, a nearly 3-fold increase.

Figure 15: Capital Stock of China and the United States, CNP* 2017 USD, Trillions

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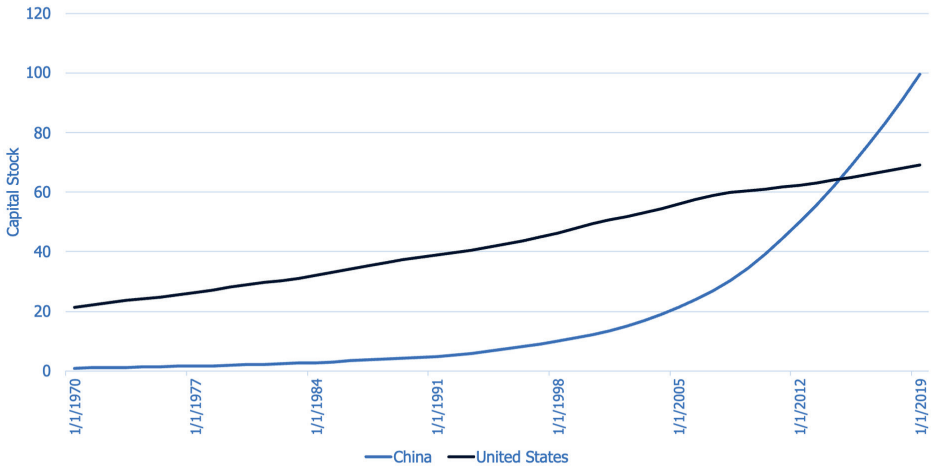


Source: FRED
Note: CNP = Constant National Prices

It can be said that China's performance is remarkable in these capital-related analyses. China, which supports its high rate of capital formation with high growth, is the country that most clearly demonstrates the decisive role of investment in the development process. Compared to the US, China has adopted a much more dynamic and investment-intensive model in terms of capital formation. Therefore, the analysis so far suggests that the "capital" performance of the countries should be closely monitored in terms of where the US-China balance will evolve.

2) The Relationship Between Economic Performance of Countries and Skilled Labor Force and US-China Comparison

We have examined the relationship between capital and development in detail in the previous section and observed that China in particular has a strong performance in this area. However, considering that economic performance is a concept that depends on different variables, it is not sufficient to examine only in terms of capital. Another important factor in economic models is the quality of labor force.

If the quality of labor force is considered as the human capital of countries with a more inclusive definition, many academic studies show that human capital has decisive effects on the performance of economies[10] . According to studies in this field, human capital is one of the

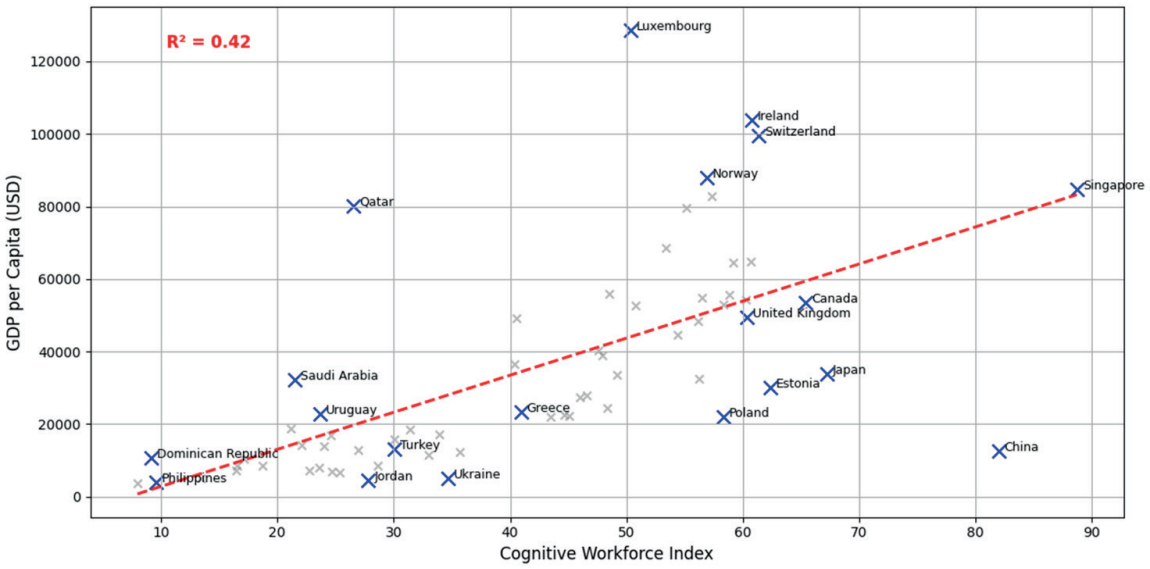
10 - Schultz, T. W. (1961). Investment in Human Capital. *The American Economic Review*, *51*(1), 1-17. http://www.jstor.org/stable/1818907. World Bank Blogs. (2024). *Human capital investments spur economic growth and development*. Available at: https://blogs.worldbank.org/en/investinpeople/human-capital-investments-spur-economic-growth-and-development . Wilson, R. and Briscoe, G. (2004). *The impact of human capital on economic growth: a review*. Available at: https://warwick.ac.uk/fac/soc/ier/publications/2003/wilson_and_briscoe_2003.pdf.

main drivers of sustainable growth and poverty reduction. Increases in human capital are said to generate higher earnings for individuals, higher incomes for countries and stronger social cohesion in societies.

In this framework, various institutions and organizations have developed methods to express human capital numerically. These methods aim to measure the quality of human capital through education and health data. Within the scope of this report, the studies conducted so far in the field of human capital have been reviewed and Institute of Social Studies (IoSS) has developed its own human capital index with a method that prioritizes more determinant factors for economies[11] . As stated in this report, high-income countries are economies where knowledge-intensive sectors are prominent. Therefore, Institute of Social Studies has developed an index that tends to better explain this change, especially in the 21st century. This index not only aims to shed light on the relationship between Human Capital and economic performance of countries, but also examines the transformation by indicating how the US and China have performed in terms of human capital over the years.

Figure 16 shows the relationship between the Cognitive Workforce Index (CWI) developed by Institute of Social Studies and countries' GDP per capita. The graph indicates that as the CWI increases, the GDP per capita values of countries increase. Countries with low CWI values such as the Philippines and the Dominican Republic remain at a low level in terms of GDP per capita, while countries such as Singapore, Norway and Canada have high CWI and high GDP per capita data.

Figure 16: Relatiosnhip Between Cognitive Workforce Capacity and Economic Development



Source: OECD, World Bank, IoSS Calculations

11 - For details on how the Institute of Social Studies-Cognitive Workforce Index was created, please see the "Remarks" section.

As can be seen in the graph, there are some exceptions that are not in line with the general trend described above. This is a natural consequence of the perspective reflected in the construction of the index. This is because the index in question gives significant weight to education indicators, taking into account the transition of economies from labor-intensive to knowledge-intensive processes as the level of development increases.

In this context, Qatar is a striking example. Although it has a low CWI value, its GDP per capita is quite high. The main reason for this is that Qatar's economy is largely based on natural resources and human capital plays a more limited role in economic activities compared to other countries.

China, on the other hand, is different and should be evaluated separately. Although China has a relatively high CWI value in the graph, its GDP per capita is relatively low. This situation points to China's inequalities in the field of education. As a matter of fact, China ranks high in the PISA data in terms of the proportion of high-achieving students. However, when the data is analyzed in detail, it is understood that this success belongs to a certain group of students and quality education is not provided inclusively[12]. Therefore, this situation is reflected in the economic outputs of the country. To summarize, the heterogeneous structure in the quality of education in China determines the GDP per capita.

Singapore ranks first among 66 countries with a score of 88.68, while China ranks second with a score of 81.96 and the US ranks 16th with a score of 57.29 in the CWI prepared by the Institute of Social Studies. This table shows that China is in a strong position in the US-China global competition, especially in terms of human resources with high cognitive skills, and that this advantage can contribute to maintaining high growth rates in the future. Considering the strategic role played by human resources with high cognitive skills in the transition of economies from production-intensive to knowledge-intensive economies, this issue becomes even more meaningful.

Indeed, this was also stated during a panel discussion in 2024 by Tim Cook, CEO of Apple, which does most of its manufacturing in China. Cook said that the popular image of China as a low-labor-cost country is not so accurate, emphasizing that the main reason why Apple and other leading technology companies rely on China for manufacturing is the country's "unmatched skilled labor intensity". Cook points to the advanced tooling skills and precision work required for their products, noting that China has a deep and highly specialized talent pool in these areas.

3) The Relationship Between Economic Performance of Countries and Labor Productivity and the Comparison of the US and China

Technological progress, which is one of the main elements of growth in economic models, in other words, labor productivity, refers not only to the increase in the quantity of production

12 - Kcl.ac.uk. (2022). Educational equality change in China and its function for gender equality https://www.kcl.ac.uk/educational-equality-change-in-china-and-its-function-for-gender-equality#:~:text=Whilst%20education%20at%20all%20levels,urban%20areas%20of%20the%20country , Date of Access: 09.05.2025.

but also to the extent to which the resources used in the production process are used effectively and efficiently. Technological developments, improvements in the institutional structure and productivity increases at the enterprise scale are among the main determinants of this concept. Although different indicators have been developed to measure this variable, this report utilizes the balance sheet data of companies listed on the stock exchanges of the two countries when comparing the US and China. Within the scope of the study, the 500 largest companies of both countries, which are determined on the basis of market size, were selected[13] and the performance of these companies over time is analyzed comparatively based on three basic variables.

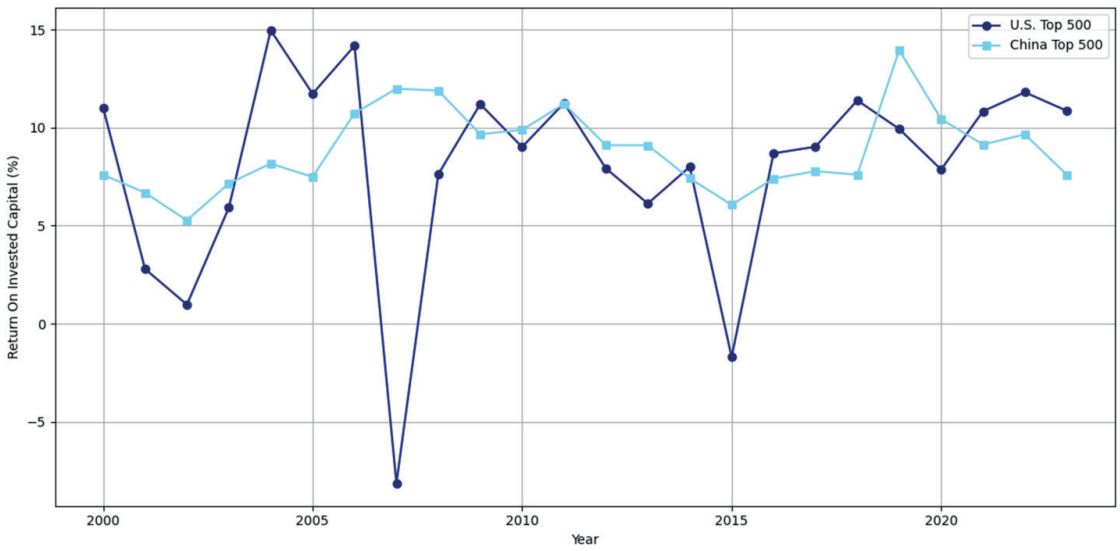
The first variable analyzed within the framework of this analysis is "Return on Invested Capital". This indicator reveals the extent to which firms effectively utilize the resources they use in their investments, including equity and debt. When the rate of this indicator is expressed as a percentage, it is seen how much income each 100 units of capital invested generates for the firm. Therefore, this indicator is considered to be one of the simplest and most meaningful measures of efficiency at the enterprise level.

Figure 17 compares the return on invested capital (ROIC) performance of the 500 largest companies in the US and China over the 2000-2023 period. The data show that US firms experienced significant fluctuations in some years during the period, with significant declines between 2007, the beginning of the 2008 global financial crisis, and around 2015. In contrast, the values of Chinese firms under the selected variable have been more stable.

In this respect, the performances of the firms of the two countries are close to each other. In terms of average "Return on Invested Capital", Chinese firms, with 8.87%, were slightly above the 8.25% average of US firms. This difference seems to be driven by the fact that Chinese firms were relatively less affected by the 2008 financial crisis and their strong recovery in the post-COVID-19 period.

13 - Before processing the balance sheets of the firms, the listed firms were filtered according to the country where the company headquarters is located. Using this method, only American and Chinese companies are included in the analysis. In determining the Chinese firms to be included in the analysis, companies listed on the Shanghai and Shenzhen stock exchanges were taken into consideration and the top 500 firms with the highest market capitalization were selected.

Figure 17: Comparative ROIC Trends of U.S. and China, Top 500 Companies, 2000–2023



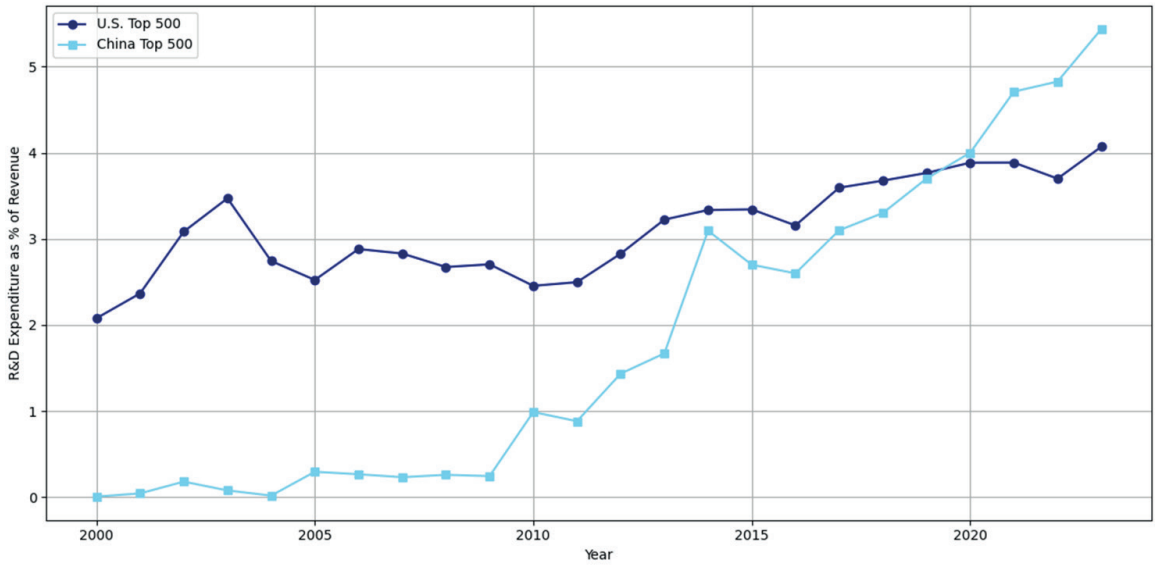
Source: Financial Modeling Prep, Yahoo Finance, CSMAR

Therefore, it is observed that there is no significant difference in the productivity levels of the top 500 companies of the world's two largest economies, and China even outperforms the US by a small margin. This result can be attributed to the structural differences in the economies of the two countries and the fact that global and financial crises have affected both countries to different extents.

Another important analysis of firm balance sheets under this section is the R&D expenditures. R&D expenditures not only give firms and countries a competitive advantage by triggering technological developments, but also support economic growth. Therefore, the extent to which companies allocate resources to this area is a critical indicator. However, comparing only absolute expenditure amounts would not provide a sound assessment for economies and companies of different sizes. For this reason, a more fair and comparable measurement method is preferred in the analysis by considering the ratio of R&D expenditures to revenues.

Figure 18 presents a comparative analysis of the trends in the R&D intensity of the top 500 companies in the US and China over the 2000-2023 period. The top 500 companies in the US had a stable and relatively high R&D expenditure ratio throughout the period, with an average R&D/Revenue ratio of 3.37%. The R&D expenditure intensity of China's top 500 companies, on the other hand, hovered at very low levels in the early 2000s, and while the share of R&D expenditures in revenue was below 1% until 2010, it increased rapidly in the following years. By 2020, the R&D expenditure intensity of Chinese companies caught up with the US and continued to widen the gap thereafter. Nevertheless, in the 2000-2023 average, the R&D/revenue ratio of China's Top 500 companies remained well below that of the US at 1.95%. This picture shows that in the long run, US companies have a more stable and higher R&D expenditure intensity, but Chinese companies have recently made a significant breakthrough in this area.

Figure 18: Comparative R&D Expenditure to Revenue Ratios of U.S. and China, Top 500 Companies, 2000–2023

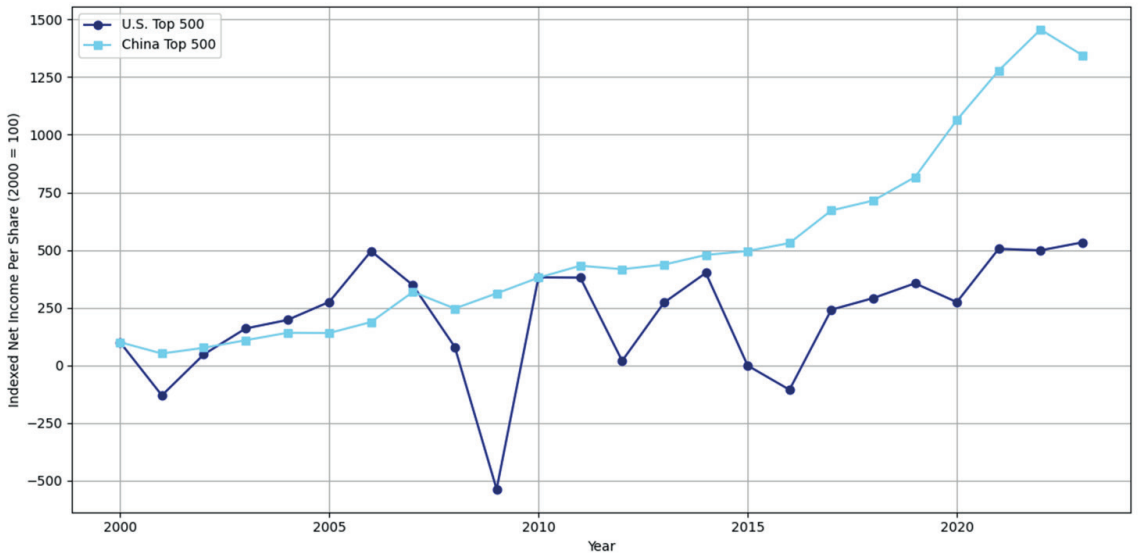


Source: Financial Modeling Prep, Yahoo Finance, CSMAR,

In order to analyze capital utilization efficiency and its effects over time more accurately, the changes in net income per share of the 500 largest companies in the US and China are indexed and compared. This approach facilitates the comparison of series at different scales and initial levels and clearly reveals relative changes over time.

In this context, Figure 19 compares the change in net income per share indexed to 2000 for the 500 largest companies in the US and China. According to the index values, the net income per share of Chinese companies has been on a steady and strong upward trend over the years, while that of US companies has fluctuated, especially after the 2008 global financial crisis, and has occasionally slipped into negative territory. The performance of Chinese companies gained significant momentum especially after 2015 and exhibited a stronger upward trend compared to their US counterparts.

Figure 19: Net Income Per Share Change (Indexed to 100)



Source: Financial Modeling Prep, Yahoo Finance, CSMAR,

In this section, a comparative analysis of the US and China is made within the framework of the main factors affecting the growth performance of countries. The findings reveal that capital plays a decisive role in growth and that China has displayed a stronger performance in this area than the US in recent years.

In terms of human capital, there is a strong correlation between the level of prosperity of countries and their human capital, and China is ahead of the US in this respect. However, considering the transformation of economies in terms of their sectoral composition, it can be said that China's difficulties in spreading competitive and equitable education across the population, which is necessary for the transition to a knowledge-intensive economy and a welfare society, is an important obstacle for the country's long-term development.

However, in terms of technological progress or labor productivity, it can be said that China has made significant progress, but at a similar level to the US. However, especially since the 2010s, Chinese companies have made a significant breakthrough in this area and it is noteworthy that this development is directly reflected in company profitability. Overall, it can be said that China has significantly closed the gap with its recent performance and has become closer to the US in global competition.

CHAPTER 4. THE KEY VULNERABILITIES OF TRUMP 2.0

Within the analyses conducted thus far, the US trade deficit has been detailed both by country and by product-complexity level. In addition, China (now the chief target of the toughest US trade measures) has been compared with the US using the key parameters of economic growth, and the differences between the two economies have been set out in detail. The analyses show that the drivers of the US' massive trade gap are not only a loss of competitiveness in high-complexity products, but also production shortfalls in low-complexity goods and critical external dependencies in certain strategic sectors. Together, the product-complexity profile, limited production capacity, and supply-chain fragilities identified in this report reveal the multilayered, structural nature of US deficit, while also highlighting potential vulnerabilities in the Trump 2.0 agenda. To pinpoint these structural weaknesses more systematically, the Institute of Social Studies has developed **the Foreign Trade Risk Index**[14]. The index aims to identify the sectors and product groups that will be most affected by the Trump Administration's policies. Accordingly, the following section examines in detail the sectors and product groups in which the US is most exposed; in particular, it reviews current conditions in critical areas such as rare-earth elements, energy, semiconductors, and artificial intelligence, and comprehensively evaluates the dependency relationships arising in these arenas alongside the weak points of Trump 2.0 policies.

Rare Earth Elements, Energy, Commodities and Semiconductors

Today, strategic sectors and raw materials, which form the basis of economic power and national security, are also the hottest areas of competition between countries. Future technologies such as artificial intelligence (AI), clean energy systems and advanced defense industries are heavily dependent on Rare Earth Elements (REEs), energy resources and high-performance semiconductors. External dependence in these critical areas creates a serious strategic vulnerability for US global leadership.

Rare Earth Elements are the most striking example of this dependency for the US. From smartphones to electric vehicles, from wind turbines to missile systems, REEs have a wide range of uses. Contrary to their name, REEs are not rare in nature, but they are difficult to extract and process economically and have high environmental impacts. While geological reserves are widespread globally, China holds the vast majority of the world's RRE production and processing market. According to the US Geological Survey (USGS), China accounted for approximately 70% of global RRE mineral production in 2023. In processing and refining capacity, China's dominance is even more pronounced and it is estimated to control more than 90% of the global market. This poses a critical security of supply risk for countries such as the US, which rely on imports for a significant portion of their REE needs. According to USGS data, around 80% of US RRE imports come directly or indirectly from China. The high dependence on this single country poses a serious threat to the US economy and defense industry in a

14 - For details on how the Institute of Social Studies - Foreign Trade Risk Index is created, please see the "Remarks" section.

possible geopolitical tension. The situation is similar for the US in semiconductors, another strategic sector. Although the semiconductor supply chain is highly complex and globalized, the design and production of the most advanced chips is concentrated in the hands of certain countries and companies. While the US is still strong in chip design software and certain high-performance chip segments, the vast majority of the most advanced manufacturing (foundry) capacity is based in East Asian countries such as Taiwan. China, on the other hand, is making massive investments to rapidly expand its semiconductor design and manufacturing capacity. Competition and supply chain vulnerabilities in this area are a critical strategic concern for the US, similar to that of REEs, and reports by agencies such as the US Department of Commerce emphasize the need to reduce dependence. External dependence in these strategic raw materials and sectors are current acute problems that feed into the Trump 2.0 policy rhetoric of "America First" or "promoting domestic production". This is because the vulnerabilities in these areas go beyond trade imbalances to national security and economic sovereignty. Finally, as in the case of trade with Canada, the US is globally competitive in the overall export-import balance in the "minerals" sector, which includes energy and commodities, and generally runs a trade surplus, despite running a trade deficit in basic inputs such as oil and natural gas. Therefore, the energy-related deficit should not be seen as a structural weakness, but rather as a natural consequence of interdependence with trading partners. Nevertheless, in order to increase energy supply security in the long run, developing renewable energy generation capacity and encouraging investments in this field would be a strategic measure to reduce external dependence.

Low Complexity Products

An analysis of the US export-import balance on the basis of products with below-average complexity shows that the US has a total foreign trade deficit of USD 189 billion in this area. Low-complexity products in this category, such as plastics, ready-to-use apparel, toys and various household goods, are areas where the US can shift to domestic production much more quickly and effectively. The foreign trade deficit in these products stands out as an area where global producers have an advantage due to low-cost labor and flexible production capabilities. However, given the technological infrastructure of the US and the size of the domestic market, it is possible to bring production in these segments back to the country. Therefore, applying import deterrent measures such as additional customs duties in these areas may contribute to making the supply chain more resilient. Thus, the US can both create jobs and narrow its trade deficit.

High Complexity Products

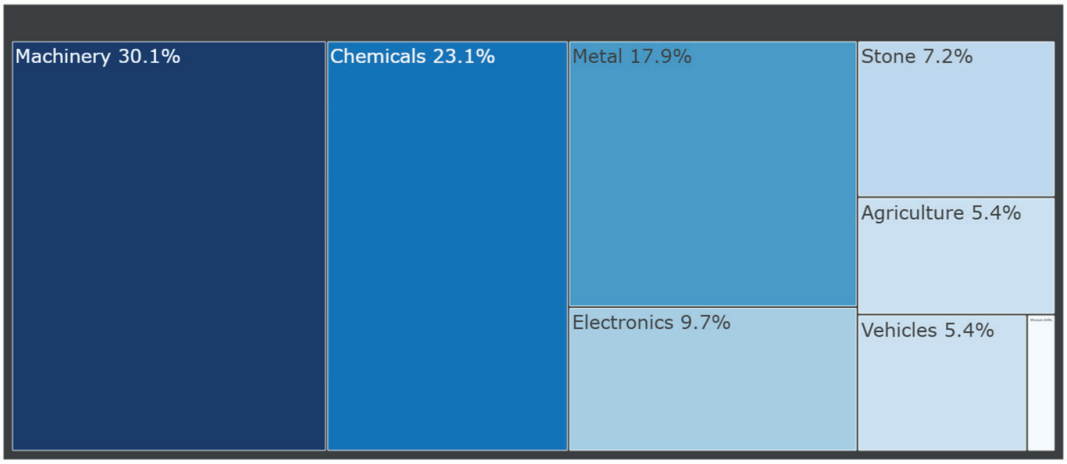
The most critical and structural dimension of the trade deficit stems from the loss of competitiveness in high-complexity products. In products of above-average complexity, the US trade deficit reaches $527 billion. As is evident in trade relations with China and Mexico, sophisticated product groups such as automobiles, computers, electronic integrated circuits, motor vehicle parts, batteries and similar sophisticated product groups are the areas where the US has the largest trade deficit in the global trade balance. **The Foreign Trade Risk Index (FTRI),** specially developed by the Institute of Social Studies for this report, is designed as

a strategic tool to identify areas of vulnerability in the US global trade structure. The index, which combines indicators such as the share of world exports going to the US, product complexity, and sectoral volatility by product, highlights structural risks, especially in products with high complexity and high external dependence. The index sheds light on which product groups and sectors are most vulnerable to US tariff and trade policies.

The index was created to identify products that are highly sensitive to global and local developments due to the fact that global production is significantly oriented towards the US, that the US has limited capacity to produce on its own in the short term due to their high level of complexity, and that the sectors to which they belong have high volatility.

Figure 20 showsthe sectoral distribution of products with above-average index values within the framework of this index. The data show that a significant share of sensitive products is concentrated in the machinery and chemicals sectors. The machinery sector accounts for 30.1% and chemicals for 23.1% of the total, together representing more than half of total sensitive products.

Figure 20: Sectoral Distribution of Products with Above-Average Sensitivity



Source: Harvard Atlas, IoSS Calculations

At this point, an important factor to be noted is the complexity level of products. The complexity values of the products included in the machinery and chemicals sectors, which appear to be the most sensitive within the scope of the index developed by Institute of Social Studies, are measured as 1.07 and 1.12, respectively. Considering that the average complexity value of 1222 products with data in HS 1992 - 4 digits is -0.001 and the highest complexity value is 3.47, the complexity values of the products determined by FTRI are quite high. This table indicates that the US may face serious difficulties under its current trade policies, especially in sectors with high complexity. In other words, the concentration of the most sensitive sectors for the US in high-complexity products that are not easily substitutable and whose production is more difficult to shift to the domestic market constitutes one of the most important vulnerability points of Trump 2.0 policies.

Figure 21 provides a more detailed breakdown of potentially vulnerable product groups in the US foreign trade at the sectoral level.

Figure 21: Sectoral Distribution of Products with Above-Average Foreign Trade Risk Index (FTRI), HS 1992 – 2 Digit

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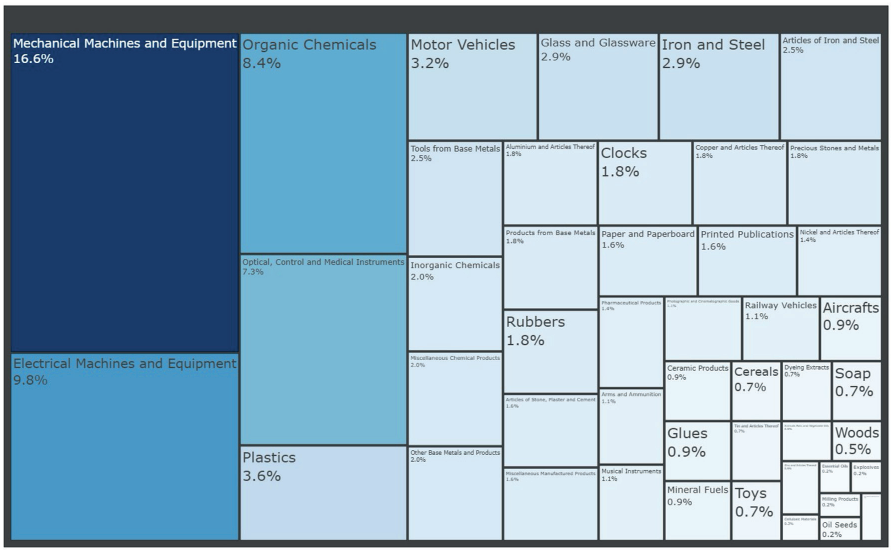

Source: Harvard Atlas, IoSS Calculations

The first striking element in the graph is the prominence of product groups with high complexity, particularly machinery and equipment. This group represents the largest segment with a share of 16.6% in total precision products. It is followed by high-complex and advanced processing-based sectors such as electrical machinery and equipment (9.8%) and organic chemicals (8.4%). These three sectors in particular stand out as areas where the US has limited domestic production capacity and high external dependency in the supply chain. In fact, the complexity levels of these product groups are significantly higher than the average. The complexity value is 1.16 for machinery and equipment, 1.13 for organic chemicals and 0.93 for electrical machinery and equipment. These values are well above the average and show that the products that make up these headings are difficult to substitute in a short period of time. Therefore, external dependence in these high-complexity product groups constitutes one of the most critical areas of vulnerability for the US foreign trade balance.

In addition, sectors such as plastics (3.6%), motor vehicles (3.2%) and iron and steel (2.9%) also have significant levels of risk. These groups are considered to be areas of high external dependence risk for the US, both because of the shift in the centers of global production to Asia and because of their labor costs and scale of production.

Finally, the list of the top 20 products with high Foreign Trade Risk Index values further highlights the vulnerabilities in the US foreign trade structure. The figure also shows the US foreign trade balance on the basis of these products. According to the figure, the US has a deficit of 231.5 billion dollars on the basis of these products. Moreover, the fact that the average complexity index of the products on the list is measured at a very high level of 1.56 reveals that these products are difficult to substitute. In particular, the significant weight of products be-

longing to the chemicals and machinery sectors in the list shows how critical these two sectors are for the US in both commercial and strategic terms. It is also noteworthy that even products of low complexity (such as coins and photographic film) can be sensitive in certain areas. This suggests that the US needs to develop a holistic industrial and trade policy that prioritizes security of supply not only for high-complexity products, but also for simpler product groups. Therefore, this picture points to the importance of multidimensional and sectoral-based strategic interventions around supply chain resilience and economic security.

Figure 22: First 20 Products According to FTRI

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Name	Sector	Foreign Trade Risk Index	Net Trade Balance
Salts of oxometallic acids	Chemicals	0.176	-4.13 billion USD
Revolvers and pistols	Machinery	0.163	-638.76 million USD
Coin	Stone	0.159	-289.18 million USD
Aircraft launching gear	Vehicles	0.149	-368.58 million USD
Musical instruments, wind	Machinery	0.133	-228.79 million USD
Cars	Vehicles	0.127	-142.94 billion USD
Parts of motor vehicles	Vehicles	0.125	-44.51 billion USD
Articles for utensils, of cermet	Metals	0.119	-440.15 million USD
Other firearms	Machinery	0.119	-699.91 million USD
Hormones	Chemicals	0.118	-5.32 billion USD
Nickel plates	Metals	0.115	408.46 million USD
Interchangeable tools for hand tools	Metals	0.113	-1.18 billion USD
Screws and similar articles of iron or steel	Metals	0.112	-1.29 billion USD
Chemical woodpulp, sulfite	Agriculture	0.111	625.19 million USD
Tungsten (wolfram)	Metals	0.103	-52.60 million USD
Tractors	Vehicles	0.102	-10.31 billion USD
Serums and vaccines	Chemicals	0.102	-19.55 billion USD
Wrenches	Metals	0.101	-519.94 million USD
Photographic film, developed	Chemicals	0.100	382.35 million USD
Handsaws	Metals	0.099	-451.10 million USD

Source: IoSS Calculations

CONCLUSION

This report has comprehensively analyzed the new American trade policy that took shape in the early months of the second Trump presidency, referred to here as "Trump 2.0", along with its ideological foundations and potential global economic effects. The data and analyses presented in the various chapters show that the Administration's "America First" approach represents a clear shift toward protectionist trade policy, rooted in American exceptionalism and economic nationalism. The new US leadership has adopted tariffs as a primary tool, especially to reverse the chronic trade deficit and the loss of global competitiveness in certain sectors, notably manufacturing and strategic product groups. The Trump administration believes that the free-trade system — which the US, in many respects, founded and principally defended — has now turned against the country and become a liability rather than a strength.

The report demonstrates that the US trade deficit is multidimensional. While trade with China, Mexico, and Canada accounts for a large share of the gap, sectoral analysis reveals that, despite America's strength in services exports, the country remains import-dependent both in high-complexity goods such as machinery, electronics, and vehicles and in certain low-complexity products. Product-complexity analysis shows that the US runs sizable deficits in high-complexity goods with China and Mexico, and in low-complexity goods such as energy and commodities with Canada. This indicates that US trade policy will require differentiated strategies for both low-complexity and high-complexity products.

Meanwhile, economic rivalry with China sits at the core of Trump 2.0 policies. In light of this report, it is not an exaggeration to say that debates dating back to the 1990s about "China's rise", "China prospective global leadership", or "China overtaking of the US as the new superpower" have now been borne out in certain economic indicators. The report shows that China has largely closed the gap with the US and in some measures has surpassed it in key economic parameters such as capital accumulation, human-capital stock, and, in recent years, R&D intensity and productivity. This situation underscores that the US' protectionist measures carry not only commercial but also geopolitical and strategic-competition dimensions, and that economic rivalry with China is a central element of Trump 2.0 policy.

Risks, Opportunities, Türkiye

Trump 2.0's aggressive tariff agenda poses serious risks for the global trading system. History, most notably the Smoot-Hawley Tariff Act of the early 1930s, shows that unilateral protectionist measures adopted by a major economy can quickly spiral into a worldwide trade war. As the world's largest market, the US' decision to raise duties so sharply all but invites retaliation from its principal trading partners, potentially setting off a vicious cycle of escalating tariffs. Such chain reactions need not stem solely from political motives or tit-for-tat logic: once virtually any product that feeds the US market loses price competitiveness under Trump 2.0's steep duties, exporters will be forced to seek new outlets. Other countries, confronted with a surge of diverted imports, are then likely to erect their own protective barriers to shield domestic producers.

A cascading tariff war would cause severe disruptions across global supply chains. Firms would face higher costs, restricted market access, and deep uncertainty. As WTO Director-General Ngozi Okonjo-Iweala has warned, a tariff clash between the US and China alone could slash goods trade between the two by as much as 80 percent—an outcome that, given the weight of both economies, "*could gravely distort the global economic outlook*." Shrinking trade volumes, slower world growth, and mounting inflationary pressures are the most probable macro-economic consequences. In today's tightly integrated economy, a scenario in which the two largest economies curtail commerce so dramatically would carry a very real risk of triggering a worldwide downturn.

For Türkiye, this new protectionist environment presents both significant risks and potential opportunities. First, a global slowdown and heightened uncertainty could delay investment decisions and amplify volatility in financial markets, thereby undermining the country's export performance and overall growth. Much will depend on how the European Union, Türkiye's largest trading partner, and individual EU member states are affected by their own frictions with the US. Second, given Turkish industry's heavy reliance on imported intermediates and raw materials, any breakdown in global supply chains could severely impact domestic production. Finally, perhaps the gravest threat is the multiplier effect that a worldwide contraction could exert on a still-fragile Turkish economy. Neither Türkiye nor any emerging-market manufacturer can realistically compete head-to-head with China's production capacity. Should Chinese goods, displaced from the U.S. market, flood into Türkiye, they could unsettle the domestic market and exert strong downward pressure on prices. Under such circumstances, Türkiye might have little choice but to impose additional duties on Chinese imports to protect its home market.

On the other hand, there are also some opportunities for Türkiye. First and foremost, Türkiye's relatively low rate of 10% in the Trump 2.0 tariffs will increase the competitiveness of Turkish exporters, especially vis-à-vis countries subject to higher tariffs. According to this opportunity, which we can call the trade-shifting effect, US importers will seek alternative suppliers, and Türkiye will have the opportunity to increase its market share by offering a competitive alternative in certain sectors (e.g. textiles, automotive parts, some machinery components). Secondly, the changing new global trading system may encourage Türkiye or Türkiye's potential partners to seek new trade agreements beyond their traditional trading partners, so Türkiye may find new export markets or become an import market for new countries. At this point, it will be a necessity for Türkiye to proactively seek new Trade agreements with new markets. Finally, for international companies looking to restructure their global supply chains, Türkiye can be considered as an alternative investment center with its geographical location and production potential. Especially for companies that want to avoid the tensions between the US and China, Türkiye's relatively favorable 10% tariff rate will be considered as an advantage.

In conclusion, Trump 2.0's trade policies have ushered in a period of uncertainty and potential instability in the global economy. The inward-looking and protectionist approach of the US brings with it the risk of a chain reaction in the global trade system. While Türkiye is vulnerable to the risks of this new era, it must also seize the opportunities offered by chang-

ing global dynamics. Türkiye should develop multilateral and flexible trade relations with the US and China, the two main fronts of the trade war, while taking steps to preserve existing trade mechanisms with EU countries with which Türkiye has extensive foreign trade. Türkiye should identify its vulnerable sectors that are vulnerable to foreign trade shocks and mobilize technological investment, incentives and protection mechanisms in these areas. Resource diversification in sectors with high external dependence (e.g. energy) is a sine qua non in the uncertain economic conditions of the future. On the other hand, diversifying the export basket and increasing production complexity will pave the way for Türkiye to emerge as a more competitive and resilient economy in the new global order. Breaking the low value-added export structure will be possible not only through trade policies, but also through the more holistic approach mentioned in the ***Society 5.0 Report***, the details of which we have recently published and through Türkiye's moves that will require coordination in the fields of education, R&D and industrial policy.

Remarks:

1) **Cognitive Workforce Index (CWI)**

The Cognitive Workforce Index (CWI) created in this study is designed to measure the human capital levels of countries with a multidimensional approach based on education and health indicators. The index consists of four main components:

a) **PISA High Level Achievement Score:**

- PISA "proportion of high-achieving students" in Reading, Mathematics and Science is an average score calculated on the basis of the average score.

b) **PISA Overall Achievement Score:**

- It was created by averaging the overall PISA scores in Reading, Mathematics and Science.

c) **Average Duration of Education:**

- Based on the average duration of education for the population aged 15-64 in a country.

d) **Life Expectancy:**

- Life expectancy data for countries are included in the index.

For each component, min-max normalization was first applied and the data were scaled between 0 and 1. In this way, different variables are made comparable on a common scale.

The weighted structure of the index is as follows:

- PISA High Level Achievement Score: **40%**
- PISA Overall Achievement Score: **30%**
- Average Training Duration: **20%**
- Life Expectancy: **10**

After the normalization process, each indicator was multiplied by the determined weights and the sum of these values constituted the raw Cognitive Workforce Index score of the relevant country. In the last step, the raw index score is multiplied by 100 to obtain the final CWI index value.

The CWI developed with this methodology is used as a holistic measure of human capital that takes into account not only the level of education but also the quality of education (high-level performance) and health indicators.

1) **Foreign Trade Risk Index (FTRI) Calculation Method**

The Foreign Trade Risk Index (FTRI) developed in this study is designed to reveal the vulnerability areas in US foreign trade in a more holistic approach. The construction of the index was carried out in three stages:

a. Sectoral Volatility Calculation

In the first stage, daily closing price data of sector indices are used to measure the price fluctuations (volatility) of different sectors in financial markets.

i. For each sector, returns for both the last 5 years and the last 2-month periods were calculated and annualized volatility ratios were found by taking their standard deviations.

ii. The volatility of these two periods is weighted by 70%-30% to reflect longer-term trends more, and a single Sectoral Volatility Index is constructed.

b. Assignment of Sector Volatility to Product Groups

In the second stage, the sectors to which the products belong were identified and the Sectoral Volatility Index values calculated above were assigned to each product on a sectoral basis.

- For this process, the sector information and volatility sectors of the products are matched and the volatility of the sector is reflected in the risk level of each product.

c. International Trade Risk Index (FTRI) Calculation

In the final stage, the FTRI value, which will constitute the final risk indicator for each product, was calculated.

In this context:

- Global Share of the Product in US Imports,
  - The import share of the US in a product is calculated by dividing the amount of that product imported by the US by the total world exports minus the US exports.
- Product Complexity Index and
- Sectoral Volatility Index are

multiplied by each other and the Foreign Trade Risk Index (FTRI) value is calculated for each product.

This methodology provides an integrated assessment of the weight of products in global trade, their complexity and their sensitivity to market fluctuations, and identifies the products and sectors in which the US is most likely to experience trade-related vulnerabilities.

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