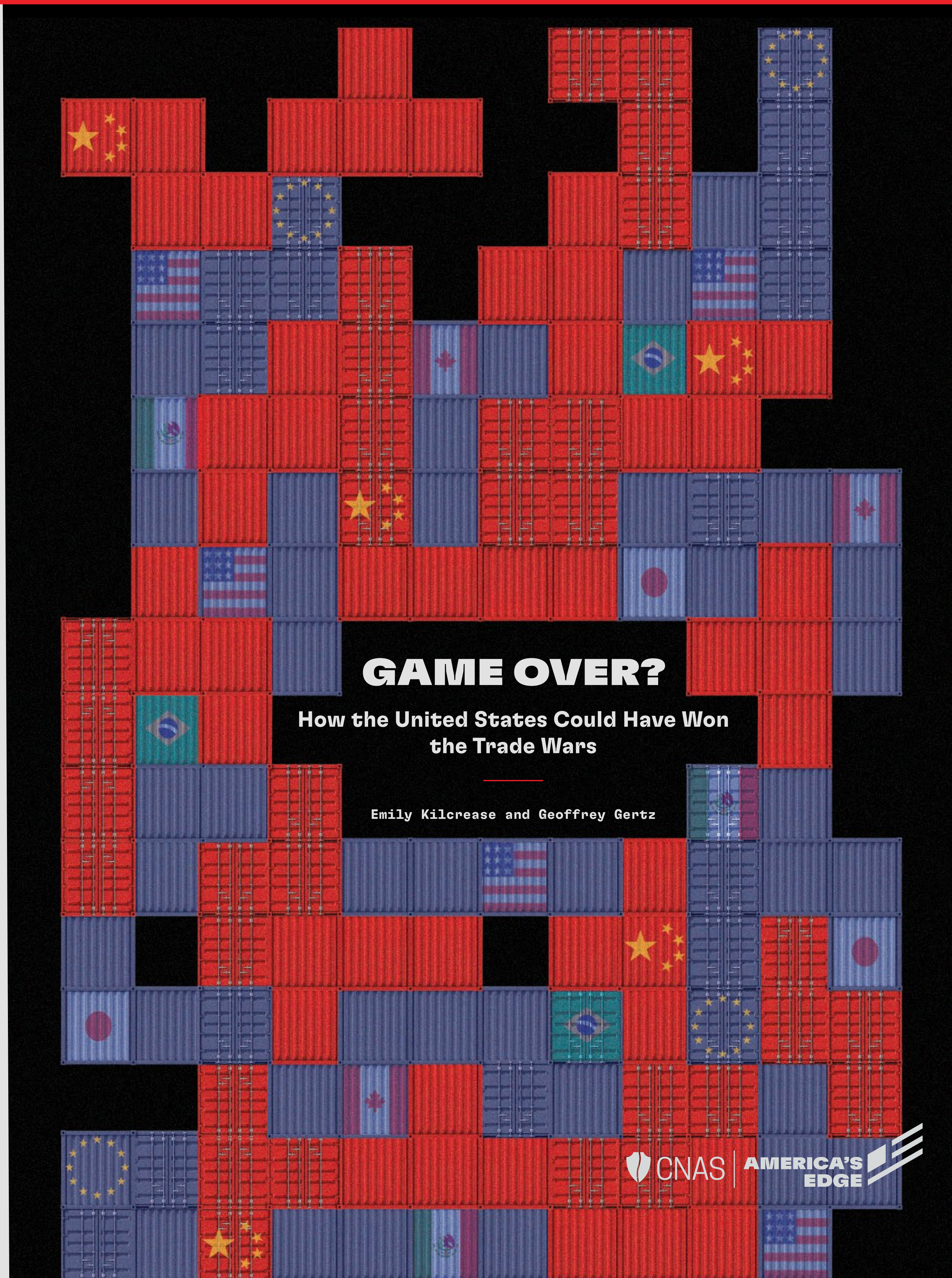


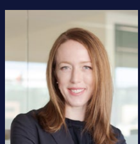
GAME OVER?

How the United States Could Have Won the Trade Wars

Emily Kilcrease and Geoffrey Gertz

CNAS | AMERICA'S EDGE

About the Authors



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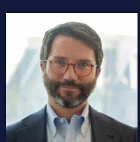

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About the Energy, Economics, and Security Program

CNAS's Energy, Economics, and Security (EES) Program explores the changing global marketplace and implications for U.S. national security and foreign policy. In a highly interconnected global financial and trade system, leaders must increasingly leverage economic and financial assets to defend and promote U.S. national interests. The program develops practical strategies to help decision-makers understand, anticipate, and respond to these developments.

This report is part of the EES Program's A World Safe for Prosperity initiative, which informs U.S. policymakers, private sector stakeholders, and international counterparts on how to update the global economic order to reflect the rise of economic security as a key feature of government policymaking.

Acknowledgments

The authors are grateful to Agathe Demarais and Becca Wasser for their peer reviews of this paper. Commander Michael Borja, Eleanor Hume, Adam Tong, and Kyle Rutter contributed meaningfully to the development of the trade wargame. Dr. ED McGrady was an invaluable wargaming advisor. Multiple colleagues from CNAS assisted in the implementation of the trade wargame, including Gibbs McKinley, Elizabeth Anderson, Kareen Hart, Delaney Soliday, Ruby Scanlon, Maeve Drury, and Thomas Corel. The players in the trade wargame were essential; this report would quite literally not have been possible without their active engagement, expertise, and creativity. The authors thank the CNAS design and publications team for their work on this report, as well as the CNAS communications team. This report was made possible through general support to the CNAS Energy, Economics, and Security Program.

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EXECUTIVE SUMMARY

THE CENTER FOR A NEW AMERICAN SECURITY'S Energy, Economics, and Security (EES) Program designed and conducted an economic wargame to explore possible pathways to resolve the trade wars sparked by historic levels of U.S. tariff escalation. This trade wargame was designed to examine foreign government responses to U.S. tariffs, including whether they would retaliate, negotiate, and/or make concessions. After being punished by U.S. tariffs, would foreign governments have the appetite to engage in dealmaking with the United States and, if so, under what conditions? The trade wargame was conducted on March 17, 2025, two weeks before President Donald Trump made his real-world announcement of shockingly high tariff rates on a day he deemed "Liberation Day."

Key Insights

In the game, the trade wars ended on a relatively positive note, in which U.S. tariff escalation built political momentum toward the creation of a trading network comprising America and its close partners. The U.S. team successfully brokered deals with the Europe and North America teams and certain other countries in the game to address long-standing irritants in their trading relationships, reduce the overall levels of U.S. tariffs, and align on common derisking policies toward China. The game's outcome should not be seen as predictive, but instead as helpful in illuminating the various factors that could drive government decision-making toward a relatively more positive resolution of the trade wars in the real world. These factors include the following four key insights:

Economic gravity is hard to fight. Teams representing Europe, North America, and other countries—all of whose real-world economies are more trade dependent than the U.S. economy and rely on exports to the U.S. market for a substantial portion of their gross domestic product—assessed that the U.S. team enjoyed escalation dominance. While political leaders from these countries may have deep reservations about U.S. policy toward their countries, they often have no choice but to seek a fast resolution to the abrupt damage caused by devastating U.S. tariffs. Players reflected this dynamic, prioritizing reaching a deal with the United States above broader, longer-term trade diversification efforts.

Foreign governments may be incentivized to de-escalate security issues to keep trade talks on track—at least to a point. The game introduced security issues to force players to contend with the potential for a broader breakdown in relations between the United States and its allies. Players on the Europe and North America teams consistently de-escalated the security issues to allow space for continued negotiations on trade issues. Real-world negotiators may similarly be able to successfully compartmentalize security issues, particularly if they perceive an urgent need to resolve the trade wars. This may hold so long as the United States does not cross particular redlines that may decisively turn public opinion in foreign countries against the United States and erode a political mandate to negotiate on trade.

Negotiators are more likely to reach agreements when they are flexible and expand the deal space. The U.S. team was open to negotiating away most tariffs, but not those designed to onshore production of certain strategic goods—which constrained some dealmaking. On the other hand, teams were creative in crafting agreements that expanded far beyond just tariff negotiations to also include elimination of nontariff barriers, alignment on counter-China measures, promised investment in the United States, and commitments to buy U.S. goods. In the real world, reporting suggests the United States is also seeking to link nontrade issues, such as defense spending, to the rollback of tariffs, further expanding the scope of potential dealmaking and off-ramps.[1]

China is unlikely to capitalize on the trade wars to emerge as the new leader of the global economic order but may make inroads with certain countries in the Global South. Players representing major industrialized nations showed a clear preference for working with the U.S. team rather than the China team, so long as they perceived that the U.S. team was open to good-faith negotiations. This likely reflected a clear assessment of their own economic and security interests in derisking from China, as well as a more pessimistic view of the attractiveness of the China market. These country teams were also willing to take meaningful counter-China actions as part of their broader deal with the U.S. team, cutting the China team out of the emerging trading bloc. The rest-of-the-world team, however, hedged hard, reflecting a risk for the United States in the real world that some countries may opt to deepen trade links with China instead of the United States, depending on how the United States handles specific negotiations.

The Path Ahead

The trade wargame suggests that sustained high tariffs could create leverage and urgency to spur action toward a productive restructuring of the international trade system, resulting in deeper integration among close security partners and coordinated derisking from China. In the real-world trade wars, however, it is unclear if the Trump administration has either the inclination or ability to carry out such a strategy. The chaotic, unpredictable nature of the tariff policy the Trump administration has pursued in recent months—marked by dramatic overreach and then unilateral reversals—has sharply eroded U.S. negotiating credibility, which will make it difficult, if not outright impossible, for the Trump administration to mirror the success of the U.S. team in the EES trade wargame.

Despite the Trump administration's missteps, however, there are certain external constraints emerging in the real world that may nudge the president away from his chaotic, unilateral approach toward a more strategic and methodical manner. Mounting economic pressures, particularly in the U.S. bond market, alongside growing political pushback and potential legal checks, may collectively serve to box in some of the president's more extreme tariff impulses. It is conceivable these factors could push the real-world U.S. administration toward a strategy more closely aligned with that of the U.S. team in the game, which used sustained, credible tariffs as leverage to negotiate mutually beneficial, lasting new trade arrangements with its close allies and partners. But the window for realizing such an outcome may be rapidly closing.

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INTRODUCTION

THESE ARE NOT YOUR NORMAL TRADE WARS. President Donald Trump has raised U.S. tariffs to levels unseen in the modern era of globalization, rattling markets and unnerving foreign governments along the way. He has imposed tariffs on close security partners and strategic adversaries alike, citing a multitude of shifting rationales for doing so. Everything is on the table, from traditional trade issues, such as disputes over unfair trade practices, to security priorities, such as immigration and drug trafficking. The tariffs have been imposed without regard for existing U.S. trade obligations; indeed, much of the point seems to be to rip up the existing rulebook and replace it with something else, though what that something else is remains to be seen.

With sweeping tariffs announced on nearly every country in the world, it is now clear how the U.S. trade wars start—but is yet to be seen how they will end. The U.S. economy has, for decades, depended on open trade flows and access to global markets. With a few swoops of his pen, President Trump has upended this paradigm, placing a series of risky bets collateralized by the strength of the U.S. market. He has bet that the allure of the U.S. market, and the risk of being cut off through aggressive U.S. tariffs, will provide the United States immense leverage to renegotiate the terms of its trading relationships. He has bet that the U.S. economy would be better off behind a tariff wall that incentivizes higher investment domestically. And he has bet that this can all be accomplished while tariffs generate revenue for the U.S. government and are paid for by the sending country.

Will these bets pay off, and importantly, can they all pay off? Or will the president be forced to choose between the competing goals of his tariff strategy? And will he stick to a strategy, or will U.S. trade policy continue to be characterized by a chaotic, on-again, off-again dynamic that makes planning and negotiation nearly impossible? Many factors will matter, including how the U.S. economy responds to the president's bets, whether courts uphold his actions as lawful, and how voters perceive the costs and benefits of a tariffs-first approach to international economics. This report focuses on one additional factor: the willingness of foreign governments to play along with the president to achieve a hard reset of the global trading system. The ability of the United States to work productively with foreign partners to strike new trade deals after a period of intense tariff hostility will be critically important in determining how the trade wars end.

These are not your normal trade wars. President Donald Trump has raised U.S. tariffs to levels unseen in the modern era of globalization.

This report focuses on the international political economy aspects of the trade wars, analyzing the diplomatic and political ramifications of tariffs. This political focus is not to discount the very real economic impacts of tariffs. High U.S. tariffs are likely to have serious economic consequences for the global economy and could result in long-term harms to U.S. productivity and competitiveness. For this report, the authors set those important issues aside and instead focus on the more narrow question of how foreign government responses may impact the administration's tariff plans.

The first section of this report describes the design and research objectives of the trade wargame the Energy, Economics, and Security (EES) Program at the Center for a New American Security (CNAS) conducted. The second section lays out the key insights from the game, including identifying factors that, under the right conditions, could contribute to a relatively positive resolution of the trade wars.

The third section assesses if there is still a window in the real-world trade wars for the Trump administration to seek a productive restructuring of the global trade order, including if emergent external constraints may push the president away from his chaotic impulses toward a more methodical, strategic tariff policy. The report concludes by identifying some of the steps the administration would need to take to put the trade wars back on track toward a more positive outcome, should the president choose—or more realistically, be forced by external constraints—to moderate his trade policy.

Terminology of U.S. Tariffs Introduced Under the Trump Administration

- **Reciprocal tariffs:** Reciprocal tariffs are intended to rebalance bilateral trade deficits, both by directly decreasing U.S. imports and by gaining leverage to pressure foreign governments to lower their own tariff and nontariff barriers. Reciprocal tariffs introduced by the Trump administration vary by country.
- **Universal baseline tariffs:** Universal baseline tariffs are applied to all countries and are intended to generate revenue for the U.S. government or to address the overall U.S. trade deficit.
- **Coercive tariffs:** Coercive tariffs are intended to compel foreign governments to take an action desired by the United States.
- **Product-specific tariffs:** Product-specific tariffs are intended to support the domestic production of critical goods. They are applied to specific product categories, and they can apply to imports of these products from all sources or can be limited to imports from designated countries.
- **Liberation Day tariffs:** Liberation Day tariffs refer to the reciprocal tariffs and the universal baseline tariff announced by President Donald Trump on April 2, 2025, a day he deemed “Liberation Day.” The Liberation Day tariffs were paused shortly after implementation, and the United States started negotiations with dozens of countries to identify deals that would justify longer-term reductions in the Liberation Day tariffs.

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THE TRADE WARGAME

THE CNAS ENERGY, ECONOMICS, AND SECURITY Program designed and ran a trade wargame to examine the varying responses of foreign governments to increased U.S. tariff pressure. The trade wargame was conducted on March 17, 2025, two weeks before the monumental suite of tariffs announced by President Trump in the real world on his so-called Liberation Day.

In the real world, foreign governments have attempted a range of tariff response strategies, including a mix of retaliation (including retaliatory tariffs imposed or announced on U.S. exports), bargaining and compromise (including taking economic and noneconomic actions to assuage declared U.S. concerns), coordination with other countries, and restraint.[2] None of these tariff response strategies has proven bulletproof, and each of the strategies may erode in effectiveness over a prolonged period of tariff escalation. The trade wargame was intended to develop insights into how target countries may adapt their responses over time, and how the U.S. administration may evolve its tariff strategy to account for foreign government responses. In particular, the research team was interested in exploring the potential for dealmaking between the United States and foreign governments after a sustained and adversarial period of tariff escalation by the United States.

The end result of the game, which was run once with a static group of players, should not be taken as predictive. In the real world, multiple variables could

The CNAS Energy, Economics, and Security Program conducted a full-day trade wargame to examine how government-to-government negotiations may unfold. (Caroline Gutman)

alter how the trade wars play out. Instead, the value of the game is in deriving new analytic insights into the complex dynamics that governments engaged in the real-world trade wars face and in illuminating factors that may influence their decision-making. The game is also intended to provoke thinking beyond the daily headlines and to consider how the trade war dynamics may evolve over a longer time period, with players having to make decisions and live with the consequences of those decisions over the course of game play.

Player Roles and Rules

Players were placed on teams representing five countries or country groups: the United States, China, Europe, North America, and the rest of the world (ROW). The Europe team represented the European Commission, member states of the European Union, and the United Kingdom. The North America team consisted of Canada and Mexico. The ROW team included any country not otherwise assigned, excluding Russia and other rogue states.

Players represented high-level officials from their respective countries' economic and foreign policy ministries and were responsible for determining the strategies and actions that their governments would pursue in the emerging trade wars. Participating players included former high-level trade officials from the United States and internationally, economic experts, regional and geopolitical experts, military experts, and analysts well versed in the Trump administration's strategic thinking on tariffs, including former Trump administration officials. CNAS experts acted as the control cell, guiding the overall flow of game play.

Players were encouraged to engage in free play, with instructions to act in a manner consistent with the real-world objectives and constraints that government leaders have across the economic, political, and security domains. Both economic and noneconomic actions were permitted, representing the overlap between economic and security issues in the real world (e.g., U.S. imposition of tariffs on Mexico for drug-trafficking reasons).[3] Players were permitted to engage in diplomacy and coordination with other teams.

The game design imposed most of the U.S. tariffs as part of the scenario, while the U.S. team had flexibility to impose additional tariffs or to remove tariffs if doing so would be consistent with its America First strategy. A known, yet unpredictable, variable in the real-world trade wars is the role of President Trump. The president's highly personalized style of governance, in which he plays the primary—and often sole—decision-maker, may complicate the ability of his officials to negotiate deals with their counterparts. To account for this, the U.S. team was permitted to strike deals when doing so would be consistent with America First policy objectives, but the control cell acted as President Trump and could overturn a U.S. team decision at any point during the game.

All non-U.S. teams were instructed to develop a strategy and actions to respond to an increase in the volume and complexity of U.S. tariffs. Non-U.S. teams were permitted to go beyond simply issuing retaliatory tariffs and look for other ways to expand opportunities for a deal with the United States. For example, teams could offer to purchase U.S. goods or increase their defense spending if doing so would create a holistic package to offer to the United States. However, the non-U.S. teams were also free to retaliate or refuse to negotiate with the U.S. team. Non-U.S. teams were permitted to engage in coordination and diplomacy with each other, including to create deals that excluded the United States.

Scenario

The game scenario began on April 2, 2025. In the real world, the United States had already escalated tariff pressure both on close allies and strategic competitors to pursue a variety of economic and security policy objectives. This included implementing 25 percent tariffs on Canada and Mexico to address border security issues, 20 percent tariffs on China related to China's role in the fentanyl crisis, and 25 percent tariffs on steel and aluminum imports.[4] These real-world tariffs were incorporated into the scenario. Additionally, the scenario included implementation of a hypothesized reciprocal tariff program, under which the United States increased tariff rates on imports from other countries to account for trade deficits, higher tariffs, and other trade barriers in those countries.[5] Players were provided further background on the full suite of potential tariffs signaled in the real-world Trump administration's *America First Trade Policy* memo and in public comments from the president, priming them for a sustained period of tariff escalation.[6]

The research team designed the scenario to create complex and difficult conditions for dealmaking between the United States and foreign governments. The game took place over three turns. In turns one (set on April 2, 2025) and two (set on October 1, 2025), the scenario escalated U.S. tariff pressure, including a broad range of tariffs to address trade barriers and trade deficits, generate revenue, and pursue strategic decoupling from China. These tariffs were additive, and over the first two turns they roughly approximated the tariff escalation seen over the first four months of the Trump administration in the real world. The third and final move (set on October 1, 2026) took place in the run-up to a closely contested U.S. midterm election, cast against the backdrop of rising inflation driven by a hypothetical food security crisis. Additionally, the research team also injected security-related issues into the scenario to examine how broader geopolitical tensions might impact foreign governments' willingness to negotiate with the United States on trade.

While the scenario roughly approximated real-world events that have played out since the game was conducted, there are important points of difference. These differences, and their relevance to the insights derived from the game, are discussed later in the report.

Adjudication

The game adjudicators used a game board to track team actions and the impacts on each team's economic, security, and political well-being. Within the economic, security, and political categories, specific indicators were denoted in hexes (e.g., "trade" is represented by one of the hexes in the economic box). The adjudicators had underlying rules of thumb to guide the placement of red (very negative), yellow (negative), or green (positive) markers to indicate the impact of each action on the relevant indicator hex. Markers accumulated fastest on the trade indicator for those country groups that had a high reliance on trade generally or that had the United States as one of their top five export markers. Additionally, the adjudicators engaged the players during the adjudication sessions after each move to incorporate their assessments of the intended impacts of their actions.

The game was not designed to result in economic predictions. Neither the game generally nor the board specifically were designed to precisely forecast, for example, the rise in inflation that may be associated with the level of tariffs imposed during game play. Instead, the game board primarily was used to facilitate a conversation among players on the potential impacts of actions taken and to draw out differing assessments of the economic, security, and political consequences of various tariff strategies.

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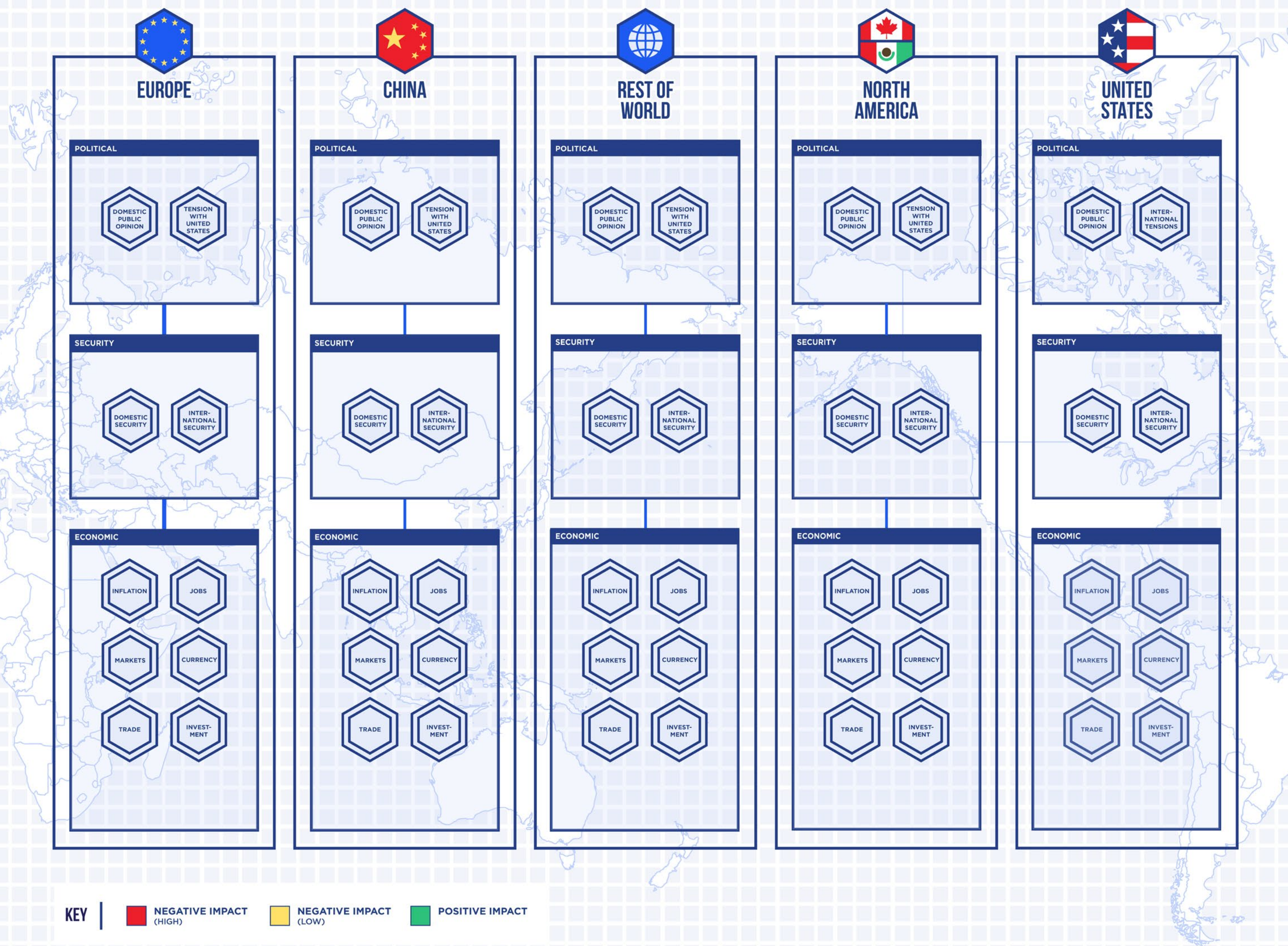
Figure 1 | Trade Wargame Board

The Energy, Economics, and Security team used a game board to track game play.



INSIGHTS FROM THE GAME

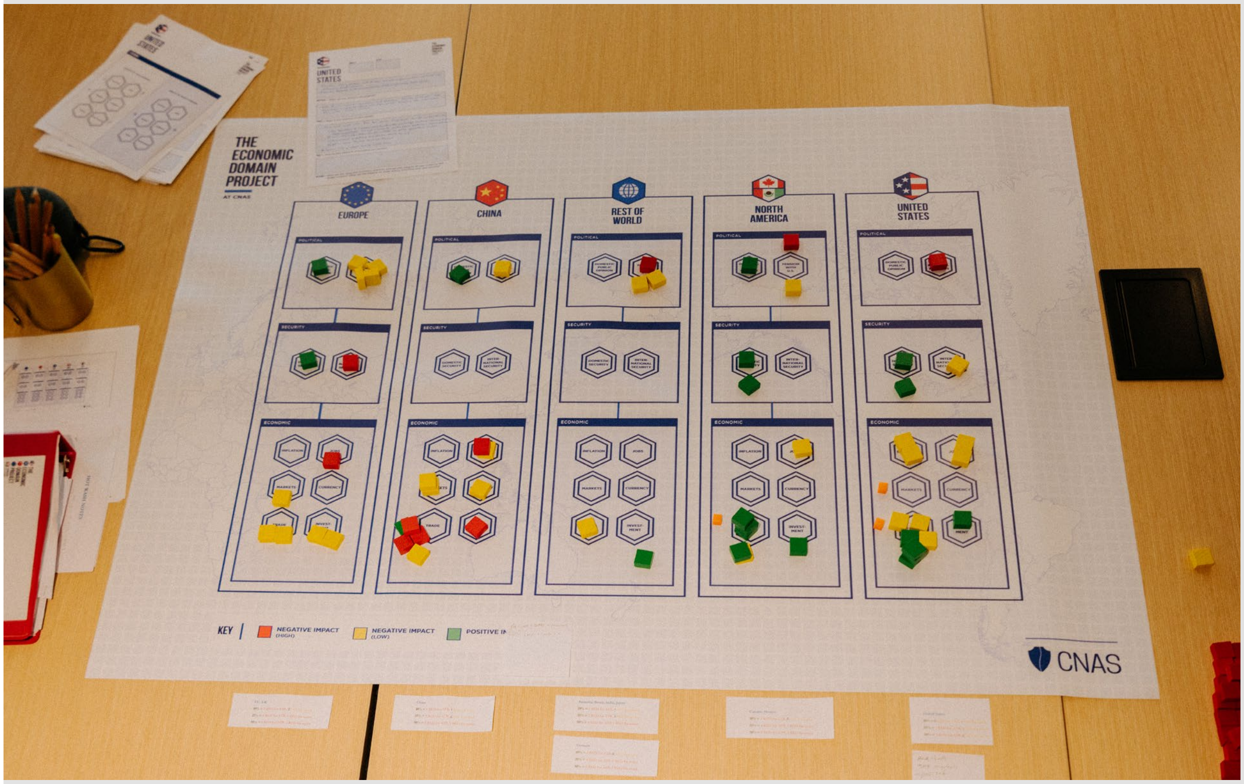
A TARIFFS-FIRST U.S. APPROACH to the global economy may, under certain conditions, create productive urgency and political momentum to tackle persistent trade issues. While the real-world trade wars have been highly disruptive, the game insights suggest that there may be a narrow path to a more positive outcome—one in which the United States and close international partners negotiate new trade deals that open markets among allies while advancing derisking from China. At the end of the game, the players perceived a clear victory for the U.S. team, in which an aggressive U.S. tariffs strategy led to a burst of intense negotiations and ultimately meaningful progress in resetting important trade rules with several major trading partners (with the notable exception of China). The game play indicated that foreign governments may come to the negotiating table in search of deals and with meaningful concessions in hand, even after substantial tariff escalation by the United States, as long as they assessed that the United States remained open to negotiation.

It may seem counterintuitive to argue that a positive resolution could result from bitter trade wars. However, insights from the game reveal how such an outcome could emerge. First, the highly disruptive nature of the U.S. tariffs, combined with the scale of the U.S. market, creates an urgency that may compel foreign governments to seek a trade deal with the United States to avert short-term economic catastrophe. Second, the economic urgency of the trade wars may crowd out other geopolitical irritants, leading foreign governments to de-escalate other concerns with the Trump administration, at least up to a point. Third, the trade wars may be about more than trade, and successful bargaining with the United States may require a broad set of economic and security offers. Fourth, other countries may not view China as a preferred alternative to the United States, though this perception may differ significantly between countries.

This section expands on the main insights from the game, while also drawing in analysis from real-world events where appropriate.

Economic Gravity Is Hard to Fight, as It Turns Out

Throughout the game, players on the non-U.S. teams assessed that the U.S. team had escalation dominance in the trade wars. This likely reflects real-world economic dynamics, including the fact that the United States is relatively less trade dependent than other major economies, and at the same time is a major export market for several of the countries impacted by the trade wars. Over 75 percent of Canada's and Mexico's trade is destined for the United States.[7] Europe's trade is more diversified, with the United States accounting for 20 percent of its exports, but European economies as a whole are highly reliant on trade, making them relatively more vulnerable than the United States to disruptions to trade.[8] Key U.S. partners throughout Asia and Latin America similarly rely on trade for economic growth and currently have the United States as one of their top export markets (often first or second, alongside China).



The trade wargame ended on a surprisingly positive note, as the United States team struck several meaningful trade deals with teams representing major trading partners—with the notable exception of the China team. (Caroline Gutman)

In the game, most non-U.S. teams were prepared to retaliate in response to escalating U.S. tariffs if needed but tended to exercise restraint initially while seeking to create space for negotiations, reflecting a nuanced strategy balancing the desire to negotiate first, with a hard backstop of retaliation if needed. In the real world, many countries have shown similar tendencies, with major economies such as the European Union holding off on planned retaliation once the Liberation Day tariffs were paused.[9] (China is a notable exception, with its swift retaliation in the real world.)[10] When faced with immediate, large-scale disruptions to trade, most trade-dependent countries simply have less economic leverage to retaliate against the United States. They may seek to negotiate to preserve access to the critical U.S. market in the near term, even if doing so actually increases their dependence on the United States economically and runs counter to domestic political pressures to stand up to U.S. bullying.[11]

The importance of the immense U.S. market may also help explain why a strong counter-U.S. bloc failed to materialize during the game, and why such a bloc may be unlikely in the real world. On the one hand, if all other countries agreed to form a counter-U.S. bloc to enhance their collective bargaining power and facilitate trade diversification away from the United States, the U.S. administration likely would have a harder time executing its tariff strategy. But foreign governments have a high incentive to strike deals unilaterally with the United States, as doing so would not just enhance their own economic positions in absolute terms; it also would provide a relative advantage over peers who are not able to negotiate similarly favorable terms to access the immense U.S. market. The economic weight of the U.S. market and the near-term crisis induced by heavy U.S. tariffs increase the odds of unilateral actions to negotiate with the United States. This may be true even as foreign countries are aware of the perverse outcome of such a strategy, in that it will lead to more, rather than less, economic dependence on the United States. These dynamics, which are akin to a trade war iteration of the classic prisoner's dilemma, pit foreign governments against each other and pit short-term interests in resolving the trade wars against longer-term interests in reducing vulnerability to future U.S. trade coercion. All else equal, this may enhance U.S. leverage to demand significant concessions on trade, and potentially other priority issues.

Foreign Governments May Be Incentivized to De-Escalate Security Issues—at Least to a Point

Foreign governments do not just deal with the United States on trade. Instead, they are managing multiple interests in their relationships with America, including responding to other elements of President Trump's foreign policy agenda. The control cell injected controversial security issues into the scenario to mimic these dynamics in the game. This included unilateral U.S. military exercises around Greenland and U.S. designation of Canadian entities as Foreign Terrorist Organizations and Specially Designated Global Terrorists for their roles in the transnational fentanyl trade.[12] The Europe and North America teams took deliberate steps to de-escalate rather than inflame tensions, in spite of the provocative nature of the U.S. actions introduced in the scenario. For example, in response to the U.S. military exercises around Greenland, rather than condemning U.S. actions, the Europe team stated that they viewed the exercise as a demonstration of NATO's strength and that they looked forward to participating in joint exercises in the future. These dynamics in the game suggest that governments may be able to effectively compartmentalize economic and security issues and that foreign governments may prioritize resolving the trade wars above other areas of potential tension with the United States—up to a point.

De-escalation did not necessarily equate to capitulation. Actions by the Europe and North America teams to de-escalate security tensions typically were paired with diplomatic statements asserting the countries' rights and redlines, as well as coordination to counter U.S. actions. De-escalation was intended to buy time and space for trade negotiations, but it may not last indefinitely under real-world conditions. Players on these teams noted that there may be certain tipping points, such as more overt security provocations, that would challenge their abilities to pursue this delicate balancing act.

In the real world, foreign governments appear to be attempting this type of balancing between trade wars and other interests. In the most striking case, Canadian leaders have strongly opposed President Trump's continued statements that Canada should become the 51st U.S. state.[13] Former Prime Minster Justin Trudeau went so far as to state his view that the U.S. tariffs on Canadian goods were intended to cripple Canada economically to make it easier to annex.[14] Yet, Canadian leaders continue to negotiate with the United States to find off-ramps to the North American trade war, reflecting the sheer necessity of doing so for their economic well-being. European leaders are similarly engaged with U.S. trade officials, despite deep reservations about the Trump administration's strategy to resolve the conflict in Ukraine, its desire to control Greenland (an autonomous territory of Denmark), and its posture toward NATO, among other issues.[15] To date, officials from these countries have walked a careful line of maintaining their positions on these security issues while keeping space open for trade talks. U.S. escalation on any of these issues, particularly those related to the sovereignty of other countries or territories, may cause foreign governments to lose a mandate to negotiate on trade issues, even if walking away from trade talks is economically disastrous for them.

Negotiators Are More Likely to Reach Agreements When They Are Flexible and Expand the Deal Space

In the game, the U.S. team was directed to pursue tariffs for multiple objectives: to counter unfair trade practices, reduce trade deficits, rebuild domestic capacity in key strategic sectors, and generate revenue for the federal budget. When other teams approached the United States to negotiate agreements to lower tariffs, it was naturally easier to identify deals for tariffs addressing unfair trade practices, as there was a more direct relation between the tariff and an action that the non-U.S. teams could take to address a U.S. team priority. The U.S. team was less flexible in reducing tariffs that had the objective of building domestic capacity or raising revenue, as such tariffs must persist to achieve their policy goals. However, from the non-U.S. teams' perspectives, the practical impacts of all such tariffs were the same. The trade deals reached by the U.S. team and other teams may have been constrained in scope and ambition as a result of the inflexibility shown by the U.S. team on parts of its tariff strategy.

In the real world, the president has similarly shown that certain tariffs, such as a universal baseline tariff, are unlikely to be negotiable. Relatedly, it is unclear if the United States is willing to entertain any concessions or changes to its own policies in negotiations, other than unwinding some of the new tariffs the president has introduced since he returned to office. This limits the deal space for achieving "win-win" deals of mutual trade liberalization, hampering dealmaking.

While not all tariffs are up for negotiation, this may be partially compensated for by extending the deal space into other economic, political, and security issue areas. In the game, successful negotiating and bargaining strategies included both a commitment to address trade barriers, such as tariffs, and other inducements to the U.S. team. Examples in the game included shrinking trade deficits through purchases of major U.S. goods and increasing investments in the United States. Additionally, the North America and Europe teams and some country members of the ROW team were willing to coordinate counter-China policies with a mix of alignment on institutional measures (e.g., enhanced investment screening) and particular matters (e.g., sanctions in response to the Chinese seizure of a Taiwanese warship, a fictional event introduced in the scenario).

CNAS game leads adjust the board. (Caroline Gutman)

These efforts to expand the deal space reflect similar tactics in the real-world negotiations that have unfolded since the game, with press reports indicating that Europe, Canada, and Mexico have all indicated some willingness to put counter-China measures on the table.[16] Additionally, multiple companies announced planned U.S. investments early in the second Trump administration, though it is unclear to what extent any such announcements may have been coordinated with home governments, or whether these reflect firm decisions to get ahead of U.S. policy actions.[17] When security issues triggered U.S. tariffs, country responses included actions that spoke directly to these issues (e.g., increased counternarcotic enforcement and cooperation) as part of negotiations with the United States.[18]

It remains an open question whether the U.S. administration views these types of offers as sufficiently ambitious. The very first sentence of the *America First Trade Policy* memo, issued on day one of the administration, makes a direct link between trade and national security, marking a clear departure from the so-called globalist perspective in which trade and national security were held in separate policy silos.[19] One interpretation of this trade-security linkage is that it has predominantly counter-China aims and that the policy goal will be to pursue economic decoupling from the primary U.S. strategic adversary.[20] That perspective likely informed the reported counter-China offers that Mexico, Canada, and others developed as they attempted to preempt the trade wars in the real world.[21]

However, certain statements indicate that the administration may be seeking a much broader linkage between trade issues and other priorities. For example, in a now widely discussed paper, Stephen Miran, the chair of the president's Council of Economic Advisors, raises the idea of withdrawing security guarantees from U.S. allies that impose retaliatory tariffs on the United States.[22] Miran has also raised the prospect of charging other countries that benefit from the U.S. provision of global public goods, such as use of the U.S. dollar as a reserve currency or the U.S. security umbrella.[23] Secretary of Commerce Howard Lutnick has noted a potential interest in including U.S. export control policy in trade negotiations—in that access to advanced U.S. chips could be withheld if countries did not satisfactorily respond to U.S. trade demands.[24] Taken as a whole, these types of comments indicate that the U.S. administration is looking at its relationships with other countries holistically and collapsing issues in ways that mean trade disputes may have consequences for security alliances and that a dissatisfied U.S. perspective on allies' security capabilities may impact the trade relationships as well. It remains to be seen to what extent foreign partners will have an appetite for negotiating broader security issues as part of comprehensive deals to avoid U.S. tariffs. Tariffs may have triggered the trade wars, but resolution may require deals that encompass the entirety of a country's relationship with the United States.

China is Unlikely to Capitalize on the Trade Wars to Emerge as the New Leader of the Global Economic Order but May Make Inroads with Certain Countries in the Global South

In the game, the Europe, ROW, and North America teams displayed a clear preference to negotiate with the U.S. team first and only reverted to seriously working with the China team when rebuffed by the U.S. team. This may have reflected the Europe, ROW, and North America teams' desires to avoid appearing too close to China and adding yet another irritant to their relationships with the U.S. team so long as negotiations with the U.S. team were proceeding. It also may have signaled the teams' independent assessments of their own interests when it came to China, a market that has become riskier and increasingly uninvestable due to China's own domestic policies, separate from any geopolitical tensions. When these teams sought to hedge against the U.S. team, it was more often through expanding trade ties with each other rather than with the China team. The only instance of a clear swing away from the U.S. team and toward the China team was when Vietnam (as part of the ROW team) was denied tariff relief from the U.S. team and subsequently pivoted hard to court the China team.

Not only were teams dubious of deepening their ties with China; several were also willing to entertain counter-China policies as part of their entreaties to the U.S. team. The North America team pushed the concept of "Fortress USMCA," in which the North American market developed stronger integration internally while also aligning on strong counter-China measures, such as investment screening and tougher rules of origin to prevent Chinese goods from benefiting from United States–Mexico–Canada Agreement (USMCA) preferential treatment. The Europe team offered counter-China cooperation and was willing to align with significant U.S. team sanctions on the China team. Players on these teams expressed some skepticism about how strongly the U.S. administration is prioritizing counter-China cooperation in real-world discussions. Real-world press reporting has indicated that early counter-China offers from European negotiators fell flat, and it remains unclear how high a priority U.S. negotiators will place on counter-China issues.[25]

The ROW team was more hesitant to engage on counter-China initiatives. They assessed that close security partners such as Australia and Japan might have appetites for alignment, while others, including much of the Global South, would likely reject calls for decoupling with China. Most countries within the ROW team flatly rejected U.S. requests to align with the more aggressive counter-China moves, such as kicking China out of the World Trade Organization, even when these countries were under heavy U.S. tariff pressure. Of all the country teams, the ROW team was the most open to overtures from the China team, though the balance of their efforts to diversify trade away from the United States took place with other ROW countries, or the Europe and North America teams. This posture reflects real-world

Behind closed doors, the China team plans its response to U.S. tariff escalation. (Charles Horn/CNAS)

dynamics in which ROW countries seek to avoid positions that force them to choose between their relations with the United States and those with China. In the real world, these countries may adopt a general strategy of de-escalating tensions and bargaining with the United States while prioritizing trade diversification initiatives, including with other countries targeted by U.S. tariffs.[26]

U.S. pursuit of a U.S.-China trade deal may introduce significant uncertainty into any counter-China coordination efforts. In the middle of the game, as the U.S. team was engaged in negotiating a range of counter-China initiatives, the control cell (acting as President Trump) posted on Truth Social that the president would pursue a "big, beautiful deal" with China. The U.S. team was forced to walk back or pause its more severe counter-China actions. Other teams simply halted efforts to advance counter-China initiatives until they had further clarity on what the U.S. president intended to pursue in the deal with the China team. Ultimately, while certain counter-China elements were retained in the final deals that country teams struck with the U.S. team, these were substantially watered down from proposals originally under discussion. The U.S. and China teams ultimately struck a limited deal to provide some tariff relief, but both the U.S. and China teams viewed their limited deal as highly transactional and short term in nature, rather than a durable solution to long-standing U.S-China economic tensions. The fleeting benefits of the U.S.-China deal in the game raise questions about whether, in the real world, prioritizing a deal with China over other countries makes strategic sense for the United States, particularly if other countries slam the brakes on their own counter-China initiatives as a result.

In the real world, China is sensitive to the possibility of the U.S. administration pushing for counter-China actions as part of broader trade deals. Shortly after Liberation Day, Chinese Communist Party General Secretary Xi Jinping launched a charm campaign in Southeast Asia, visiting countries such as Vietnam and Malaysia that were hard-hit by Trump's tariffs.[27] He has welcomed European leaders and pushed a message that Europe (as China's next-largest export market) and China should stand together against U.S. trade bullying.[28] South Korea and Japan agreed to renew trade dialogue with China.[29] At the same time, China's strategy is not entirely based on inducements, and it has made clear that it will retaliate against countries that include counter-China measures as part of their efforts to appease the United States.[30] The strategy appears clear: to present China as a stable trading partner and minimize the chances of the Chinese economy becoming isolated as a result of the U.S. trade wars.

The United States may have an opportunity to leverage the real-world trade wars to advance a responsible derisking from China, though it is not without complications. Both the game and the real-world offers of counter-China coordination suggest that the United States could push for a broader, more muscular derisking agenda. To achieve this, however, the United States would need to clearly prioritize alignment on counter-China policies as a goal in its trade negotiations and have a strategy to support trading partners as they inevitably face intense pressure from China to not align with the United States. It also would need to carefully manage the dynamics of its own trade talks with China, to avoid other countries' hesitating to move forward with any derisking measures if they fear the United States may be pivoting to strike a deal with China.

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IS THERE STILL A PATH TO A POSITIVE RESOLUTION OF THE TRADE WARS?

THE EES TRADE WARGAME SUGGESTS that disruptive tariffs, when deployed strategically, in theory could create an opening for progress toward reforming the international trading system, including to promote stronger opportunities for U.S. exports and to advance a responsible derisking from China. However, even a casual observer would note that things do not seem to be going quite so smoothly for the United States in the real world. Indeed, the Trump administration's chaotic tariff policy has wreaked havoc on the existing economic order, but there is little evidence to date the administration has any concrete plan for rebuilding a new order. Is there still a window to realize a productive outcome of the trade wars, and if the president is not inclined to pursue such an outcome, can external forces, such as markets, push him in that direction?

The Costs of Chaos

In the game, U.S. tariffs escalated sharply but steadily. The tariffs were high and sustained, and any tariff removals were the result of negotiations between the U.S. team and other teams. The U.S. team was able to successfully use leverage built by high, credible tariffs to strengthen its hand in the negotiations during the game.

In contrast, Trump's real-world tariffs have been marked by extremes and unilateral reversals, calling into question the credibility and durability of U.S. actions. On so-called Liberation Day, the president shocked the global economy by announcing reciprocal tariffs that were significantly higher than expected.[31] U.S. stock markets experienced the largest single-day decline since the onset of the COVID-19 pandemic, coming on top of already steep declines since Trump's 2025 inauguration.[32] Perhaps more worryingly, investors also sold off U.S. government bonds, sharply reversing a normal tendency to view U.S. government debt as a safe haven asset during times of crisis.[33] Following these market swoons, a week after Liberation Day, the president announced a 90-day pause on reciprocal tariffs for all countries other than China. Meanwhile, the China tariffs escalated rapidly to clearly unsustainable levels, which prompted the president to reverse course again as part of a face-saving but fragile truce agreed to by both sides.[34] The president has undermined his own leverage and credibility by overreaching and then demonstrating a willingness to back down from tariffs when the unintended consequences of his actions become clear.

The administration's chaotic approach to tariffs has also created a second challenge when it comes to credibility: its ability to make credible commitments that it will refrain from future tariffs. Even following

Players reflect on the trade wargame. (Caroline Gutman)

the pause of the Liberation Day reciprocal tariffs, the president has gone on to initiate new trade investigations into semiconductors, pharmaceuticals, trucks, critical minerals, commercial aircraft, polysilicon, and drones; announced, and then paused, a 50-percent tariff on Europe; and doubled tariff rates on steel and aluminum. The president may have been temporarily chastened by the backlash to his Liberation Day tariffs but appears undeterred from his fixation on tariffs as a cure-all, even as the specifics of the exact tariffs imposed change rapidly. The continual drip of new tariffs and tariff threats may undermine the prospect of successfully concluding substantive trade negotiations, given that foreign governments do not know what tariffs may hit them next.

Tariff coercion may be effective in persuading trade partners to reset trading relationships if the United States is able to credibly maintain persuasive levels of tariffs and also credibly commit to removing those tariffs once sufficient concessions are offered by trading partners, as the game insights suggest. But the president's current posture of moving between extremes and exercising scarce restraint undercuts the very credibility that he needs to effectively use tariffs to coerce. In the absence of U.S. credibility, partners will not know if concessions they make in response to U.S. pressure will buy them durable relief from future coercion, and they may opt to wait out the current tariffs in hopes of a unilateral U.S. reversal. While foreign partners may negotiate non-binding and superficial "framework agreements" with the United States, as the United Kingdom did in May 2025, such deals appear more likely to signal a temporary détente in the trade wars than lead to a new, sustainable set of trade rules.[35]

Emergent Constraints on U.S. Tariffs

As previously described, President Trump's approach to tariffs favors maximum flexibility—resulting in frequent policy reversals and unpredictability, which have hampered the administration's ability to craft durable deals with its trade partners. Yet there are a number of external factors—including economic pressures, political blowback, and legal rulings—that may constrain the president's impulsive use of tariffs. Depending on how these factors evolve, they could nudge the United States toward a more methodical, orderly trade policy, and thereby encourage a more positive outcome of the trade wars.

The Trump administration has acknowledged that its tariff strategy may entail temporary economic costs.[36] However, it is not clear whether the president anticipated the sharp effect that the real-world Liberation Day tariffs would have on markets; when announcing a 90-day pause on the Liberation Day tariffs, President Trump cited the markets getting "yippy" as part of his rationale, and the bond market reaction in particular is reported to have played a strong role in prompting the reversal.[37] Analysts have noted that the market swings, particularly the flight away from U.S. assets, are highly unusual in that they are policy-based rather than arising from underlying economic conditions.[38] Further policy-based shocks (such as the reinstatement of high reciprocal tariff rates) will hit against markets that are now more sensitive to the decisions of the U.S. president. President Trump may have to weigh the risks of further market declines against any perceived benefits from additional tariff escalation from this point forward, which could constrain new tariff actions.

Beyond the immediate impact of market swings, over time tariffs may also spark inflationary concerns, which could fuel further political backlash. By mid-July 2025, tariff impacts started to show in inflation data, a trend that may grow as company stockpiles dwindle and price increases are passed on to consumers.[39] Polls show that U.S. consumers are worried about the impact of tariffs on prices.[40] In the immediate aftermath of the Liberation Day tariffs, even some Republicans expressed displeasure with the president's trade policies—a notably rare moment of criticism from a party that has mostly been in lockstep behind the president's agenda.[41] As the midterms approach, Republicans in Congress worried about their reelection prospects may attempt to serve as a brake on new tariffs. Yet the likelihood of any definitive action to rein in the president's tariff authorities remains low, given the political costs many Republicans perceive in opposing the president.

U.S. courts may also act as a brake on the president's tariff authorities. In the game, the scenario intentionally excluded litigation as a factor, and players did not have to contend with a court decision finding any of the U.S. tariffs unlawful. In the real world, the president's legal authority to use emergency powers to impose tariffs has been contested.[42] As this report goes to print in summer 2025, the ultimate disposition of the litigation has not been decided. If the president's emergency powers are constrained, the administration will likely pivot to alternative trade authorities that provide a clearer legal basis for tariffs, but that also require fact-based analysis and public input. The use of these more methodical trade tools could introduce a helpful brake on the tariff whims of the president and promote more transparency and predictability around the future use of U.S. tariffs.

The influence of these external factors may wax and wane, and it would be naive to argue that any one of them would fully constrain the president's future tariff actions. However, the president is showing some sensitivity to these factors, and it is conceivable that an accumulation of these pressures over time will lead to some moderation of U.S. trade policy, pushing the administration to seek face-saving off-ramps from its own trade wars. If it does, a best-case scenario would be that these pressures nudge the United States toward the slow and steady approach used by the U.S. team in the game, and that external constraints partially check the president's unwillingness to be bound by rules. This could allow the trade wars to move from the chaotic tariff swings observed in the real world to a more productive path of substantive trade negotiations akin to what played out in the EES trade wargame.

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CONCLUSION

BY FLEXING ITS LEVERAGE with trading partners, the United States had an opportunity to create urgency and momentum to break through long-standing political obstacles to resetting its trading relationships with close U.S. partners. Indeed, this is the outcome the players in the wargame arrived at: The U.S. team ended the game with a series of new agreements with its major trading partners, with the promise of greater exports, increased investments and purchase agreements, and alignment on counter-China economic security policies. But in the real world, the turbulence unleashed by the president's dramatic tariff overreach and reversals, and the attendant loss of U.S. credibility, mean that it will be harder for the United States to achieve a positive resolution in the trade wars.

It is possible that it is already too late for the United States to get back on track, as the president's ever-present tariff threats continue to erode what remained of U.S. credibility. It also is likely that his staunchly held belief in the beauty of tariffs will prevent any moderation or rationalization of his trade policy, particularly in the absence of advisors willing to challenge him on the more extreme elements of this policy. But, should there be a softening of his position in the face of economic pressures, political blowback, or possible court rulings constraining his legal authorities, there are certain pragmatic steps the administration can take to start the long uphill walk back to U.S. credibility and leverage.

First, the Trump administration needs to prioritize and calibrate its use of tariffs to meet a more narrowly defined set of achievable policy objectives. A clearly articulated and realistic theory of victory would allow trade partners to better understand which U.S. tariffs are negotiable and which are not and how they can best work with the United States to achieve shared objectives, should any such shared objectives be identified. As part of this, the Trump administration should consider which of its tariff objectives would be more effective if implemented in tandem with partners. For example, it is highly unlikely that the United States can reshore manufacturing of all chips that the U.S. economy consumes, or that it could do so through the use of tariffs alone. It can, however, address the looming issue of Chinese overcapacity in chips by persuading other major consumer economies to align on a common tariff policy, while also coordinating on measures to promote stronger production in both the United States and in allied countries.

Second, to increase the likelihood of finalizing new deals, the United States and its trading partners should adopt broad negotiating mandates and creatively seek to expand the deal space beyond traditional trade issues. This includes issues like purchase agreements and nontariff barriers, but also more ambitiously economic security priorities on export controls, investment security, and countering China's nonmarket practices. To the extent that the United States seeks to link noneconomic security issues, such as defense spending, to trade talks, it should recognize that this is a new paradigm in the trade world, be specific and clear with trading partners about U.S. expectations, and work flexibly with them to develop a workable resolution to identified U.S. concerns.

Third, the United States must be prepared to move quickly to conclude new trade negotiations. The game suggests there may be a narrow window of opportunity for new agreements, but absent meaningful progress on negotiations in a few short months, that window could close as U.S. trade partners lose confidence in the United States as a negotiating partner. Economic conditions, including nervous bond markets, may also limit the time available to find off-ramps to the trade wars. The United States will need to move urgently on new negotiations on multiple fronts, prioritizing among potential negotiating partners, sticking to tight negotiating timelines, and developing a strategy to proactively address smaller economies that otherwise would be relegated to the back of the negotiating line.

Last, but certainly not least, the Trump administration must commit to the principle of rules-based trade, in both spirit and law. Does the administration seek to rewrite the existing rules of the international trade system to make them more favorable for U.S. interests or to do away altogether with any rules that might constrain U.S. trade policymaking? The United States has long benefited from the stability and predictability that come from a rules-based economic order and generally accepted that the overall stability provided by the system of rules is of greater value than the gains that could be derived from breaking any particular rule. The Trump administration, however, appears to make the exact opposite calculation, adopting a transactional approach that seeks to maximize immediate gains wherever possible, even when doing so breaks existing rules. A credible commitment to rules-based trade is nonetheless the single most important thing the Trump administration can do to avoid a costly rupture between America and the global economy—a rupture that could have profound strategic and economic consequences.

The Trump administration must commit to the principle of rules-based trade, in both spirit and law.

The North American trade war will be an important test case on the U.S. commitment to rules-based trade. Canada and Mexico were the first targets of the Trump 2.0 tariffs—tariffs that were inconsistent with the USMCA, an agreement Trump negotiated and signed in his first administration and once called "a tremendous victory for American workers, farmers, manufacturers, and businesses alike."[43] In the subsequent months, Trump moderated his approach toward the two countries, and they were the only countries spared additional tariffs on so-called Liberation Day.[44] For a time, it appeared that the three countries were on the path toward a more substantive, detailed discussion on possible updates and changes to the USMCA, with tariff threats present but manageable.[45] But in early July, President Trump again played the spoiler, threatening new rounds of tariffs—including 35 percent on Canada and 30 percent on Mexico—leading to increasingly pessimistic assessments about the possibility of a durable deal for a USMCA 2.0.[46] It is still too soon to tell if the North American trade war will reach a productive outcome, let alone if this might be replicable to other regions. But the president negotiating and then sticking to a new set of rules to govern North American trade would be an important signal that the United States has not fully given up on the principle of rules-based trade.

The future of the global economic order is being rewritten with haste. The United States had a fleeting but real opportunity to guide the global economy into a new form, one that retains the value of open markets and trade but that reforms the trading system for the better. If President Trump wants to seize this opportunity, he must be willing to rein in his appetite for tariffs and find ways to credibly commit to a new system of rules to which the United States will be bound. The tariff threats and coercion the president has pursued have shaken trust among U.S. partners and allies, and no matter what comes next this likely will have lasting consequences. The loss of trust is palpable in foreign capitals, and the road back to steady U.S. alliances is uncertain. Mutually beneficial resolution of the trade wars is possible, but the window to achieve this is fast disappearing.

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