Trade & Tariffs

Figures current as of October 2026

How trade works and who wins from it, how a tariff travels from the customs code to the shelf, the statutes that let a president tax imports and the Supreme Court ruling that struck the broadest of them, the regime that replaced it, who pays, the deficit and the surplus countries, China, the neighbors, the deals, the supply chains that moved, the rules without a referee, and the dates to watch.

MODULE 1 — Foundations

Goal: Set the numbers and the vocabulary.

World trade, America's place in it, and the two measures of the tariff rate in a table; tariff, MFN, quota, the current account, comparative advantage, value chains, rules of origin, and the effective rate.

MODULE 2 — Why Countries Trade

Goal: Understand the gains, who gets them, and the case against.

Ricardo's insight and the evidence; who gets the gains; the China shock; and whether a country should protect its industries, argued both ways.

MODULE 3 — A History of Trade Policy

Goal: Trace the pendulum from mercantilism to 2018.

Mercantilism, Smith, and the Corn Laws; the American tariff from 1789 to Smoot-Hawley; GATT, the WTO, and China's accession; the 2018 turn and why it held.

MODULE 4 — How a Tariff Works

Goal: Follow one from the customs code to the shelf.

Classification, valuation, origin, de minimis, and drawback; how the layers stack; who bears a tariff, argued both ways; and one container's landed cost from 2017 to 2026, worked through.

MODULE 5 — The Legal Machinery

Goal: Understand who may impose a tariff, and how.

The six statutes in a table; the courts and the challenges now running; the Supreme Court's ruling of February 20, 2026 and the refunds; and four authorities stacking on one Chinese steel product, worked through.

MODULE 6 — The 2025-26 Regime

Goal: Read the eighteen months in one timeline.

Five acts from Liberation Day to the Section 301 tiers; the tiers in a table; and what the regime is.

MODULE 7 — Who Pays

Goal: Read the evidence on prices, revenue, jobs, and growth.

Prices and the cost per household; customs receipts and the refunds; whether the tariffs have revived manufacturing, argued both ways; retaliation, and the winners and losers.

MODULE 8 — The Deficit and the Surplus Countries

Goal: Understand what a deficit is, and is not.

The arithmetic and the current account; the dollar's role; the surplus countries in a table; and who is to blame for the deficit, argued both ways.

MODULE 9 — China

Goal: Follow the relationship from accession to the truce.

The numbers; from accession to the first trade war; the chips and the controls; the 2025 war and the truce; and the summits of 2026 and the extension to January 10, 2027.

MODULE 10 — The Neighbors

Goal: Read the continent as one factory.

The North American factory; the record of 2025-26; the USMCA review of July 1, 2026; and the first use of Section 338, against Canada.

MODULE 11 — Europe, Japan, and the Deals

Goal: Read the deal architecture and its durability.

What a 2025 deal is, partner by partner; Europe's deal and its conditions; Japan's and Korea's pledges; and whether the leverage worked, argued both ways.

MODULE 12 — Supply Chains Re-routing

Goal: Follow what actually moved between 2018 and 2026.

Three kinds of moving; where the trade went; what did not move, and why; and resilience against efficiency.

MODULE 13 — The WTO and the Rules

Goal: Understand trade in a world without a referee.

What the system was; its decline, from the Appellate Body to the conference in Yaoundé; and the rules that remain.

MODULE 14 — Services, Subsidies, and Industrial Policy

Goal: Read the trade the tariffs do not touch.

Services; the subsidy race; chips and medicines; and whether the state should return as a trader, argued both ways.

MODULE 15 — Where Things Stand, and What to Watch

Goal: Assemble the picture and name the dates.

Where things stand; what the vote will and will not change; a dated watch list from October 2026 into 2029; and a last word.

A note on the sources and the ground: Trade figures come from the Census Bureau and the Bureau of Economic Analysis (BEA), the World Trade Organization (WTO), and China's customs administration; tariff rates from the Penn Wharton Budget Model, the Yale Budget Lab, the Tax Foundation, and the Congressional Research Service; legal actions from the Federal Register and the courts. Market prices are the close of Wednesday, October 14, 2026, and other figures are the latest release, with its date. Whether the tariffs of 2025-26 are a tax on Americans, a bargaining tool, a security policy, or all three is a live political argument. Where the ground is contested, the course makes each side's case as its advocates make it, then gives the evidence and its own reading, once. It explains how trade works; it is not advice, and it does not forecast prices.

Market Snapshot

Prices and yields at the close of Wednesday, October 14, 2026, with the latest releases

Measure	Level	Source
Federal funds rate	3.75-4.00%, raised on September 16; the next meeting October 27-28	Federal Reserve
Ten-year Treasury yield	5.19% (5.31% on October 5)	US Treasury
Dollar index	About 102.6, its highest since April 2025	Intercontinental Exchange
Currencies	Yuan 6.69 per dollar; yen 158.3; euro $1.116	Market closes
Standard & Poor's 500 index (S&P 500)	7,718.94 (record close 7,818.93 on October 6)	S&P Dow Jones Indices
Brent crude oil	About $106 a barrel	Intercontinental Exchange futures
Consumer prices	Up 3.7% in the year to September; 2.6% excluding food and energy	Bureau of Labor Statistics, October 14
Strait of Hormuz	7 to just over 20 commodity ships a day in early October, against about 125 before the war	Kpler, October 8
US effective tariff rate	7.1% of the value of imports in August 2026	Penn Wharton Budget Model
US customs duties, fiscal 2026	$173.2 billion net, after $144.6 billion of refunds	Monthly Treasury Statement
Refunds of tariffs under the International Emergency Economic Powers Act (IEEPA)	About $126 billion certified by October 2, of about $166 billion collected	US Customs and Border Protection (CBP), via Penn Wharton
US trade deficit, goods and services	$105.6 billion in August 2026; 19.9% smaller in January-August than a year earlier	BEA and Census Bureau, October 6
China's trade surplus	$133.5 billion in September, with exports up 36.3% on the year	China's customs administration, October 14

Market prices are closes of October 14, 2026; the other figures are the latest releases, with their dates.

Module 1 — Foundations

The Numbers and the Vocabulary

Recommended Reading / Reference

Book: Douglas A. Irwin, *Free Trade Under Fire* (fifth edition, 2020)

Reference: The Census Bureau and Bureau of Economic Analysis's (BEA) monthly report on US trade in goods and services; the WTO's *Global Trade Outlook and Statistics*; the Penn Wharton Budget Model's and the Yale Budget Lab's tariff trackers

1a. What Trade Is

Trade is the exchange of goods and services across borders, and much of it is not finished products moving from one country's factories to another's shoppers. Roughly half of world goods trade is in intermediate goods, the parts, materials, and components that move between factories, so a tariff on 'imports' taxes domestic factories as often as foreign ones. A phone crosses a dozen borders before it is sold, and its country of origin is a legal test that Module 4 explains.

The United States is the largest trading nation and one of the least dependent on trade. Its exports and imports together equal about 25% of its GDP, against about 80% or more for Germany and more than 150% for Vietnam. That is why it could fight a trade war at lower cost than its partners.

1b. The Numbers

Measure	Figure	Source and note
World trade, 2025	Goods exports $26.3 trillion, up 7.2% in value; commercial services above $9.5 trillion, up 8.2%; about $35.8 trillion together	The UN Conference on Trade and Development (UNCTAD) and the WTO (March 26, 2026)
World trade growth	Goods volumes up 4.2% in 2025; forecast 3.9% for 2026, raised from 1.9% in March, and 4.1% for 2027	WTO (October 8, 2026); AI-related goods made up 47% of the growth in goods trade's value in the first half of 2026
US goods trade, 2025	Imports $3,438.4 billion; exports $2,197.5 billion	BEA and Census Bureau (February 19, 2026); the balances are in Module 8
US services trade, 2025	Exports $1,234.9 billion; imports $895.4 billion	The same release; what the services are is in Module 14
US trade in all, 2025	Exports and imports together about $7.77 trillion	BEA and Census Bureau
China	The largest exporter of goods; exports up 5.5% in 2025 and 21.3% in January-September 2026, to $3.37 trillion	China's customs administration, via ING (October 14, 2026); its surplus is in Module 8
US effective tariff rate (duties collected over imports)	2.3% in January 2025; a peak of 11.4% in October 2025; 6.7% in July 2026 and 7.1% in August	Penn Wharton Budget Model (February 3 and October 14, 2026); in August, steel and aluminum products 39.8%, Chinese goods 24.3%, cars 13.8%
US average statutory rate (on the import mix before importers shift)	28% at the April 2025 peak, the highest since 1901; 11.0% in August 2026, expected to reach 11.8% by the end of 2026	Yale Budget Lab (April 15, 2025 and August 24, 2026)

Figures are the latest available on October 22, 2026. The two tariff measures differ because importers shift away from taxed goods and countries, and because some goods are exempt.

1c. The Vocabulary

Term	Meaning	Where it appears
Tariff (duty)	A tax on an import, collected at the border, usually set as a percentage of the good's value	Module 4
Most-favored-nation (MFN) rate	A country's normal tariff, which WTO rules require it to offer every member alike	Modules 3 and 13
Quota and tariff-rate quota	A limit on how much may be imported, or a low tariff up to a set quantity and a high one beyond it	Module 4
Non-tariff barrier	A rule that restricts imports without a tariff, such as a standard, a license, or a preference for domestic suppliers	Modules 13 and 14
Trade balance and current account	Exports minus imports of goods and services; the current account adds income on investments and transfers	Module 8
Comparative advantage	The principle that trade pays even when one country is better at everything, because relative cost is what matters	Module 2
Value chain	The sequence of countries in which a product's parts are made and assembled	Module 12
Rules of origin	The tests that decide where a good comes from for tariff purposes	Modules 4, 10, and 12
Effective tariff rate	Duties collected divided by the value of imports (1b)	Modules 1 and 6
Pass-through and incidence	How much of a tariff shows up in the price an importer pays, and who finally bears it: the foreign exporter, the importing firm, or the consumer	Modules 4 and 7
Sections 232, 301, 201, 122, and 338; IEEPA	The statutes under which a president may impose tariffs without a new vote of Congress, each with its own trigger and limit	Module 5
Transshipment	Routing a good through a third country to change its apparent origin, which is fraud when the processing there is minimal	Module 12

1d. The United States in the System

The American position is a set of asymmetries. It is the largest importer, which is the leverage the policy of 2025-26 used. It runs the world's largest deficit in goods and a large surplus in services, so what 'trade' means depends on which half one looks at (Module 8). It issues the currency in which most reserves are held and much of world trade is invoiced (Module 8). And it built the rules-based system of 1947-95 and, since 2018, has been the country most willing to set it aside (Module 13).

The course's throughline is that all of this was stable for a generation and is not now. The effective tariff rate stayed below about 3% from the mid-1990s to 2024. The Tax Foundation expects it to average 6.6% in 2026 on duties collected, the highest since 1969 and nearly three times 2024's 2.4%, on a legal foundation still being tested in court (Module 5).

Module 1 Key Points

Foundations

• World trade in goods and services came to about $35.8 trillion in 2025; the WTO expects goods volumes to grow 3.9% in 2026.

• Roughly half of goods trade is in intermediate goods, so a tariff on imports also taxes domestic factories.

• The United States is the largest trader and among the least trade-dependent: exports and imports equal about 25% of GDP.

• Duties collected over imports went from 2.3% in January 2025 to a peak of 11.4% that October, and 7.1% in August 2026.

• Measured on the import mix before importers shift, Yale's rate peaked at 28% in April 2025 and stood at 11.0% in August 2026.

• The Tax Foundation expects a collected rate of 6.6% in 2026, the highest since 1969.

Module 1 Quiz

Check Your Understanding

1. Why does a tariff on imports also tax domestic factories?

A) Much of what is imported is parts and materials
B) It is levied on exports
C) Because the WTO requires the tariff to be split between the importer and the exporter's country
D) Factories must buy a customs license every single year

2. About what share of GDP are American exports and imports combined?

A) About half
B) About 25%
C) More than 80%, as in Germany
D) About 150%, counting the trade of American companies' foreign subsidiaries as American trade

3. What does the effective tariff rate measure?

A) The rate announced in a proclamation
B) The average MFN rate
C) The rate in trade deals
D) Duties collected over the value of imports

4. When did the effective rate, measured as duties collected over imports, peak in 2025?

A) April 2025
B) January 2025
C) October 2025, at 11.4%
D) December 2025, at 17%, the highest since the 1930s, before the Court's ruling ended the IEEPA tariffs

5. Why does Yale's statutory rate exceed the rate of duties actually collected?

A) It counts services as well as goods in its total.
B) It includes the IEEPA refunds that importers have claimed since April 2026.
C) It is calculated in euros rather than in dollars.
D) It uses the import mix before importers shift away from taxed goods and countries.

Module 2 — Why Countries Trade

The Gains, Who Gets Them, and the Case Against

Recommended Reading / Reference

Book: Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy* (twelfth edition, 2022)

Reference: David Autor, David Dorn, and Gordon Hanson, 'The China Shock' (2016) and 'On the Persistence of the China Shock' (2021)

2a. Ricardo's Insight

The case for trade begins with an argument two centuries old that still surprises: countries gain from trade even when one of them is better at making everything. David Ricardo's example of 1817 used English cloth and Portuguese wine. What matters is relative cost. If Portugal is twice as good at wine and only slightly better at cloth, both countries end up with more of both when Portugal makes wine, England makes cloth, and they trade, because each gives up less to make what it sells. The idea, comparative advantage, is why a surgeon who types faster than her assistant still hires the assistant.

Later theory refined the idea. In the Heckscher-Ohlin model, countries export goods that use what they have in abundance, whether land, labor, capital, or skill. The 'new trade theory' of the 1980s explains why similar countries trade similar goods with each other, as most rich countries do: scale and variety pay. Models since 2003 add firms, in which the most productive companies export and trade raises average productivity by shifting work toward them.

The evidence for the gains is strong. Countries that trade more have tended to grow faster, and the opening of China, India, and Eastern Europe after 1980 coincided with the largest fall in poverty in history. Estimates of what trade adds to American incomes run from about 2% to 8% of GDP, spread across consumers as lower prices and more variety.

2b. Who Gets the Gains

Trade raises the total and changes who receives it. The Stolper-Samuelson theorem of 1941 says who loses: the owners of whatever a country has least of. For the United States that is less-skilled labor, so trade with low-wage countries should hold down the wages of workers without a degree while raising those of skilled workers and the owners of capital, and by most estimates it did.

The gains are spread thin and the losses concentrated. Millions of households save a few hundred dollars a year on clothes and electronics, while a few hundred thousand workers in a few hundred towns lose their jobs and their towns lose their tax base. For most of the postwar period economists assumed that the losers could be compensated from the gains, through programs such as Trade Adjustment Assistance, and that workers would move to the new jobs. The compensation stayed small.

2c. The China Shock

The revision came from papers by David Autor, David Dorn, and Gordon Hanson, published from 2013, on the American labor markets most exposed to Chinese imports after China joined the World Trade Organization (WTO) in 2001. In a 2016 paper with Daron Acemoglu and Brendan Price, they estimated that the shock cost about 560,000 manufacturing jobs directly, about 1 million counting the factories' suppliers, and up to 2.4 million across the economy. Workers in the hardest-hit places did not move away. Those places had lower wages and more people on disability benefits for a decade or more, and the effects were still visible in 2019.

Other findings tempered the picture. Later studies found that cheaper Chinese goods saved consumers money, and that the savings went disproportionately to lower-income households. Manufacturing's share of American jobs had been falling for decades before 2001 as productivity rose, and manufacturing output, unlike its employment, kept rising. The political conclusion, drawn in both parties by 2016, was that the China trade had been mishandled, and that conclusion gave the case for protection a hearing it had not had in decades.

2d. Should a Country Protect Its Industries?

The case for protection

Its advocates, among them Robert Lighthizer, the trade representative of 2017-21, conservative groups such as American Compass, and many in both parties, make six arguments. A new industry cannot compete with established rivals until it has scale, so it should be protected while it grows, as Alexander Hamilton argued (Module 3) and as Germany, Japan, Korea, and Taiwan did. A country should not depend on rivals for steel, ships, chips, medicines, or the minerals in a missile. A single source of supply is efficient until it fails, as it did in the pandemic and again when the Strait of Hormuz closed in 2026.

A tariff is also leverage: the threat of losing the American market brought partners to agreements in 2025. Other countries charge American goods more than America charges theirs, as with the European Union's (EU) 10% tariff on cars, since removed (Module 11), against a lower American rate (Module 4), and they subsidize their own producers. And tariffs raise revenue, as they once funded the federal government (Module 3).

The case against

Its critics, among them most economists, say broad tariffs make the country that imposes them poorer, and that its own firms and consumers bear most of the cost (Module 7). Protected infant industries often never grow up, as Latin America's experience with import substitution showed. The security argument stretches, they say, to cover goods such as cars and furniture, and to tariffs on allies such as Canada. The 'reciprocal' rates of 2025 were not computed from other countries' tariffs (Module 6). And deficits have causes that tariffs do not reach (Module 8).

The evidence

Protection of young industries has worked where governments chose industries that could export and withdrew protection on a schedule, as in East Asia, and failed where they did not, as in much of Latin America. The China shock shows that the losses from trade were real and poorly compensated (2c). The tariffs of 2018-19 on steel offer a measured case of their costs (Module 7). Surveys of leading economists,

such as the University of Chicago's panel asked about the steel and aluminum tariffs of 2018, have found almost none who expect broad tariffs to raise Americans' welfare.

The course's reading

The evidence supports protection only where it is narrow, temporary, and tied to a clear purpose, such as defense supplies or an industry with a real prospect of competing without it. Broad tariffs fail that test, while the cases for security and resilience are strong for a short list of goods and weak beyond it.

Module 2 Key Points

Why Countries Trade

• Countries gain from trade even when one is better at everything, because relative cost is what matters.

• Trade raises the total and changes its distribution: the gains are spread thin, the losses concentrated, and compensation was small.

• The China shock cost about 1 million manufacturing jobs, counting suppliers, and up to 2.4 million in all, in places that did not recover quickly.

• Advocates make six cases for protection: infant industry, security, resilience, leverage, reciprocity, and revenue.

• The course's reading: protection is defensible only when narrow, temporary, and tied to a clear purpose.

Module 2 Quiz

Check Your Understanding

1. What does comparative advantage say about a country that is better at making everything?

A) It still gains from trade, because relative cost is what matters
B) It should export everything it makes and import nothing at all from abroad
C) It gains only if its partner subsidizes the trade
D) It loses from trade with less productive countries

2. What did the China-shock research find about workers in the hardest-hit American places?

A) Most found better jobs within two years, as the older models had predicted they would.
B) They did not move away.
C) Their wages rose as weaker plants closed.
D) The effects ended by 2005.

3. Who loses from trade, on the Stolper-Samuelson theorem?

A) Consumers of imported goods in both countries
B) Exporters
C) Owners of what a country has least of
D) Owners of capital in every country, rich or poor

4. Where has protecting young industries tended to work?

A) Wherever the tariff was set high enough to keep out foreign rivals
B) Only in countries with large domestic markets, such as Brazil
C) Where it was tied to exporting and withdrawn on a schedule
D) In every country that tried it, from Latin America to East Asia

5. What is the course's reading of the case for protection?

A) When narrow, temporary, and purposeful
B) Only in wartime
C) Whenever a partner runs a trade surplus
D) For any industry a country wants to keep

Module 3 — A History of Trade Policy

The Pendulum From Mercantilism to 2018

Recommended Reading / Reference

Book: Douglas A. Irwin, *Clashing over Commerce: A History of US Trade Policy* (2017)

Reference: The WTO's history of the General Agreement on Tariffs and Trade (GATT) rounds; the US International Trade Commission's historical tariff tables

3a. Mercantilism, Smith, and the Corn Laws

For three centuries before Adam Smith, European states treated trade as war by other means. Mercantilism held that a nation's wealth was its stock of gold, that exports earned it and imports lost it, and that the state should run a surplus through tariffs, monopolies, and colonies. It was the doctrine behind the Navigation Acts, the East India companies, and the tea taxes that helped start the American Revolution.

Smith's *Wealth of Nations* (1776) argued that a nation's wealth was what it could consume, not what it hoarded, and that a tariff taxed a country's own citizens to enrich a favored producer. Ricardo added comparative advantage (Module 2). The test came in Britain, whose Corn Laws taxed imported grain, keeping bread dear and landlords rich. Manufacturers who wanted cheap food for their workers campaigned against them for a decade, and their repeal in 1846 made Britain the first free-trading economy. Whether free trade made Britain rich, or protection let Germany and America catch up, has been argued ever since; both are partly true.

3b. The American Tariff, 1789-1934

The tariff was the American government's first major act and its main source of revenue for more than a century. The Tariff Act of 1789 was among the first laws Congress passed, and Alexander Hamilton's *Report on Manufactures* of 1791 made the case for protecting young industries. By the 1820s the tariff divided the country: the manufacturing North wanted protection and the cotton-exporting South did not. The 'Tariff of Abominations' of 1828 and South Carolina's attempt to nullify it in 1832 rehearsed the quarrels that led to the Civil War.

After the war Republicans built a majority on high tariffs. The McKinley Tariff of 1890 averaged close to 50% on dutiable goods, and the party held that protection kept American wages high. Democrats favored lower rates and, in 1913, an income tax to replace the revenue. The last great swing toward protection was the Smoot-Hawley Tariff of 1930, which raised duties on thousands of goods as the Depression began. More than a thousand economists petitioned against it, trading partners retaliated, and world trade fell by about two-thirds in value by 1934. The tariff did not cause the Depression, but it deepened and spread it.

Congress drew the lesson in the Reciprocal Trade Agreements Act of 1934, which let the president cut tariffs by negotiation with other countries. It began the delegation of trade power to the president that Module 5 traces to 2026.

3c. GATT, the WTO, and the Long Opening

The postwar order was built to prevent another 1930. GATT, signed by 23 countries in 1947, bound its members to cut tariffs and to extend any cut to all of them, the most-favored-nation (MFN) principle that became the system's keystone. Eight rounds of negotiation over 47 years cut rich countries' average tariff on manufactured goods to under 4%. The last, the Uruguay Round of 1986-94, created the WTO (Module 13).

The average American tariff fell to about 3.3%. The North American Free Trade Agreement (NAFTA) of 1994 made the continent a single market for most goods. China joined the WTO in 2001 (Module 9). The opening brought the largest expansion of trade in history, the integrated supply chains of Module 1, and the concentrated losses of Module 2.

3d. The 2018 Turn, and Why It Held

The pendulum swung back in 2018, when the first Trump administration imposed tariffs on steel and aluminum from most countries and on Chinese goods, and China retaliated (Module 9). What is historically unusual is that the turn held. The Biden administration kept nearly all of the tariffs, added controls on exports of advanced chips and subsidies for domestic industry, and treated trade with China as a question of security. By 2024 both parties agreed on the direction and argued about the degree.

The consensus of 1934-2016 broke for the reasons of Module 2, the China shock and its uncompensated losers, and for two more: the belief in both parties that China had not kept its promises of 2001, which the WTO could not enforce, and the pandemic's lesson that supply chains built for low cost had no slack. The regime of 2025-26 extended the turn from China to the world and from specific goods to a general tariff (Module 6). The past swings of 3b were settled by Congress; the swing of 2025 was checked first by the courts (Module 5).

Module 3 Key Points

A History of Trade Policy

• Mercantilism treated trade as war; Smith and Ricardo answered it, and Britain's repeal of the Corn Laws in 1846 made it the first free-trading economy.

• The tariff was the federal government's main revenue for more than a century and its central political divide from 1828 to 1913.

• Smoot-Hawley in 1930 deepened the Depression and led to the 1934 law that let the president cut tariffs by negotiation.

• GATT's eight rounds cut rich countries' tariffs on manufactures to under 4%; China joined the WTO in 2001.

• The 2018 turn held because the next administration kept it; the 2025 tariffs were checked first by the courts.

Module 3 Quiz

Check Your Understanding

1. What did the repeal of the Corn Laws in 1846 do?

A) It protected British farmers for a generation.
B) It created the first European customs union.
C) It ended the East India Company's monopoly.
D) It made Britain the first free-trading economy.

2. Why did Congress pass the Reciprocal Trade Agreements Act of 1934?

A) To raise tariffs further
B) To let the president cut tariffs by negotiation
C) To create an income tax
D) To join the General Agreement on Tariffs and Trade, which had been founded the year before

3. What is the most-favored-nation principle?

A) The largest partner gets the lowest tariff
B) Allies pay lower tariffs than their rivals do
C) A cut offered to one member goes to all
D) A member may favor its neighbors with a free-trade area

4. By how much did GATT's eight rounds cut rich countries' average tariff on manufactured goods?

A) To under 4%, over 47 years.
B) To about 25% by 1967.
C) To zero on every good.
D) By half, to roughly 20%.

5. Why does the module say the 2018 turn held?

A) The WTO ruled in its favor
B) Congress wrote the tariffs into permanent law
C) China accepted the tariffs and never retaliated against American goods
D) The next administration kept it

Module 4 — How a Tariff Works

From the Customs Code to the Shelf

Recommended Reading / Reference

Reference: The Harmonized Tariff Schedule of the United States (hts.usitc.gov); US Customs and Border Protection's guidance for importers; the Federal Reserve Bank of New York's *Liberty Street Economics* posts on who pays tariffs (2019 and February 2026)

4a. The Machinery

Every good that enters the United States is classified under one of nearly 20,000 ten-digit codes in the Harmonized Tariff Schedule (HTS). The first six digits are shared with nearly every other country under the World Customs Organization's system, and the last four are American. The code decides the duty: a women's cotton knit sweater, 6110.20.20, pays 16.5%; a smartphone, 8517.13.00, enters free; and a passenger car, 8703.23, pays 2.5% plus the Section 232 tariff on cars (Modules 6 and 11).

Classification is the first fight, because adjacent codes can carry very different rates; the 'tariff engineering' that adds a pocket to a shirt, or fabric to a shoe's sole, to move it to a cheaper line is legal and constant. Valuation is the second: duty is charged on the transaction value, what the importer paid, with some costs added and others taken out, and understating it is the oldest customs fraud. Origin is the third and, since 2025, the largest. A good comes from the country where it was 'substantially transformed', a test that a product assembled in Vietnam from Chinese parts passes if enough was done there and fails if not. It is the mechanism of every trade agreement's preference and of every transshipment case (Module 12).

The importer of record, usually the buyer acting through a licensed customs broker, files the entry, pays the duty within ten working days, and is liable for errors for five years. US Customs and Border Protection (CBP) collects the duty at 328 ports of entry and sends it to the Treasury.

Two exceptions shaped the 2025 story. Under 'de minimis', shipments worth $800 or less entered free of duty and most paperwork; 1.36 billion of them arrived in fiscal 2024, about 3.7 million a day, many sent by Shein and Temu. The exemption was suspended for every country from August 29, 2025, and the suspension survived the Court's ruling of 2026: an order of February 20 continued it, and CBP made it indefinite under ordinary customs law on June 24. The budget law of July 2025 ends it by statute on July 1, 2027. The other exception, drawback, refunds the duties on imported inputs that are later exported.

4b. The Stack

A tariff is rarely one number. The MFN rate in the schedule is the base, and on top of it sit the layers that Module 5 traces to their statutes. Section 232 tariffs cover steel, aluminum, and copper; cars and parts; trucks and buses; timber, lumber, upholstered furniture, and kitchen cabinets; patented medicines; a narrow set of chips; and drones, with more due (Module 6). Section 301 tariffs cover most Chinese goods under the lists of 2018-19, and a second Section 301 action now adds a general tier (Module 6). Until the Court's ruling (Module 5), a rate under IEEPA, set country by country, sat on top of them.

The layers stack unless a rule says they do not, and the exemptions decide what is actually paid. The tier of July 2026 skips goods under Section 232, which pay that tariff instead, and goods that qualify under the United States-Mexico-Canada Agreement (USMCA) skip the tier but not Section 232. Goods from the same

country can therefore owe rates fifty points or more apart, and the effective rate of Module 1 is the average of this arithmetic across every entry.

4c. Who Bears a Tariff?

Legally, the importer of record pays: an American company, at an American port. Economically, the burden can shift. The foreign exporter can cut its price to keep the sale, the importer can absorb the cost in its margin, or the consumer can pay it at the shelf, and the split depends on how much each can afford to lose.

The case that foreigners bear much of it

Its advocates, among them the administration's economists and trade officials, say that exporters who depend on the American market cut their prices to keep it, and that the dollar's movements shift more of the cost abroad over time. On this view the measured pass-through overstates the burden at home, and the leverage of the American market is precisely the power to make foreign producers pay for access.

The case that Americans bear most of it

Its critics, among them most trade economists, point to the studies of the 2018-19 tariffs, which found that foreign exporters cut their prices by almost nothing, so that nearly all of the cost fell on American firms and consumers (Amiti, Redding, and Weinstein; Fajgelbaum and coauthors). Retail prices rose by less than import prices, they add, only because American retailers absorbed part of the cost in their margins (Cavallo and coauthors).

The evidence

The work on 2025 points the same way. The New York Fed estimated in February 2026 that about 90% of the 2025 tariffs' cost was borne by American firms and consumers, a share that slipped from 94% in January-August to 86% in November as some exporters cut prices. The Congressional Budget Office (CBO) estimated the same month that foreign exporters absorb about 5% of the cost and that most of the rest passes, in time, to consumers.

The course's reading

The tariff is paid at the port by Americans and mostly stays with them, reaching shelf prices with a lag of months. The share that falls abroad is real but small, and largest where the exporter depends most on the American market, which is the leverage the bargaining case relies on.

4d. One Container

Worked example — One container's landed cost, 2017 to 2026

The setup. Take a forty-foot container of wooden dining tables, not upholstered, from a factory in Guangdong, invoiced at $25,000 to a retailer in Ohio, with about $3,000 of freight, insurance, and fees. The landed cost is the invoice plus those costs plus any duty. Suppose the retailer prices each table at a fixed multiple of its landed cost, so that the table it sold for $1,000 in 2017 carried its share of $28,000 per container, and suppose it passes half of any duty into its price and absorbs the other half. **2017.** The tables' line in the schedule carried an MFN rate of zero, so the landed cost was $28,000. **January 2025.** The container owed the 25% Section 301 tariff of 2019, charged on the $25,000 invoice: $6,250 of duty, a landed cost of $34,250, and a showroom price near $1,112. **September 2025.** It owed the 301 rate plus the two IEEPA tariffs on China, 10% 'reciprocal' and 20% for fentanyl: 55%, $13,750 of duty, a landed cost of $41,750, and a price near $1,246. **October 2026.** It owes the 301 rate plus the 12.5% tier of July 24: 37.5%, $9,375, a landed cost of $37,375, and a price near $1,167. The tables are not upholstered, so they escape the Section 232 tariff on upholstered furniture. The retailer also holds a claim, with interest, for the $7,500 of IEEPA duty it paid on the September 2025 container (Module 5). **The lessons.** The tariff is paid at the port by the Ohio company, not by the Guangdong factory, and what the shopper sees depends on the retailer's choice of how much to pass on. The same container has owed four rates in nine years under three statutes, so the retailer's largest cost may be the uncertainty about which duty will apply to the container on the water.

Module 4 Key Points

How a Tariff Works

• Every import is classified, valued, and given an origin, and origin became the largest fight of 2025-26.

• 'Substantial transformation' decides whether a good assembled in Vietnam from Chinese parts counts as Vietnamese.

• De minimis, duty-free entry for parcels worth $800 or less, has been suspended since August 2025 and ends by law on July 1, 2027.

• The layers stack unless a rule says otherwise: the July 2026 tier skips Section 232 goods, and USMCA goods skip the tier.

• The New York Fed found about 90% of the 2025 tariffs' cost borne by American firms and consumers.

• Worked example: a container of Chinese dining tables owed 0% in 2017, 25% in January 2025, 55% that September, and 37.5% now.

Module 4 Quiz

Check Your Understanding

1. Who pays a tariff in the legal sense?

A) The shipper
B) The importer of record
C) The exporter
D) The foreign government, under WTO rules

2. What share of the 2025 tariffs' cost did the New York Fed find borne at home?

A) Half
B) About a tenth
C) About two-thirds
D) About 90%

3. What decides a good's country of origin for tariff purposes?

A) Where it was shipped from
B) Where it was substantially transformed
C) Where its maker is based
D) The country named on the invoice by the exporter, which Customs accepts unless it can prove fraud within a year

4. What happened to the de minimis exemption?

A) Raised to $2,500
B) Limited to allies
C) Suspended since August 2025; ends by law in July 2027
D) Struck down with the IEEPA tariffs in February 2026

5. In the worked example, what does the container of dining tables owe in October 2026?

A) 37.5%
B) 55%, as in 2025
C) 25%, the 301 rate only
D) 62.5%, with the Section 232 timber duty

Module 5 — The Legal Machinery

Who May Impose a Tariff, and How

Recommended Reading / Reference

Reference: The Supreme Court's opinion in *Learning Resources, Inc. v. Trump* (Nos. 24-1287 and 25-250, February 20, 2026); the Congressional Research Service's reports on presidential tariff authorities

5a. Congress's Power and Its Delegations

The Constitution gives Congress, not the president, the power to 'lay and collect' duties and to regulate commerce with foreign nations, and for its first 145 years Congress wrote the tariff itself, line by line. The delegation that followed (Module 3) began a pattern that six statutes now embody: Congress sets the conditions, the president acts within them, and the courts review the result. Each statute has a trigger, a procedure, a limit, and a record, and the story of 2025-26 is the administration moving from one to the next as the courts closed them.

Authority	Trigger and procedure	Limit	Record
Section 232 (Trade Expansion Act, 1962)	Imports threaten national security; a Commerce Department investigation of up to 270 days, then presidential action	None on rate or duration	Steel and aluminum since 2018, and tariffs on eight more sectors and talks on two in 2025-26 (Module 6); four investigations pending at the end of September 2026: wind turbines, robotics and industrial machinery, protective and medical equipment, and anthracite coal
Section 301 (Trade Act, 1974)	A foreign practice is unreasonable or discriminatory and burdens US commerce; an investigation by the US Trade Representative (USTR), with notice and comment	None on rate; the action must answer the practice found	China's tariffs since 2018-19 (Module 9); Brazil and the general tier in 2026 (Module 6)
Section 201 (Trade Act, 1974)	Imports cause serious injury to an industry; a US International Trade Commission finding	Temporary safeguards, at most eight years in all	Washing machines and solar panels from 2018, both since expired
Section 122 (Trade Act, 1974)	'Large and serious' balance-of-payments deficits	Up to 15% for 150 days; longer only by Congress	First used in 2026 (Module 6)
Section 338 (Tariff Act, 1930)	A country discriminates against US commerce	Up to 50%, or exclusion of its goods	First used against Canada in 2026 (Module 10)
International Emergency Economic Powers Act (IEEPA, 1977)	A declared national emergency from an unusual and extraordinary foreign threat; the president may 'regulate ... importation'	None stated, the question the Court decided	The fentanyl and 'reciprocal' tariffs of 2025; held not to authorize tariffs (5c)

Congressional Research Service (CRS), report R49481 (October 8, 2026); the statutes. Section 232's 'national security' and Section 301's 'unreasonable' are the two broadest triggers and the two the regime now rests on.

5b. The Courts

Tariff cases begin in the Court of International Trade (CIT) in New York, a specialized federal court with exclusive jurisdiction over customs law, go on appeal to the Court of Appeals for the Federal Circuit, and end at the Supreme Court. The IEEPA case ran that course in ten months. V.O.S. Selections and four other small importers sued in the trade court on April 14, 2025, and twelve states led by Oregon sued separately. The trade court held the tariffs unlawful on May 28, with the duties continuing under a stay, and the Federal Circuit, sitting with all its judges, agreed 7-4 on August 29. The Supreme Court heard argument on November 5, together with a suit by the toy companies Learning Resources and hand2mind that gave the decision its name.

The other authorities have stronger records. The Supreme Court upheld a president's use of Section 232 in 1976, for fees on imported oil, and the Federal Circuit upheld its use for steel in 2020-21. Section 301's China tariffs survived a challenge by thousands of importers in the trade court in 2023, and the Federal Circuit affirmed in September 2025.

Four challenges are running now. The Section 122 case, brought by 24 states and two small businesses, won in the trade court on May 7, 2026, when a divided panel held that the proclamation had not identified the 'large and serious' deficits Congress meant in 1974. The Federal Circuit stayed that ruling on June 11, finding the government likely to succeed, and since the tariff has expired, the appeal now decides refunds of the duties paid under it (Module 6). The Section 301 tier faces suits by importers, among them the spice company Burlap and Barrel, filed on July 24, and by 25 states, filed on August 3. The trade court is hearing them together through a sample case, argued on September 30. On October 20 an importer of Canadian goods, Gellert Global Group, challenged the Section 338 tariffs.

5c. February 20, 2026

Learning Resources, Inc. v. Trump is the most consequential trade decision in the Court's history and one of the most consequential on presidential power in a generation. Writing for six justices, Chief Justice John Roberts held that IEEPA does not authorize the president to impose tariffs. Its power to 'regulate ... importation' is not the power to tax, which the Constitution gives Congress; the statute nowhere mentions tariffs or duties; and no president in nearly fifty years had read it to contain one. A power to impose tariffs 'of unlimited amount, duration, and scope', the opinion said, is not one Congress hands over by implication.

The justices divided on the reasoning. Roberts, joined by Justices Neil Gorsuch and Amy Coney Barrett, added that the 'major questions' doctrine, under which the Court expects Congress to speak clearly before delegating powers of vast economic and political significance, pointed the same way. Justice Elena Kagan, joined by Justices Sonia Sotomayor and Ketanji Brown Jackson, rested on the statute alone and called the doctrine unnecessary. Justice Brett Kavanaugh, joined by Justices Clarence Thomas and Samuel Alito, dissented, arguing that the power to regulate importation includes the power to tax it.

The consequences came in stages. The reciprocal and fentanyl tariffs ended that day, and Section 122 followed (Module 6). On March 4 the trade court's Judge Richard K. Eaton ruled that refunds were owed with interest. CBP told the court on March 6 that it held $166 billion from more than 330,000 importers, opened a refund portal on April 20, and had certified about $126 billion of refunds by October 2, about three-quarters of the total. On October 8 the trade court certified a class of the importers who paid. The refunds go to the importers of record, who had passed much of the cost to their customers (Module 4).

5d. The Stack

Worked example — Four authorities on one Chinese steel product

The setup. Take a shipment of Chinese steel fasteners, the bolts, screws, and nuts of HTS heading 7318, invoiced at $100,000. The MFN rates on the heading's lines run from free to about 8.5%; take 2% as the base. Assume, for the 2025 rules, that the steel in the bolts is worth $60,000 of the invoice. **2017.** The bill was the MFN duty: $2,000. **2019.** The shipment also owed the Section 301 tariff of 25%, for $27,000. **September 2025.** It owed the base, the 301 rate, and the 20% IEEPA fentanyl tariff on China, all on the full $100,000, which CBP's guidance of June 3, 2025 kept on top of Section 232. The Section 232 steel duty, 50% since June 4, then fell on the value of a derivative's steel content: $30,000 on the $60,000. The 10% reciprocal IEEPA rate fell on the other $40,000: $4,000. The total was $81,000. **October 2026.** The IEEPA layers are gone. Since April 6, 2026 the 232 duty falls on the full value, and fasteners are on the list charged 50%, so it is $50,000, and the tier of July 24 skips 232 goods. The total is 2% plus 25% plus 50%, $77,000. The buyer holds a claim for the $24,000 of IEEPA duty it paid on the 2025 shipment. **The lessons.** The layers come from different statutes, so a ruling on one leaves the others standing. The rules on stacking and valuation decide the bill as much as the rates do: the Court removed $24,000 of duty from this shipment, and the full-value rule added $20,000. And an importer's exposure depends on which stack it fell into on which date.

Module 5 Key Points

The Legal Machinery

• The Constitution gives Congress the tariff power; six statutes delegate pieces of it, each with a trigger, a limit, and a record.

• On February 20, 2026 the Supreme Court held 6-3 that IEEPA's power to regulate importation is not a power to tax it.

• About $126 billion of the $166 billion collected under IEEPA had been certified for refund by October 2, 2026.

• The trade court struck down Section 122 in May, but the Federal Circuit stayed the ruling; the appeal now concerns refunds.

• Suits by importers and 25 states against the Section 301 tier are in the trade court, which heard a sample case on September 30.

• Worked example: Chinese steel fasteners owed 2% in 2017, 27% in 2019, 81% in September 2025, and 77% now.

Module 5 Quiz

Check Your Understanding

1. Which two authorities have no ceiling on the rate and now carry most of the regime?

A) IEEPA, the emergency-powers law
B) Section 201, the safeguard law
C) Sections 122 and 338, the 1974 and 1930 laws
D) Sections 232 and 301, under laws of 1962 and 1974

2. What did the Supreme Court hold on February 20, 2026?

A) That IEEPA does not authorize the president to impose tariffs.
B) That all six tariff statutes fell.
C) That the tariffs were lawful.
D) That the tariffs were lawful under IEEPA but that refunds were owed for the period before the emergency was declared.

3. On what ground did the trade court strike down the Section 122 tariff in May 2026?

A) It exceeded 15%
B) It did not identify 'large and serious' deficits as the 1974 law meant them
C) It applied to services, which the 1974 law leaves out of the balance of payments
D) It was imposed by a president rather than by Congress, which alone may tax imports under Article I of the Constitution

4. Where are the 25 states' suit and the importers' suits against the Section 301 tier being heard?

A) The Federal Circuit, under a stay
B) The Supreme Court, on direct appeal
C) The Court of International Trade
D) A WTO panel convened at the request of the European Union, Canada, and Mexico in August 2026

5. In the worked example, what do the fasteners owe in October 2026?

A) 81%, as in 2025
B) 89.5%, with the 12.5% tier
C) 27%, the 2019 rate
D) 77%, with 232 on full value

Module 6 — The 2025-26 Regime

Eighteen Months in One Timeline, and the Regime Today

Recommended Reading / Reference

Reference: The Congressional Research Service's report R49481 on the tariff actions of 2025-26 (October 8, 2026); the Yale Budget Lab's *State of US Tariffs*; the Tax Foundation's tariff tracker

6a. The Arc

The regime's arc had five acts. The first, from February to April 2025, used IEEPA. Tariffs justified by the fentanyl trade fell on China from February 4 and on Canada and Mexico from March 4. On April 2, 'Liberation Day', the 'reciprocal' tariffs set a 10% baseline and country rates from 11% to 50%, computed from bilateral deficits. The S&P 500 fell 12.1% in the next four trading days, and on April 9 the country rates were paused for ninety days, except China's, which escalated (Module 9).

The second act, from May to August 2025, was the retreat and the deals: the Geneva truce with China, agreements with Britain, Vietnam, Japan, the EU, Korea, and others (Module 11), and country rates that settled from August 7 between 10% and 20% for most of the world, with outliers such as Brazil at 50%.

The third, from March to December 2025, was Section 232's expansion. Steel and aluminum went to 25% from every source on March 12 and to 50% on June 4. Cars paid 25% from April 3 and their parts from May 3; copper paid 50% from August 1; timber, lumber, upholstered furniture, and kitchen cabinets paid from October 14; and medium and heavy trucks paid 25%, and buses 10%, from November 1.

The fourth, from February 20 to July 24, 2026, was the Court and the bridge. The Supreme Court ended the IEEPA tariffs (Module 5), and a 10% tariff under Section 122 began on February 24 for the statute's maximum term (Module 5). Section 232 kept growing, with metals charged on the full value of a product from April 6. Meanwhile USTR opened two Section 301 investigations: one, from March 11, into 'structural excess capacity' in sixteen economies, among them China, the EU, Japan, Korea, Mexico, and India; the other into forced labor (6b).

The fifth act began at 12:01 a.m. on July 24, 2026, when Section 122 expired and the forced-labor action took effect (6b). Around it came a Brazil-specific Section 301 tariff of 25% from July 22, the Section 232 tariff on patented medicines (Module 14), and Section 338 on Canada (Module 10). Polysilicon is scheduled to follow on December 4, and drone parts on February 9, 2027.

6b. The Regime Today

The regime now has three layers on top of MFN. Section 232 covers its sectors at the rates of 6a, with the deals' caps of Module 11. The older Section 301 tariffs cover most Chinese goods (Module 9). And the forced-labor action sets a general tier for 60 economies, which supply about 99.4% of American imports by origin, though its exclusions leave it covering about $949 billion, 28% of 2026 imports.

Tier	Economies	Note
10% plus MFN	17: Argentina, Bangladesh, Cambodia, Canada, Ecuador, El Salvador, Guatemala, Honduras, India, Indonesia, Jordan, Malaysia, Mexico, Pakistan, Sri Lanka, Trinidad and Tobago, and the United Kingdom	For Canada and Mexico, only goods that do not qualify under USMCA

Tier	Economies	Note
The higher of 10% or MFN	The EU and Taiwan	MFN counts toward the 10%
12.5% plus MFN	38, among them China, Brazil, Vietnam, Thailand, Australia, Singapore, the Philippines, Saudi Arabia, the United Arab Emirates, Israel, Türkiye, South Africa, and Russia	On top of any other Section 301 tariff, such as China's or Brazil's
The higher of 12.5% or MFN	Japan, South Korea, and Switzerland	MFN counts toward the 12.5%
Not covered	Economies outside the 60	MFN, plus Section 232 where it applies

USTR, final action of July 23, 2026 (Federal Register, July 28); Greenberg Traurig (July 2026); KPMG (July 24, 2026); Tax Foundation (August 11, 2026).

The tier skips goods under Section 232 and goods that qualify under USMCA, and an annex excludes whole categories from every origin, among them energy, critical minerals, medicines and medical goods, chips, aircraft, coffee, cocoa, bananas, and seafood. Another 471 subheadings were exempted after public comment, along with set volumes of clothing from Bangladesh, Cambodia, Indonesia, and Malaysia and textiles traded under the Central American agreement. Goods already at sea on July 24 were spared if they entered by July 28.

6c. What the Regime Is

Stand back from the timeline and the regime has a shape. It is lower than its peak of 2025 and still well above the rate of 2024 (Module 1). It is legally sturdier than the version the Court struck, because Sections 232 and 301 have no ceiling on the rate and long records in court. It is also less settled than it looks: the forced-labor theory behind the tier has never been tested and is now in court (Module 5), and the excess-capacity investigation was still open in October.

It is organized by tier and by deal, each partner's sectors capped by its deal and its general rate set by its tier. And markets have absorbed it: the S&P 500, which fell so sharply after Liberation Day, closed at a record of 7,818.93 on October 6, 2026. Whether it has revived American manufacturing is the evidence Module 7 weighs.

Module 6 Key Points

The 2025-26 Regime

• The regime had five acts: IEEPA, the deals, Section 232's expansion, the Court and Section 122, and the Section 301 tiers.

• The 'reciprocal' tariffs of April 2, 2025 set a 10% baseline and country rates of 11-50%, computed from bilateral deficits.

• Section 232 now covers metals, cars, trucks, timber, medicines, chips, and drones; metals pay on full value since April 6, 2026.

• Since July 24, 2026 a Section 301 tier of 10% or 12.5% has covered 60 economies, about $949 billion of imports.

• The tier skips Section 232 goods, USMCA goods, and listed categories such as energy, medicines, and chips.

• The regime is lower than its peak, legally sturdier than IEEPA's, and still being tested in court.

Module 6 Quiz

Check Your Understanding

1. How were the April 2, 2025 'reciprocal' rates computed?

A) From each country's bilateral goods deficit with the United States.
B) From other countries' tariffs.
C) By Congress, line by line.
D) By the WTO's dispute panels, which set a ceiling for each country after hearing evidence from both sides.

2. What replaced the Section 122 tariff on July 24, 2026?

A) A new IEEPA order
B) A 15% tariff under Section 338 on every country without a signed deal, approved by Congress in a special session
C) A Section 301 tier on 60 economies
D) An extension of Section 122 voted by Congress

3. Since when have steel, aluminum, and copper goods paid Section 232 duties on their full value?

A) June 4, 2025, when the rate doubled
B) April 6, 2026
C) February 20, 2026, the day of the ruling
D) January 1, 2027, under the schedule set by the proclamation of April 2, 2026 for derivatives

4. Which goods does the forced-labor tier skip?

A) Section 232 and USMCA goods
B) All goods from China, which pays the older 301 tariffs instead
C) Everything from the European Union
D) Goods worth less than $800 a shipment

5. Why does the module call the regime legally sturdier than the one the Court struck?

A) Congress voted for it.
B) The WTO approved it in 2026.
C) Sections 232 and 301 have no ceiling on the rate and long records in court.
D) The Supreme Court ruled in advance that every tariff under the Trade Act of 1974 is lawful, whatever its size or length.

Module 7 — Who Pays

The Evidence on Prices, Revenue, Jobs, and Growth

Recommended Reading / Reference

Reference: The Yale Budget Lab's *State of US Tariffs* (updated August 24, 2026); the Tax Foundation's tariff tracker (updated August 11, 2026); the Treasury's *Monthly Treasury Statement*, whose table of receipts shows customs duties and refunds

7a. Prices

The first question, whether the tariffs raised prices, has the clearest answer: yes, by a bounded amount and with a lag. The Yale Budget Lab estimated in August 2026 that the regime in force raises consumer prices by about 0.7%, about $1,100 a year for the average household. The Tax Foundation put the tariffs' cost at about $1,000 per household in 2025 and about $900 in 2026, some $600 of it from Section 232.

Headline inflation is a poor guide, because the inflation of 2026 is mostly energy. Consumer prices rose 3.7% in the year to September, with energy up 20.4% as the Strait of Hormuz stayed shut, while prices excluding food and energy rose 2.6%. Tariffs raise the level of goods prices once rather than the rate of inflation for good, and services, most of the index, are untouched. That is why the argument over whether the tariffs caused inflation is really two arguments: their defenders point to modest core inflation, their critics to the tariffed goods themselves. Who finally bears the cost is the subject of Module 4, and the answer was mostly Americans.

7b. Revenue

The tariffs raised real money, and less than was claimed. Customs duties were $79 billion in calendar 2024 and $264 billion in 2025 (Tax Foundation). In fiscal 2025, which ended in September of that year, they were $194.9 billion net of refunds, 3.7% of federal receipts.

Fiscal 2026 shows the Court's ruling in the accounts. Gross customs receipts rose 57%, to $317.8 billion, but refunds of $144.6 billion, against $7.5 billion the year before, left net receipts of $173.2 billion, 11.1% less than in fiscal 2025. In September 2026 alone, $19.4 billion of refunds took most of $25.3 billion of gross duties (Monthly Treasury Statement). Over the next decade the regime is projected to raise $1.2-1.9 trillion: $1.6 trillion before and $1.2 trillion after its drag on growth on the Tax Foundation's estimate, and about $1.9 trillion, somewhat less after growth effects, on Yale's.

The arithmetic also settles whether tariffs could replace the income tax. Individual income taxes bring in about half of federal receipts, which totaled $5.4 trillion in fiscal 2026, so roughly $2.7 trillion a year. On the goods imports of 2025 (Module 1), an average tariff of 25% that cut them by a third would raise about $570 billion, and a rate high enough to raise $2.7 trillion would leave little to tax. Tariffs can be a revenue source of the 1890s' scale in a government of 2026's scale, a few percent of receipts, and no more.

7c. Have the Tariffs Revived Manufacturing?

The case that they are working

Its advocates, among them the administration and many manufacturers that compete with imports, say the revival is under way and takes time. Manufacturing jobs have risen in 2026 after a fall in 2025, companies and partners have pledged hundreds of billions of dollars of new American plants (Module 11), and the trade deficit has narrowed in 2026 (Module 8). Plants take years to build, they argue, and judging the policy on eighteen months of data mistakes the construction phase for the result.

The case that they are not

Its critics, among them most economists and many manufacturers that use imported inputs, say the tariffs raise the cost of making things in America. Steel, aluminum, and copper cost more for the firms that use them, retaliation closes markets, and uncertainty delays investment. They cite a Federal Reserve Board study of the 2018-19 tariffs (Flaaen and Pierce, 2019), which found that the jobs lost to higher input costs and retaliation outweighed those gained from protection, leaving manufacturing employment lower.

The evidence

Manufacturing employment fell by 93,000 in 2025 and had regained 72,000 by September 2026, leaving it 21,000 below January 2025 (Bureau of Labor Statistics). Manufacturing output fell in 2025 and the reshoring index stayed negative (Module 12). The Tax Foundation projects that the tariffs under Sections 232, 301, and 338 lower long-run GDP by 0.4%, and by 0.2% more with retaliation.

The course's reading

The tariffs have raised prices and revenue roughly as forecast and have not yet produced the manufacturing revival that was their purpose. Whether the pledged plants arrive will decide the verdict.

7d. Retaliation, and the Winners

- **China's retaliation.** Matching tariffs, and then the instrument that mattered, the rare-earth licenses of Module 9. Its boycott of American soybeans brought a $12 billion program of aid to farmers, announced in December 2025.
- **Canada's and Europe's.** Canada retaliated twice (Module 10). The EU prepared countermeasures, suspended them in August 2025, and chose the deal over the fight (Module 11).
- **The winners.** Domestic producers of steel, aluminum, and copper, whose prices rose with the tariff; the Treasury, net of refunds; partners in the lower tier or with deal caps, such as Mexico over Vietnam; and the customs brokers, trade lawyers, and consultants of the trade war's growth industry.
- **The losers.** Importers and retailers who absorbed margin; consumers of the tariffed goods; farmers; builders, who use steel, lumber, and copper; the automakers (Module 10); small importers who could not absorb the uncertainty; and the states most dependent on trade.

Module 7 Key Points

Who Pays

• Yale estimates the regime in force raises consumer prices about 0.7%, roughly $1,100 a year per household.

• Inflation of 3.7% in September 2026 was mostly energy; tariffs raise goods prices once and leave services untouched.

• Net customs receipts fell 11.1% in fiscal 2026, to $173.2 billion, as $144.6 billion of refunds offset gross duties of $317.8 billion.

• Tariffs cannot replace the income tax: a rate high enough to raise $2.7 trillion would leave little to tax.

• Manufacturing jobs fell 93,000 in 2025 and regained 72,000 by September 2026, ending 21,000 below January 2025.

• The course's reading: prices and revenue as forecast, no manufacturing revival yet; the pledged plants will decide.

Module 7 Quiz

Check Your Understanding

1. What does the Yale Budget Lab estimate the regime in force costs the average household each year?

A) About $50
B) About $5,000, from prices 4% higher
C) About $3,000, the estimate for the 2025 peak
D) About $1,100, from consumer prices about 0.7% higher

2. What were net customs receipts in fiscal 2026?

A) $79 billion
B) $173.2 billion
C) $317.8 billion, gross
D) $500 billion, before the refunds

3. Why did net customs receipts fall in fiscal 2026 while gross receipts rose?

A) Imports collapsed after the ruling, cutting gross duties by half
B) Congress cut the rates
C) Refunds after the Court's ruling, $144.6 billion in all, mostly of IEEPA duties
D) The Treasury booked allies' duties as aid

4. What did the Federal Reserve Board's study of the 2018-19 tariffs find about manufacturing jobs?

A) Gains outweighed losses two to one
B) No effect at all on any industry
C) Steel jobs alone rose by 75,000 as plants reopened across the Midwest
D) Losses from input costs and retaliation outweighed gains

5. Where did manufacturing employment stand in September 2026 against January 2025?

A) 21,000 lower
B) 500,000 higher, as plants opened
C) Unchanged to the job
D) 200,000 lower, after a steep fall in 2026

Module 8 — The Deficit and the Surplus Countries

What a Deficit Is, and Is Not

Recommended Reading / Reference

Book: Matthew C. Klein and Michael Pettis, *Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace* (2020)

Reference: The BEA's international transactions accounts; the International Monetary Fund's (IMF) annual *External Sector Report*

8a. The Arithmetic

The United States bought $1,240.9 billion more goods from the world than it sold in 2025 and sold $339.5 billion more services than it bought, for a combined deficit of $901.5 billion, about 3% of GDP. That was $2.1 billion less than in 2024. The current account adds the income earned on investments across borders, and in the second quarter of 2026 it ran a deficit of $246.0 billion, 3.0% of GDP at an annual rate.

In the accounts, a trade deficit is the mirror of a flow of capital. A country that buys more from the world than it sells pays the difference with assets: Treasury bonds, shares, factories, and real estate. The identity economists start from is that the current-account deficit, most of which is the trade deficit, equals the gap between what a country invests and what it saves, and the United States has invested more than it saved for most of the past forty years.

That identity is why most economists hold that tariffs do not shrink the overall deficit. A tariff on Chinese goods shifts imports to Vietnam and Mexico (Module 12) and, by lifting the dollar and lowering exports, leaves the total about where it was, unless it changes how much the country saves or invests.

The first eight months of 2026 gave the other side its best data. The deficit was 19.9% smaller than in the same months of 2025, about $556 billion, as exports rose 11.8% and imports 4.4%. Part of the fall reflects the comparison: early 2025 was swollen by importers rushing goods in ahead of the tariffs.

8b. The Dollar's Role

No other country could run a deficit of this size for a generation, and the reason is the dollar. It makes up 56.7% of the foreign-exchange reserves whose currency central banks report, and it is on one side of 89.2% of all currency trades. The world's demand for dollar assets, Treasury bonds above all, is a standing inflow of capital, and the trade deficit is its other side.

Valéry Giscard d'Estaing, as France's finance minister in the 1960s, called the arrangement America's 'exorbitant privilege': it lets the United States borrow cheaply and consume more than it produces. Its cost, on the structural account, is a dollar stronger than trade alone would set, which prices American manufactured exports out of markets.

The policy of 2025 contained the tension. It sought a smaller deficit and also a dollar that remained the world's reserve currency, and tariffs cut against the first aim (8a). Proposals that year for a 'Mar-a-Lago accord', under which the surplus countries would hold longer Treasury bonds and accept a weaker dollar, were one attempt to reconcile the two. The dollar index fell 9.4% in 2025, its largest fall since 2017, and by October 14, 2026 had regained part of it, to its highest since April 2025.

8c. The Surplus Countries

Economy	US goods deficit with it, 2025	The story
China	$202.1 billion, down $93.4 billion and the smallest in 21 years	Its surplus with the whole world was a record of about $1.2 trillion in 2025 and $938.1 billion in January-September 2026: its exports moved to other markets
European Union	$218.8 billion, of which Germany $73.0 billion and Ireland $114.2 billion	Germany's cars and machines; Ireland's surplus is largely the medicines made by American companies' Irish subsidiaries
Mexico	$196.9 billion, up from $172 billion	A manufacturing platform for the American market (Module 10)
Vietnam	$178.2 billion, up $54.7 billion	The chief 'China plus one' destination, assembling Chinese parts (Module 12)
Taiwan	$146.8 billion, up $73.0 billion	Chips and servers for the build-out of artificial intelligence (AI)
Thailand, Japan, India, and South Korea	$71.9 billion, $63.9 billion, $58.2 billion, and $56.4 billion	Electronics, cars, machinery, medicines, and the investment pledges of Module 11
Canada	$46.4 billion	Energy accounts for the deficit; without it the United States sells Canada more than it buys

BEA and Census Bureau, annual release of February 19, 2026; China's customs administration, via AP (October 14, 2026). In August 2026 the largest monthly deficits were with Mexico ($27.7 billion), Vietnam ($24.0 billion), and Taiwan ($18.3 billion), with China's ($16.4 billion) fourth.

8d. Who Is to Blame for the Deficit?

The case that the surplus countries are

Its advocates, among them the administration and many in both parties, say the surplus countries run surpluses by unfair means. They subsidize their producers, hold down their workers' wages and consumption, protect their markets with tariffs and standards, keep their currencies cheap, and, in China's case, take technology by theft or as a condition of entry. The deficit, on this view, has cost factories and communities and made the country dependent on rivals for essential goods. A country that has kept its market open for eighty years while others protected theirs is entitled to charge for access, and the bilateral deficit is the scorecard.

The case that the cause is at home

Its critics, among them most economists, say the United States runs a deficit because it saves too little, with a federal deficit of 6.2% of GDP in fiscal 2026, and because the world wants dollar assets. The deficit would persist if every foreign tariff fell to zero. A bilateral balance counts a phone assembled in China as Chinese though much of its value is Korean, Taiwanese, Japanese, or American, and a surplus with one country is a deficit with another.

The evidence

In 2025 the fall in the deficit with China was more than offset by the rises with Taiwan, Vietnam, and Mexico (8c), and the combined deficit barely changed. The full year will show how much of the narrowing of 2026 (8a) lasts.

Klein and Pettis offer a structural account that gives each side part of the argument. The surplus countries do hold down their households' share of income, so they cannot consume what they make and export the difference. The United States absorbs it because its capital markets are the world's, so that trade wars are, underneath, fights over the distribution of income in both countries.

The course's reading

The total is set mainly at home, by saving and investment, and 2025 showed tariffs moving the bilateral balances far more than the total. The surplus countries' practices are real, but the remedies that reach them change saving and consumption in those economies and in America's, which a tariff does not.

Module 8 Key Points

The Deficit and the Surplus Countries

• The current-account deficit, mostly the trade deficit, equals what a country invests minus what it saves, so tariffs alone rarely shrink it.

• The 2025 deficit in goods and services, $901.5 billion, was $2.1 billion below 2024's despite the tariffs.

• The dollar's reserve role finances the deficit; its cost, on the structural account, is a dollar stronger than trade alone would set.

• China's surplus with the world reached a record of about $1.2 trillion as its surplus with the United States fell to $202 billion.

• Deficits with Taiwan, Vietnam, and Mexico rose as China's fell: the imports moved more than the total did.

• The course's reading: saving and investment at home set the total; bilateral balances are strong politics and weak economics.

Module 8 Quiz

Check Your Understanding

1. What does the current-account deficit, mostly the trade deficit, equal in the identity economists start from?

A) The sum of its bilateral deficits with each of the surplus countries.
B) What a country invests minus what it saves.
C) Exports minus government spending.
D) The tariffs it pays abroad minus the tariffs its own customs collects.

2. How did the US deficit in goods and services change in 2025 against 2024?

A) It fell by $2.1 billion, to $901.5 billion
B) It fell by half
C) It rose by about $300 billion on the front-loading of imports early in the year
D) It fell by $250 billion

3. Why does the module call bilateral balances misleading as economics?

A) They leave out oil
B) They are measured in the exporter's own currency
C) They count where goods were assembled
D) They count trade between a company's own subsidiaries twice

4. What happened to China's goods surplus with the world in 2025?

A) It fell to its smallest since China joined the WTO
B) A record, about $1.2 trillion
C) It stayed near balance, as exports fell
D) It halved as shipments to the United States fell

5. What is the course's reading of who is to blame for the deficit?

A) The surplus countries, through unfair practices
B) The dollar's reserve role alone, which no policy can change
C) The tariffs, which raised imports
D) The total is set at home; bilateral balances are mostly politics

Module 9 — China

From Accession to the Truce

Recommended Reading / Reference

Book: Chad P. Bown's trade-war timeline and papers at the Peterson Institute for International Economics (piie.com), the running record of every US-China tariff action since 2018

Reference: USTR's Section 301 reports on China; the Bureau of Industry and Security's (BIS) export-control rules; China's Ministry of Commerce (MOFCOM) announcements

9a. The Relationship in Numbers

The United States imported about $440 billion of goods from China in 2024 and exported about $145 billion to it, for a bilateral deficit near $295 billion, which fell sharply in 2025 (Module 8). China's share of American goods imports fell from about 22% before the trade war of 2018 to about 9% by the end of 2025, and the real volume of imports from China fell 28% in 2025 alone (Peterson Institute). Its exports went instead to the rest of the world (Module 8), and that redirection is the decade's largest trade fact. From the low base of 2025, its exports to the United States grew again in 2026, by 9.8% in January-September, but the American market took only 10.3% of China's exports, against 19.2% in 2018 (ING, from China's customs data).

The composition shows what is easy to move and what is not. Clothing, furniture, and toys moved to Vietnam, Mexico, and elsewhere, and the goods that did not move are the subject of Module 12. American exports to China are farm goods, energy, aircraft, and chips, and each became a weapon: soybeans and Boeing orders in China's hands, chips in Washington's.

9b. From Accession to the First War, 2001-2020

China joined the WTO in December 2001 on terms Washington negotiated and both parties endorsed: permanent normal trade relations, Chinese tariffs cut on a schedule, state enterprises to trade on commercial terms, and intellectual property protected. The hope was that trade would open China's economy and, many believed, its politics. The result was the China shock of Module 2, and a state that used its market's size to extract technology, subsidized its champions on a scale the WTO's rules did not contemplate, and never became the market economy the accession assumed.

The Section 301 investigation of 2018 found forced technology transfer, cyber theft, and discriminatory licensing, and the tariffs that followed covered $370 billion of Chinese goods at 7.5-25% in four lists, with China retaliating on $110 billion of American goods, soybeans above all. The 'Phase One' deal of January 2020 paused the escalation in exchange for Chinese purchase commitments of $200 billion, of which China bought about 58% by Bown's count. The tariffs stayed, and USTR opened an investigation of China's compliance with the deal in October 2025.

9c. The Chips and the Controls, 2022-2026

The American export controls of October 2022 on advanced chips, the tools that make them, and the Americans who work on them were the point at which trade policy toward China became security policy. Their aim was not to balance trade but to keep China's AI and military capability behind, and they were tightened in 2023 and 2024, joined by a screen on outbound investment from January 2025. A BIS rule of

September 29, 2025 extended them to any company at least half owned by a listed one; it was suspended for a year from November 10, 2025.

The controls' record is contested. Huawei and the Semiconductor Manufacturing International Corporation (SMIC) produced 7-nanometer chips the controls were meant to prevent, and China kept building its own industry. Nvidia saw China fall from more than a fifth of its revenue to about 5% by May 2026. A framework of January 13, 2026 licensed sales of its H200 chip to about ten Chinese companies, with 25% of the revenue to the American government, but none had shipped by mid-May, when Beijing had paused orders. By August ByteDance and Tencent had each received about 10,000, the Financial Times reported, and the more advanced Blackwell chips stayed barred. The controls gave Washington a lever that tariffs are not, and gave Beijing the incentive to build one of its own.

9d. The 2025 War and the Truce

The 2025 escalation ran in weeks. A tariff justified by the fentanyl trade put 10% on all Chinese goods in February and 20% from March 4; the 'reciprocal' tariff of April 2 added 34%; China matched; and by April 11 the exchange had reached 145% on American imports from China and 125% the other way, at which point trade between the two largest economies nearly stopped. China's answer was the lever it had been building. From April 4 it required export licenses for seven heavy rare earths and the magnets made from them, and within weeks lines had stopped at Ford and Suzuki, since no tariff could answer a mineral with no alternative source.

The Geneva truce of May 12 cut the rates to 30% and 10% for ninety days, and talks in London in June traded American export relief for rare-earth licenses. In October China extended its controls to the whole rare-earth supply chain and Washington threatened 100%. The agreement that followed the leaders' meeting in Busan on October 30 set the terms still in force. The fentanyl tariff fell to 10%; the suspension of most of the reciprocal rate was extended to November 10, 2026; and China suspended its October controls for a year, though the April licenses remain.

The rest of the agreement reached past tariffs. The affiliates rule was suspended; China ended its investigations of American chip companies and suspended its ban on exports of gallium, germanium, and antimony to the United States; both sides suspended their fees on each other's ships; and China committed to buy 12 million tons of soybeans that season and 25 million a year in 2026-28. The Supreme Court's ruling (Module 5) then removed the fentanyl and reciprocal tariffs entirely. A typical Chinese good now owes the Section 301 tariff, usually 25%, plus the 12.5% tier (Module 6), about 40% with MFN; goods on the 7.5% list owe about 23%.

9e. The Summits and the Extension

The leaders met twice in 2026. Trump's state visit to Beijing on May 14-15 set up two channels for talks, among them a 'Board of Trade', and brought no movement on chips. Xi's state visit to Washington on September 23-25, the first by a Chinese president in eleven years, came as the truce's deadline neared. Treasury Secretary Scott Bessent, after meeting Vice Premier He Lifeng on September 20, announced on September 23 that the truce would be extended two months, to January 10, 2027. As Bessent announced it, the extension covers China's suspended retaliation, the American port fees, and both sides' suspended export controls, all otherwise due back at the original deadline (9d). No formal notice had followed by October 23, so as published the suspensions of the American port fees and of the affiliates rule still end then.

The White House said the leaders agreed, through the Board of Trade, to cut tariffs to MFN rates on about 90% of the lines on two lists of about $30 billion of goods each, with no timetable. Washington's list, of goods on which it will cut its tariffs, has 77 items, mostly household goods, toys, and leisure goods; Beijing's has more than 1,600, mostly farm and fish products, timber, food, and medical devices. They also agreed to a dialogue on AI, and each backed the other's hosting of the year's summits: the Asia-Pacific Economic Cooperation (APEC) forum in Shenzhen on November 18-19 and the Group of 20 (G20) in Miami on December 14-15. MOFCOM said the extension gives both sides 'space' to review implementation. The US Trade Representative, Jamieson Greer, called the two months 'compliance periods' for China's farm purchases and rare-earth exports.

American soybean sales to China, about $13 billion in 2024, stopped during the 2025 harvest and resumed after the truce, and Bessent said in September that China was meeting its soybean commitment while about $17 billion of its other farm purchases were behind schedule. China, for its part, had reminded the world of its lever in June, when it put ten American rare-earth and defense-linked companies on its export-control list. At the September summit, Greer said export controls were 'off the table'. The tariffs between the two now rest mainly on the Section 301 actions, while the relationship's leverage has moved to export controls, chips one way and minerals the other.

Module 9 Key Points

China

• China's share of US goods imports fell from about 22% before the 2018 trade war to about 9% at the end of 2025.

• The 2018 war put 7.5-25% on $370 billion of Chinese goods; China bought about 58% of Phase One's pledged purchases.

• The 2025 war reached 145% in weeks, and China's rare-earth licensing halted American production lines and forced the truces.

• A typical Chinese good now owes the Section 301 tariff plus the 12.5% tier, about 40% with MFN.

• Extended in September to January 10, 2027, the truce covers export controls, port fees, farm purchases, and China's suspended retaliation.

• Licensed H200 chips reached China by August 2026, the Financial Times reported; export controls were 'off the table' in September.

Module 9 Quiz

Check Your Understanding

1. When does the extended US-China truce expire?

A) November 10, 2026
B) At the end of 2026, with the tax year
C) January 10, 2027, after a two-month extension
D) July 1, 2027, at the USMCA review

2. What share of the $200 billion of Phase One purchase commitments did China fulfil, by Bown's count?

A) All of it.
B) About 58%, by the Peterson Institute's count.
C) About a quarter.
D) More than all of it, since prices rose after 2020 and China bought more by value than it pledged.

3. Which Chinese measure halted American production lines within weeks in 2025?

A) A ban on Boeing deliveries and on American aircraft parts
B) Tariffs matching America's, at 125%
C) Sales of its Treasury bonds, which raised American rates
D) Rare-earth export licensing

4. What did the White House announce on tariffs after the September 24, 2026 summit?

A) Lists of about $30 billion of goods each way to fall to MFN rates.
B) An end to all tariffs.
C) A new 100% tariff on Chinese chips and electric cars from January 2027, on top of the Section 301 duties.
D) A return to the rates of 2017, before the first trade war, for every good except steel.

5. What did the US Trade Representative say about export controls at the September summit?

A) They would be lifted
B) They were off the table
C) They were doubled
D) They would end in 2027

Module 10 — The Neighbors

The Continent as One Factory

Recommended Reading / Reference

> **Reference:** USTR's statement on the USMCA joint review (July 1, 2026); the Federal Reserve Bank of Dallas's analysis of USMCA claims (August 4, 2026); the White House's Section 338 proclamations on Canada (July 20, 2026) and the Federal Register notices that amend them

10a. The Factory

Mexico and Canada are the United States' two largest trading partners, with about $840 billion and $760 billion of two-way goods trade in 2024, and most of that trade is not one country selling to another. It is a single production system working across two borders. A car assembled in Michigan contains Canadian aluminum, Mexican wiring, and American engines, and its parts cross a border, by the industry's count, seven or eight times before the car is sold. A tariff on 'imports' from Mexico is, for the automakers, a tax on their own supply chain, which is why the industry was among the loudest voices against the tariffs.

The same is true of Canadian oil, which refineries in the Midwest are built to run; of Canadian potash, which American farms need to plant; of Mexican produce, which is much of the winter vegetable supply; and of the electronics, medical devices, and appliances that Mexican plants assemble for the American market from American and Asian parts. NAFTA made this system (Module 3). Its successor of 2020, the USMCA, tightened it with a rule that 75% of a vehicle's content be North American and a rule that much of it be made by workers earning at least $16 an hour. Mexico passed China in 2023 as the largest source of American imports.

10b. The 2025-26 Record

The neighbors were the first targets of 2025 and the most exempted. The fentanyl tariffs of 25% on both (Module 6) exempted goods that qualify under USMCA from March 7. Importers rushed to certify origin. The share claiming the agreement's preference rose from about half of imports from Mexico, and under 40% of those from Canada, to a record of about 80% for the two by July 2025 (Dallas Fed), and 81.4% in August 2026 (Penn Wharton). The Section 232 tariffs on steel, aluminum, autos, copper, lumber, and trucks hit both hard, since between them they are among the largest suppliers of each. The IEEPA tariffs fell with the Court's ruling (Module 5), and the Section 301 tier now applies to the neighbors' goods that do not qualify under USMCA (Module 6).

Canada's response to 2025 was the most forceful of any partner's: counter-tariffs on 30 billion Canadian dollars of American goods in March, provincial boycotts of American liquor, and an election on April 28 that the Liberals, under Prime Minister Mark Carney, won on standing up to Washington. Canada lifted most of those counter-tariffs from September 1, 2025, keeping those on autos, steel, and aluminum. Mexico's response was accommodation. Under its president, Claudia Sheinbaum, it raised tariffs of up to 50% from January 1, 2026 on more than 1,400 kinds of goods from countries without a trade agreement with it, mainly China.

10c. The July 1, 2026 Review

USMCA's designers wrote in a joint review at six years. On July 1, 2026 the US Trade Representative said the United States 'did not agree to renew the USMCA in its current form', while Mexico and Canada backed a sixteen-year extension. Without renewal the agreement stays in force to July 1, 2036, with a review every year, the next by July 1, 2027, and the three can still agree to extend it at any time. Nothing changed at the border, but the agreement lost the certainty that renewal would have given it.

The talks that followed ran between Washington and Mexico City. Three rounds were held by late July, on the rules of origin for cars, steel and aluminum, economic security, labor, the environment, payment services, regulation, and agriculture. A fourth, planned for September, slipped; Mexico's economy secretary, Marcelo Ebrard, said on October 16 that it would be held before the end of 2026. Canada had held no formal review talks with Washington by late July.

10d. Section 338 and Canada

On July 20, 2026 the president used, for the first time, Section 338 of the Tariff Act of 1930 (Module 5). The proclamations put 50% on about $20 billion of Canadian goods in three lists, applying even to goods that qualify under USMCA. The dairy list covers milk and cream powders, whey, and lactose, and the alcohol list beer, wine, and spirits. The 'motor vehicle' list, named for Canada's surtax on American-built vehicles, at first contained no vehicles, only appliances, electronics, furniture, clothing, and sporting goods.

Energy, potash, critical minerals, fish, and civil aircraft are left out, and at first so was every good under Section 232, including all vehicles and their parts. Talks collapsed on August 21, and the tariff took effect on August 22.

Each side then escalated. Canada imposed surtaxes of 15%, 25%, and 50% on about 27.6 billion Canadian dollars of American goods from September 8, and raised its duties on American steel and aluminum from 25% to 50%. Washington revised its lists from September 15, adding some cheeses, paper products, steel and aluminum shapes, golf carts, all-terrain vehicles, and motorboats, and the duty now applies on top of any Section 232 duty. From September 29 it banned outright most packaged Canadian alcohol, some whey products, molasses, and motorcycles over 800cc, the statute's first use to bar imports, though they are only about 0.25% of Canada's exports to the United States. On August 24 Trump had posted that Canadian cars, trucks, parts, and steel would pay 50% from January 1, 2027 unless production moved south; no proclamation had followed by mid-October.

Module 10 Key Points

The Neighbors

• Mexico, Canada, and the United States form one production system: a car's parts cross a border several times before it is sold.

• The share of the neighbors' exports claiming USMCA's exemption rose to a record of about 80% by July 2025.

• At the July 1, 2026 review the United States declined to renew USMCA; it stays in force to 2036, reviewed every year.

• Section 338, first used in 2026, put 50% on about $20 billion of Canadian goods from August 22, USMCA goods included.

• Canada answered with surtaxes on C$27.6 billion of American goods from September 8; Washington added import bans from September 29.

• Mexico accommodated: since January 2026 it charges up to 50% on more than 1,400 kinds of goods from countries without trade deals.

Module 10 Quiz

Check Your Understanding

1. What happened to USMCA at the July 1, 2026 joint review?

A) It was renewed for sixteen years by all three countries

B) It was terminated with six months' notice by the United States

C) Canada withdrew after the tariffs, leaving a bilateral agreement between the United States and Mexico in its place

D) The US declined to renew it; it runs to 2036

2. Why are the automakers among the loudest opponents of tariffs on Mexico and Canada?

A) A car's parts cross the borders several times, so the tariff taxes their own supply chain.

B) They sell more cars in Mexico than at home.

C) They own most of the customs brokers.

D) Mexican and Canadian labor rules require them to pay their workers in both countries the same as American workers.

3. Which Canadian goods does the Section 338 tariff leave out?

A) Only cheese

B) Alcohol, dairy, and cars, the three lists named in its proclamation of July 20

C) Energy, potash, fish, minerals, and civil aircraft

D) Every good that qualifies under USMCA, as with the fentanyl tariffs of 2025

4. What share of imports from Canada and Mexico claimed the USMCA exemption by July 2025?

A) About half

B) About 80%, a record

C) Under a third

D) Nearly all, as it had since the agreement took effect in 2020

5. What did Washington add against Canadian goods from September 29, 2026?

A) A 100% tariff

B) A quota on oil

C) An end to USMCA

D) Import bans

Module 11 — Europe, Japan, and the Deals

The Deal Architecture and Its Durability

Recommended Reading / Reference

Reference: The joint statements and framework agreements published by USTR and the partner governments (the UK's of May 8, 2025; the EU's of August 21, 2025; Japan's memorandum of September 4, 2025), and the EU's implementing Regulation (EU) 2026/1455

11a. What a 2025 Deal Is

The 'deals' of 2025 are not trade agreements of the kind the last eighty years produced. A trade agreement is a treaty, ratified by legislatures, that binds both sides' tariffs and rules for decades and is enforced by a dispute mechanism. The deals of 2025 are joint statements and framework agreements of a few pages each. In them the United States set a tariff lower than the one it had threatened, and the partner pledged purchases, investment, and market access, with no ratification and no binding force.

Most of the American rates in the deals were imposed under IEEPA and fell with it (Module 5). After the Section 122 bridge, the general rates have come from the tiers of a Section 301 action (Module 6). The partners did not negotiate the tiers, which came in at or below the deals' rates.

What survived is the political fact of each deal. The partners still want their caps on the sectors that matter to them, cars above all, and both sides act as if the agreements hold because neither wants the alternative. That makes the architecture durable in the way a truce is durable, by the parties' continued interest, and fragile in the same way.

Partner	Section 232 caps	Pledges and concessions	Status
European Union	Cars, medicines, trucks, and wood products 15%; steel and aluminum outside the ceiling	$750 billion of energy purchases through 2028 and $600 billion of investment; the end of EU duties on US industrial goods	The most complete deal (11b)
Japan	Cars and medicines 15%	A $550 billion investment fund (11c)	About $36 billion of first projects named February 18, 2026
South Korea	Cars and medicines 15%	$350 billion, including $150 billion for shipbuilding	Its law on the fund passed on March 12, 2026
United Kingdom	Cars 10% within 100,000 a year; medicines 10%	Market access for American beef and ethanol	The first deal, May 8, 2025
Switzerland	Medicines 15%	$200 billion of investment	Its deal of November 2025 followed a 39% rate in August 2025
India	None	Energy and defense purchases	Its deal of February 7, 2026 set 18%, down from 50% in 2025, half of it a penalty for buying Russian oil
Vietnam and Thailand	None	Boeing orders and market access	Vietnam's 2025 deal set 20%
Indonesia, Malaysia, and Cambodia	None	Market access	Their 2025 deals set 19%

Partner	Section 232 caps	Pledges and concessions	Status
Brazil (no deal)	None	None	The 2025 tariff, tied to the prosecution of the former president Jair Bolsonaro, rebuilt as a Section 301 action (Module 6)

General rates for every partner are the tiers of Module 6. USTR and the partners' statements; KPMG (July 24, 2026); C.H. Robinson (July 29, 2026); Tax Foundation (August 11, 2026); Thomson Reuters (July 16, 2026); Hudson Institute (September 5, 2025).

11b. Europe

The EU is the largest economy the tariffs reached and the partner whose deal went furthest. Its terms were agreed in Scotland in July 2025 and set out on August 21: a 15% ceiling on the American tariff, MFN included, in exchange for the concessions and pledges in the table and talks on standards and digital rules. The European Commission sold it as insurance against the 30% Washington had threatened; France's prime minister, François Bayrou, called it a day of 'submission'.

The EU kept its side in law. Regulation (EU) 2026/1455, in force since July 1, 2026, cuts its duties on American industrial goods to zero and opens quotas for some farm and fish products until the end of 2029. It carries conditions. The Commission must report by December 1, 2026 on how the United States treats European steel and aluminum, and it may suspend the cuts if American duties on steel and aluminum derivatives stay above 15% after December 31, 2026.

On the American side, European cars pay the capped rate rather than the 27.5% charged where there is no deal. What the deal deferred remains open: the EU's Digital Services and Digital Markets Acts, which Washington calls discrimination against American platforms and Brussels calls law; steel; and the Section 301 investigation, opened in June 2026, of whether Germany underpays for medicines.

11c. Japan, Korea, and the Pledges

The deals' distinctive feature is the investment pledge (the table), besides corporate pledges that reach into the trillions on paper. Japan's is the most specific. Under the memorandum of September 4, 2025, an investment committee chaired by the Commerce Secretary proposes projects and the president approves them. Japan provides the money within about two months of a selection and may decline a project, at the risk of a higher tariff.

Profits are split equally until Japan has recouped its investment, then 90% to the United States. The whole sum is to be committed before January 19, 2029. Korea's shipbuilding share is the piece its yards want, for the American naval work, and its law to manage the fund headed off a threatened rise in the American tariff. The EU's figure is a tally of what European companies said they might invest.

11d. Did the Leverage Work?

The case that it did

Its advocates, among them the administration and its trade officials, say the threat of losing the American market produced in months what decades of negotiation had not. Partners that had charged American goods more than America charged theirs agreed to cut their tariffs, buy American energy and aircraft, and invest hundreds of billions in American plants, and most of them did not retaliate. The deals, on this view, show that the market is a bargaining asset that the United States had failed to use.

The case that it did not

Its critics, among them most trade economists and many of the partners' officials, say the concessions are smaller than they look. The pledges are statements of intent that often count investment already planned, and a pledge extracted under threat is honored at the pace the threat persists. The deals' American rates fell with IEEPA within months, the partners' trust in American commitments has worn thin, and Americans paid most of the tariffs' cost (Module 7).

The evidence

Some concessions became law, above all the EU's tariff cuts (11b) and Korea's law on its fund. Japan's first projects are about a fifteenth of its pledge. The deals' rates have since been replaced (11a), and the EU's own cuts carry conditions (11b).

The course's reading

The leverage won real concessions, some of them in law, and the deals have held (11a). Most of the pledged investment is unspent, so the verdict on the larger claim belongs to the years before Japan's deadline (11c).

Module 11 Key Points

Europe, Japan, and the Deals

• The 2025 deals are short joint statements, unratified and not binding; their American rates rested on IEEPA and fell with it.

• Since July 24, 2026 the partners' general rates come from Section 301 tiers they did not negotiate, at or below the deals' rates.

• The deals' Section 232 caps still matter: European, Japanese, and Korean cars pay 15% rather than 27.5%.

• The EU cut its own duties on American industrial goods to zero from July 1, 2026, the deals' most concrete result.

• Japan's $550 billion fund splits profits equally until Japan recoups, then 90% to the United States.

• The course's reading: real concessions, some in law, but most pledged money unspent; the verdict is years away.

Module 11 Quiz

Check Your Understanding

1. How does a 2025 'deal' differ from the trade agreements of the past eighty years?

A) It is a short joint statement, unratified and not binding on either side
B) It covers services only
C) It applies only to goods under Section 232
D) It is enforced by the WTO's dispute court, which hears appeals

2. What Section 232 rate do European, Japanese, and Korean cars pay under the deals?

A) 2.5%, the MFN rate
B) 27.5%, as from countries with no deal at all
C) 15%, the deals' cap
D) 50%, the rate on steel

3. Under Japan's investment memorandum, how are the fund's profits split?

A) 90% to Japan
B) Equally until Japan recoups, then 90% to the US
C) Equally for the life of the fund, with Japan choosing the projects
D) By a vote of the fund's trustees in Tokyo, each year after an audit by both governments

4. What did the European Union's regulation in force since July 1, 2026 do?

A) Raised its car tariff to 15% to match the American rate
B) Suspended all of its 2025 countermeasures for another six months
C) Cut its duties on US industrial goods to zero
D) Set a 15% ceiling on the American tariff on European goods, ratified by Congress

5. What is the course's reading of whether the leverage worked?

A) It failed, since no partner made any concession at all.
B) It worked completely: the pledges have all arrived as investment.
C) It cannot be judged until Congress votes on the deals, which it has scheduled.
D) It won real concessions, above all the EU's tariff cuts, but most pledged money is unspent.

Module 12 — Supply Chains Re-routing

What Actually Moved Between 2018 and 2026

Recommended Reading / Reference

Reference: Kearney's annual Reshoring Index (the 2026 edition, from a survey of March 2026); the Census Bureau's country and product trade data

12a. Three Kinds of Moving

Eight years of tariffs have moved supply chains in three ways, and the policy's results depend on which. The first is relocation: production leaves China for a country that makes the product from its own or third-country inputs, as clothing factories moved to Bangladesh and Vietnam and part of Apple's iPhone assembly moved to India. The second is the 'China plus one' chain, in which final assembly moves to Vietnam or Mexico while the components stay Chinese, so that the good's origin changes and much of its content does not.

The third is transshipment, in which a Chinese good passes through a third country with little or no processing, or with a false claim of origin, which is fraud. The 2025 deals with Southeast Asian countries set a 40% rate on transshipped goods, which fell with IEEPA (Module 5), leaving Customs' ordinary origin rules and investigations as the check.

Most of the movement has been of the second kind. Kearney's 2026 survey found that buyers moved final assembly from China to other low-cost Asian countries and to Mexico while China still supplied many key components, and Vietnam's imports from China have risen in step with its exports to the United States.

12b. Where It Went

Destination	What moved there	The catch
Mexico	Cars, electronics, appliances, and medical devices; its manufactured exports to the United States rose 8% in 2025	Chinese parts and Chinese-owned plants, and Mexico's own new tariffs on Chinese goods (Module 10)
Vietnam	Clothing, shoes, furniture, and electronics assembly	Chinese components; the chief suspect in transshipment cases
Taiwan	Chips, servers, and other hardware for AI	A boom in demand rather than re-routing
India	Phones, medicines, and engineering goods	Chinese components, and a scale still small against China's
Thailand, Malaysia, and Indonesia	Electronics and solar panels	Solar plants that are often Chinese companies' factories abroad, and the anti-dumping cases against them
China	Exports that could not move easily (12c)	Its direct manufactured exports to the United States fell by almost a third, about $135 billion, in 2025

Kearney, 2026 Reshoring Index; imports from fourteen low-cost Asian countries rose about $60 billion, 6%, in 2025, led by computers and electronics. The bilateral balances are in Module 8.

12c. What Did Not Move, and Why

The instructive list is the one that stayed. Rare earths and magnets, where China does about 90% of the world's processing, moved nowhere, and the 2025 war turned on them (Module 9). Active ingredients for generic medicines moved from China to India and no further. Batteries and solar, where China leads at every stage from refining to finished cells, moved mostly to Chinese companies' plants in other countries. So did thousands of intermediate goods, such as circuit boards, electric motors, and chemicals, for which China's scale makes it the cheapest source by far.

There were three reasons. A tariff is a percentage, and the alternative is absence: a 50% tariff on a good with no other supplier is paid, and the good arrives. Time is the second, since a chip plant or an approved drug plant takes years to build, and the tariffs rested on three statutes in turn in eighteen months (IEEPA, Section 122, and Section 301), so investment waited for the rules to hold still. Kearney found only 18% of chief executives very confident of a return on reshoring or nearshoring in 2026, against 47% a year earlier. Cost is the third: goods from new sources usually cost more, which is the resilience premium of Module 2, paid.

The reshoring the tariffs were meant to bring is not yet in the data. Kearney's index, which sets American manufacturing output against manufactured imports from fourteen Asian countries, read -86 in 2025, still net offshoring, though less than 2024's -115. Those imports rose to 14.15% of American manufacturing output, the highest since 2021, while that output fell 0.4%.

12d. Resilience Against Efficiency

The argument under the whole subject is between two goods that trade against each other. Efficiency built the supply chains of 1990-2018: single sources at the lowest cost, thin inventories, and the concentration in China that made a phone cheap and a pandemic catastrophic. Resilience is the premium against the bad year, and the bad years came: the shortages of 2020, the ships anchored off Long Beach in 2021, the chips of 2022, the rare earths of 2025, and the Hormuz closure of 2026.

The tools buy different things. A tariff buys diversification by taxing the single source, and the consumer pays. A subsidy buys it by paying for the alternative, and the taxpayer pays (Module 14). A stockpile buys time directly. Friend-shoring, the shift to allies rather than to anywhere, buys protection against political risk at the cost of the ally's higher prices. The record since 2018 is that tariffs moved final assembly faster than they moved content, while subsidies built chip and battery plants at the prices Module 14 counts.

Module 12 Key Points

Supply Chains Re-routing

• Supply chains moved in three ways: relocation, assembly elsewhere with Chinese parts, and transshipment; most of it was the second.

• Buyers moved final assembly to other Asian countries and Mexico while China kept supplying many key components.

• Rare earths, drug ingredients, batteries, and solar barely moved, because a tariff on a good with no alternative is simply paid.

• Reshoring is not yet in the data: Kearney's index read -86 in 2025, still net offshoring.

• Only 18% of chief executives were very confident of returns on reshoring in 2026, down from 47% a year earlier.

• Tariffs moved assembly faster than content; subsidies built plants; stockpiles buy time; each has a different payer.

Module 12 Quiz

Check Your Understanding

1. Which kind of supply-chain movement accounts for most of what moved since 2018?

A) Final assembly moving while the parts stay Chinese
B) Relocation of whole industries
C) Transshipment fraud
D) Full relocation of production, parts and all, to the United States, driven by the tariffs and subsidies together

2. Where does China do about 90% of the world's processing, a share that did not move?

A) Rare earths
B) Cars
C) Clothing and shoes
D) Phone assembly

3. What did Kearney's reshoring index read for 2025?

A) +40, the first year of net reshoring since 2008
B) Zero, with imports and domestic output growing at the same pace
C) -86, still net offshoring
D) -115, the worst on record, as imports from Asia surged ahead of the tariffs

4. Why did goods such as rare earths and solar cells barely move, on the module's account?

A) They were exempt from all tariffs
B) The WTO forbids tariffs on them
C) Their makers were all state-owned, so Beijing barred them from moving their plants abroad or selling them to rivals
D) A tariff on a good with no other supplier is simply paid

5. Which tool buys diversification by paying for the alternative, with the taxpayer as payer?

A) A tariff
B) A subsidy to the new source
C) A stockpile
D) A friend-shoring treaty

Module 13 — The WTO and the Rules

Trade in a World Without a Referee

Recommended Reading / Reference

Book: Craig VanGrasstek, *The History and Future of the World Trade Organization* (WTO, 2013)

Reference: The WTO's *Annual Report* and the outcome documents of its ministerial conferences, among them those of the fourteenth, in Yaoundé in March 2026

13a. What the System Was

The WTO that opened in 1995 was the most ambitious economic institution yet built. Its members, now 166 and covering about 98% of world trade, accepted one set of rules: the MFN principle, tariff ceilings that a member could not exceed without compensating others, limits on export subsidies and import quotas, and agreements on services, intellectual property, product standards, and farm supports. Unusually, it also had a court. Panels ruled on disputes, an Appellate Body heard appeals, and a member that lost had to comply or face retaliation that the WTO authorized.

For two decades it worked. Members filed more than 600 disputes; the United States won most of the cases it brought and lost most of those brought against it; and China lost cases and complied. The system's flaws were built in. Decisions needed consensus, so any member could block anything, and no general round of negotiations has concluded since 1994. Its rules, written for tariffs and quotas, reached only weakly into China's subsidies and state-owned enterprises. Members declared themselves 'developing' countries, with lighter obligations, and China and India both did. And Washington, under three administrations, held that the Appellate Body had read the rules to constrain American trade remedies in ways the members never agreed.

13b. The Decline

The United States disabled the court by blocking new appointments to it. From 2017 it vetoed every nomination, and in December 2019 the Appellate Body fell below the three members it needs to hear a case. A member that loses a panel ruling can now 'appeal into the void', leaving the winner with a judgment it cannot enforce. The EU, China, and others built a workaround, the Multi-Party Interim Appeal Arrangement, which the United States has not joined.

The tariffs of 2018-26 then did what the void allowed. A panel ruled in December 2022 that the American tariffs on steel and aluminum broke the rules, and the ruling was appealed into the void. The tariffs of 2025 exceeded the ceilings on most American tariff lines. China asked for consultations in February 2025 and Canada in March, but no panel has ruled, and a ruling could be appealed into the void as well. The MFN principle (Module 3) has been set aside in practice by a regime that charges each country a rate set by bilateral bargaining (Module 6).

The members' fourteenth ministerial conference, held in Yaoundé, Cameroon, in March 2026, showed the legislature in the same state as the court. It ended in deadlock early on March 30 without a declaration, sending a draft on reform and four other texts to the General Council in Geneva. The moratorium on customs duties on electronic transmissions, renewed regularly since 1998, lapsed: 164 members backed an extension to 2030, and Brazil and Turkey blocked it. Talks on the second stage of the 2022 agreement on fisheries subsidies, whose first stage took effect on September 15, 2025, go on. The Director-General,

Ngozi Okonjo-Iweala, in office since 2021 and in her second term since September 2025, said, 'We decided to work differently.'

Washington's answer was to look elsewhere. The US Trade Representative, Jamieson Greer, said the WTO would 'play only a limited role in future global trade policy efforts', and the United States sought commitments from partners, outside the WTO, not to tax its digital transmissions. It paused its contributions to the WTO in March 2025 and paid them by the end of that year. By March 2026 it was in arrears again, owing 23.09 million Swiss francs, about 11% of the budget, as the WTO planned to cut its 2026 spending by about 10%.

13c. The Rules That Remain

- **Regional agreements.** They bind their members when the WTO cannot. Among them are the EU's single market; the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), successor to the pact the United States left in 2017, which Britain joined in 2024; the Regional Comprehensive Economic Partnership (RCEP), anchored by China; and the USMCA of Module 10. Hundreds of others make a tangle of preferences and rules of origin that the WTO was meant to replace.
- **Trade remedies.** Anti-dumping duties against goods sold below cost, countervailing duties against subsidized goods, and safeguards against sudden surges are all legal under WTO rules, and all are in heavy use. The EU's duties on Chinese electric vehicles of 2024 are the model: a tariff with an investigation, a calculated rate, and a defense under the rules.
- **Export controls.** They have replaced the tariff as the sharpest instrument of trade policy: American controls on advanced chips, the tools to make them, and software, and Chinese controls on rare earths, graphite, gallium, germanium, and magnets, some of them suspended under the 2025 truce (Module 9). Both sides justify them under the rules' exception for national security, so neither is likely to be challenged successfully.
- **The security exception.** Article XXI of the GATT lets a member take any action 'it considers necessary' for its essential security. A WTO panel held in 2019 that its use could be reviewed, but with the Appellate Body gone the exception is, in practice, what a large member says it is.
- **Agreements among some members.** Where consensus fails, subsets of members agree among themselves: the Information Technology Agreement, which removed tariffs on most electronics; the Government Procurement Agreement; and an agreement on electronic commerce whose text a group of members settled in 2024.

Module 13 Key Points

The WTO and the Rules

• The WTO of 1995 bound its members to one set of rules, with tariff ceilings and a court that heard appeals.

• Since December 2019 the Appellate Body cannot hear cases, so a losing member can appeal into the void.

• China and Canada sought consultations over the 2025 tariffs, but no panel has ruled.

• The Yaoundé conference of March 2026 ended without a declaration, and the e-commerce moratorium lapsed after 28 years.

• Export controls, justified as national security, have replaced tariffs as the sharpest instrument of trade policy.

• What remains: regional agreements, trade remedies, deals among subsets of members, and a security exception without a referee.

Module 13 Quiz

Check Your Understanding

1. When did the Appellate Body fall below the three members it needs to hear a case?

A) January 1995, at its founding
B) March 2026, at the Yaoundé meeting
C) December 2019
D) November 2001, at Doha

2. What happened to the moratorium on customs duties on electronic transmissions in March 2026?

A) It was made permanent by consensus of all 166 members.
B) It lapsed after 28 years, when Brazil and Turkey blocked an extension the other members backed.
C) It was extended to 2030 over the objections of the United States.
D) It was replaced by a binding agreement on digital trade among about 70 members.

3. What did the WTO panel of 2022 on the American steel and aluminum tariffs lead to?

A) A ruling in their favor
B) Their removal within a year
C) Authorized retaliation by the EU, China, and Canada worth more than the tariffs themselves, collected from 2023
D) A ruling against them, appealed into the void

4. Who has been the WTO's Director-General since 2021?

A) Ngozi Okonjo-Iweala
B) Pascal Lamy
C) Roberto Azevêdo of Brazil
D) Mike Moore, the New Zealander

5. What role did the US Trade Representative say the WTO would play after March 2026?

A) The center of American trade policy
B) To be replaced by the G20
C) Only a limited one in future trade policy
D) To be decided by Congress soon

Module 14 — Services, Subsidies, and Industrial Policy

The Trade the Tariffs Do Not Touch

Recommended Reading / Reference

Book: Chris Miller, *Chip War: The Fight for the World's Most Critical Technology* (2022)

Reference: The BEA's detailed tables on trade in services; the Center for Strategic and International Studies' (CSIS) *Red Ink* (2022) on China's industrial subsidies; the Congressional Research Service's (CRS) running table of Section 232 actions

14a. Services

A tariff is a tax on a good at a border, and a service crosses none: software licensed from Redmond, a film streamed from Los Angeles, a consulting contract in London, a semester at a Boston university, a card payment in Jakarta, the royalties on a phone's design. The United States sells the world more of these than it buys, and its services surplus (Module 8) rose by $27.6 billion in 2025. Its main parts, business and professional services, travel and education, finance, and charges for the use of intellectual property, are the American economy's comparative advantage in Ricardo's sense.

The services surplus is the deficit's other half and the argument's blind spot, since a goods deficit with a partner shrinks once services are counted. The threats to it come from the goods war's spillover. Washington treats Europe's digital regulation and other countries' taxes on digital services as tariffs on American platforms, and answers them with threats under Section 301. Restrictions on visas and travel in 2025-26 weighed on spending by foreign students and tourists. And the lapse of the WTO's moratorium (Module 13) left every member free to put customs duties on the data flows the surplus rides on.

14b. The Subsidy Race

The tariff's mirror image is the subsidy, which pays the domestic producer rather than taxing the foreign one, and in the 2020s every major economy chose both. China's industrial subsidies came to at least $248 billion in 2019, about 1.7% of GDP, on the estimate of the Center for Strategic and International Studies, through cheap credit, land, energy, tax preferences, and state investment funds. They concentrate on the industries China has since come to lead, among them solar, batteries, electric vehicles, shipbuilding, and steel, and on those it targets next, chips and AI.

The American answer came in three laws of 2021-22: the infrastructure act, the CHIPS Act's $52 billion for chips, and the Inflation Reduction Act's tax credits for clean energy and manufacturing. The budget law of July 4, 2025 reversed part of it. It ended the credit for buying electric vehicles and phased out those for wind and solar power, while keeping a credit for manufacturing with limits on Chinese content. The administration converted CHIPS grants into equity, taking a 9.9% stake in Intel in August 2025. Europe's chip and clean-industry programs, Korea's and Taiwan's chip programs, and India's production incentives complete the field: a race in which each government's payment justifies the next, and which the WTO's subsidy rules barely reach.

14c. The Two Strategic Industries

- **Semiconductors.** Every instrument is in use at once. A Section 232 tariff of 25% has applied to a narrow category of chips since January 15, 2026. Export controls limit what may be sold to China (Module 9), CHIPS grants have become equity, and the Taiwan Semiconductor Manufacturing Company (TSMC) has pledged $165 billion for its plants in Arizona, with Samsung building in Texas and Micron in New York and Idaho. A broad tariff on chips would tax every product that contains one, which is why the tariff stayed narrow and the controls did the work.
- **Pharmaceuticals.** The tariff was announced in September 2025 at 100% on branded drugs from companies not building in the United States. Most large drugmakers then announced American plants, and many cut pricing deals, beginning with Pfizer's of September 30, 2025, on Medicaid prices and direct sales. The Section 232 action published on April 9, 2026 set 100% on patented medicines and their ingredients from July 31, 2026, with 15% for the EU, Japan, Korea, and Switzerland and 10% for Britain. Companies with agreements on plants and prices pay nothing until January 20, 2029. Generics are exempt, and the country's deeper dependence, on ingredients for generics made mostly in India and China, is there.

14d. Should the State Return as a Trader?

The case that it should

Its advocates, among them national-security strategists in both parties and the administration, say the alternative was a China that used the state to take the industries the market had allocated to it. Chips, medicines, and minerals are not furniture, and a country that cannot make them depends on rivals in a crisis. A rules-based system with no referee (Module 13) is a system whose rules the largest player sets, so governments must set tariffs, subsidize plants, control exports, and take stakes, as the United States has done since 2025 in Intel, MP Materials, and other companies in minerals.

The case that it should not

Its critics, among them most economists and many in business, make the old objections. Governments pick badly, subsidies become permanent, and tariffs protect the protected while taxing everyone else. A state that holds equity in a company has a reason to favor it over its rivals. The state's return in one country provokes it in the next, until every industry is a national champion and no country trades on its comparative advantage.

The evidence

The export controls have cut China off from the most advanced chips while China builds its own (Module 9). The subsidies have started plants at public cost. Broad tariffs on ordinary goods have brought no measurable reshoring so far (Module 12), and the equity stakes are too new to judge.

The course's reading

The case for the state is strongest where the goods are few and essential, such as chips and critical minerals, and weakest for broad tariffs on ordinary goods. The subsidies sit between, and their verdict is in the plants due to open by the end of the decade.

Module 14 Key Points

Services, Subsidies, and Industrial Policy

• Services cross no customs border, so tariffs do not touch the services surplus, which rose $27.6 billion in 2025.

• The WTO moratorium's lapse in March 2026 left members free to put duties on data flows for the first time since 1998.

• China's industrial subsidies were at least $248 billion in 2019, about 1.7% of GDP, on CSIS's estimate.

• The 2025 budget law cut America's clean-energy credits, and CHIPS grants became a 9.9% stake in Intel.

• Patented medicines face up to 100% under Section 232 from July 31, 2026; generics, the deeper dependence, are exempt.

• The course's reading: the state's case is strongest for chips and critical minerals, weakest for broad tariffs on ordinary goods.

Module 14 Quiz

Check Your Understanding

1. Why does a tariff not touch the services surplus?

A) Services are exempt under the 2025 deals
B) The WTO forbids taxes on services of every kind, including digital ones
C) The services surplus is too small to matter against the goods deficit
D) A service crosses no customs border

2. What stake did the American government take in Intel in August 2025?

A) 9.9%, converted from CHIPS Act grants
B) Half
C) 25%, bought on the market
D) A majority, after Intel's board asked the Commerce Department to rescue the company outright

3. What Section 232 rate applies to patented medicines from the EU and Japan?

A) 0%
B) 15%, the deals' cap
C) 100%, as for other countries
D) 25%, the rate on cars without a deal and on most parts

4. Why does the module say the pharmaceutical tariff leaves the deeper dependence untouched?

A) Because no medicines are imported.
B) That dependence is on generic ingredients from India and China, and generics are exempt.
C) Because the tariff applies only to Canada.
D) Because the tariff was struck down by the Court of International Trade in May 2026, with the other new duties.

5. Where does the course find the state's case strongest?

A) Furniture
B) Clothing and shoes, made abroad
C) Chips and critical minerals
D) Cars and trucks sold in North America

Module 15 — Where Things Stand, and What to Watch

The Picture Assembled, and the Dates

Recommended Reading / Reference

Reference: The Federal Register for tariff proclamations; the Court of International Trade's docket; USTR's press releases; and the trackers cited throughout, from the Penn Wharton Budget Model, the Yale Budget Lab, and the Tax Foundation

15a. Where Things Stand

Eighteen months after Liberation Day, the United States has its highest tariffs in decades and lower ones than it had in April 2025. The regime is legally sturdier than the one the Court struck and less settled than it looks. Its deals with most of the rich world are truces rather than treaties, its truce with China runs to January 10, 2027, and its largest neighbors face a review every year and, for Canada, a statute of 1930. About $126 billion of refunds have been certified to importers who mostly passed the cost on. Prices are higher by a bounded amount, revenue is up and well short of the claims, and the manufacturing revival is not yet in the data. Supply chains moved at the margin with their Chinese parts in tow, the WTO has no court and no moratorium, and the state has returned as a trader in every capital that matters.

The argument the course opened with, whether the tariffs are a tax, a bargaining tool, or security policy, has a provisional answer in the evidence of Modules 7 through 12. They are a tax paid mostly by Americans that bought leverage over allies and little over China, and they have done less for security than the export controls, which collect nothing at the border.

15b. What the Vote Will and Will Not Change

• **Will not change: the statutes.** Sections 232 and 301 belong to the president under laws of 1962 and 1974, and no Congress has taken them back. The midterms of November 3 do not change the president who holds them.

• **Could change: the appetite.** A Congress with a different majority can hold hearings, attach conditions to spending bills, and make the tariffs an issue, though undoing a tariff would take a law the president could veto.

• **Will change on their own schedule: the courts.** The trade court's ruling on the Section 301 tier, the Federal Circuit's on Section 122's refunds, and the new challenge to Section 338 each arrive when they arrive. A ruling against the tier would remove the regime's general layer and leave Section 232 and the older Section 301 tariffs standing.

• **Will change by the calendar: the deals and the truces.** The China truce, the USMCA's yearly review, the EU's conditions on steel, and Japan's fund each have dates, while the four pending Section 232 investigations have none set (15c).

• **Will change last: the data.** The plants pledged and not yet built and the manufacturing employment that is the policy's stated purpose will take years to judge, and the course will be updated as the numbers arrive.

15c. The Watch List

When	What	Why it matters
October 27-28, 2026	The Fed's meeting	Rates and the dollar, which tariffs move (Module 8)
November 3, 2026	The midterm elections	The appetite, not the powers (15b)
November 4, 2026	The trade figures for September	Whether the narrowing of 2026 continues (Module 8)
November 9-10, 2026	The suspensions of the affiliates rule and the American port fees end as published, and the truce's original deadline passes	No formal notice extending either had appeared by October 23; the extension to January 10 rests on the September announcement (Module 9)
November 18-19, 2026	The APEC leaders' meeting in Shenzhen	A third Trump-Xi meeting this year; both have said they will attend
December 1, 2026	The European Commission's report on American treatment of EU steel and aluminum	The first test of the EU's conditions (Module 11)
December 4, 2026	Section 232 tariffs of 10-15% on polysilicon take effect, with minimum import prices	The solar supply chain (Module 12)
December 14-15, 2026	The G20 summit in Miami	Another chance for the two leaders to meet, if both attend
After December 31, 2026	The Commission may suspend the EU's tariff cuts if American duties on steel and aluminum derivatives stay above 15%	Whether the deal holds (Module 11)
January 1, 2027	Section 232 rates rise on upholstered furniture (25% to 30%) and on kitchen cabinets and vanities (25% to 50%); the threatened 50% on Canadian cars, trucks, parts, and steel, if proclaimed	The sectors' next step, and Canada (Module 10)
January 10, 2027	The extended US-China truce expires	A renewal, a lapse, or another extension (Module 9)
February 9, 2027	Section 232 tariffs on drone components begin	The pipeline's reach into parts
By July 1, 2027	The next USMCA joint review; de minimis ends by statute the same day	The continent's factory (Module 10); parcels (Module 4)
No date set	The trade court on the Section 301 tier; the Federal Circuit on Section 122; Section 232 decisions on wind turbines, robotics and industrial machinery, protective and medical equipment, and anthracite coal; the excess-capacity investigation	Each can change the regime without Congress (Module 5)
January 19, 2029	The deadline for committing Japan's $550 billion	Whether the pledges become money (Module 11)

Dates as announced by October 23, 2026.

15d. The Last Word

The throughline of fifteen modules is that a tariff is a tax paid at the port by the importing country's own firms and passed to its own consumers with a lag. It raises revenue at a fraction of the claims made for it, barely moves the overall deficit, shifts supply chains at the margin with their parts in tow, and buys leverage over the countries that depend on the market and little over the one that does not. It has been the American state's first act, its main revenue, its central political divide, its most famous mistake, and its delegated power. In 2025-26 it was the instrument of the largest trade experiment since 1930, imposed under an emergency statute the Supreme Court held never authorized it and rebuilt under statutes that do.

The tariffs raised prices and revenue roughly as forecast, have not yet produced the manufacturing they were for, and extracted deals that are truces and pledges that are promises. The sharp edge of trade policy has moved to the export controls on chips and minerals that no tariff schedule contains. What the next two years decide is whether the pledges become plants, whether the courts leave the regime standing, whether the China truce holds, and whether a country that built the rules-based system and set it aside can live without a referee.

Module 15 Key Points

Where Things Stand, and What to Watch

• The regime stands at its highest tariffs in decades and below its own peak, on a legal foundation still in court.

• The provisional answer: a tax paid mostly by Americans that bought leverage over allies and little over China.

• The midterms will not change the statutes and could change the appetite; the courts will act on their own schedule.

• The dates: January 10, 2027 for China, the EU's steel conditions from December, USMCA's review by July 2027, and the court rulings.

• The sharp edge of trade policy has moved to export controls on chips and minerals.

Module 15 Quiz

Check Your Understanding

1. What does the module say the November 3 midterms will not change?

A) The appetite of Congress
B) The prices of tariffed goods
C) The polling on the tariffs in trade-exposed districts
D) The statutes that give the president his tariff powers

2. What is due on December 4, 2026?

A) Section 232 tariffs on polysilicon
B) The end of the US-China truce, extended in September
C) The trade court's ruling on Section 122, after argument in November
D) The second USMCA joint review, a year after the first one in July

3. What would a ruling against the Section 301 tier do to the regime?

A) Restore the IEEPA tariffs
B) End all tariffs on China
C) Send the case to a WTO panel, which would review it within the year
D) Remove its general layer, leaving Section 232 and the older 301 tariffs

4. When is the next USMCA joint review due?

A) By July 1, 2027
B) In 2036
C) At the end of December 2026
D) Every five years, starting in 2031

5. What does the course say decides the final verdict on the 2025-26 experiment?

A) The result of the November 3 midterms
B) The WTO's ruling on the tariffs, which China requested in 2025
C) Whether the pledged plants arrive
D) The level of the trade deficit in 2026, since a smaller deficit would prove the tariffs worked whatever happened to prices

Answer Sheet

Answers to every module's Check Your Understanding quiz.

Module	Answers
Module 1 Quiz	1. A 2. B 3. D 4. C 5. D
Module 2 Quiz	1. A 2. B 3. C 4. C 5. A
Module 3 Quiz	1. D 2. B 3. C 4. A 5. D
Module 4 Quiz	1. B 2. D 3. B 4. C 5. A
Module 5 Quiz	1. D 2. A 3. B 4. C 5. D
Module 6 Quiz	1. A 2. C 3. B 4. A 5. C
Module 7 Quiz	1. D 2. B 3. C 4. D 5. A
Module 8 Quiz	1. B 2. A 3. C 4. B 5. D
Module 9 Quiz	1. C 2. B 3. D 4. A 5. B
Module 10 Quiz	1. D 2. A 3. C 4. B 5. D
Module 11 Quiz	1. A 2. C 3. B 4. C 5. D
Module 12 Quiz	1. A 2. A 3. C 4. D 5. B
Module 13 Quiz	1. C 2. B 3. D 4. A 5. C
Module 14 Quiz	1. D 2. A 3. B 4. B 5. C
Module 15 Quiz	1. D 2. A 3. D 4. A 5. C