Toga of Truth: Sharp Takes on High Stakes
Luxembourg School of Business

U.S. Trade Policy: Erratic or Strategic?

A Corporate Approach to National Policy

It is interesting to observe how the White House's current leadership views national governance through a distinctly corporate lens This approach echoes mercantilist principles, focusing on economic dominance and wealth accumulation over public policy to address market failures. While this "business" perspective may appeal to those who favor corporate efficiency, it risks under-investing in critical societal and international impact, such as environmental sustainability and global cohesion. It could also spur activities that degrade these priorities. America's recent shift in international relations seems to be doing exactly that. A key question many are grappling with is whether this behavior is erratic or part of a broader, orchestrated strategy. Additionally, what steps can the EU take to maintain a strong negotiating position in light of these developments?

Understanding the shift

This corporate-style governance has emerged amid a daunting fiscal reality.The federal government owes over $35 trillion—equivalent to about 125 percent of the nation's GDP—and its interest payments are rising so sharply that they could soon overtake defense spending, a worrisome prospect given the already enormous military budget. Private borrowing further compounds the debt burden.

In business terms, the United States is now "trading at insolvency," meaning its ability to meet obligations relies more on constant borrowing than on solid underlying fundamentals. The only factor keeping the system afloat is the U.S. dollar's status as the world's premier reserve currency, which enables borrowing at very low interest rates. Yet as history demonstrates, one cannot defeat the laws of economics, and no currency can indefinitely conceal deep structural cracks.

Mounting Domestic Challanges

The pressure from fiscal reality is becoming more evident and harder to ignore. With varying degrees of success, the Department of Government Efficiency tries to reduce government spending, including through lay-offs.

Everyday Americans are also feeling the skewed impact of technology-driven growth over the past few decades.The widening gap between the prosperiy of those who own capital and the stagnation of real wages is glaring. The top 1% of households has seen their wealhth soar, now controlling nearly one-third of the nation's total. This group holds substantial stakes in major corporations and global investment funds. The U.S.'s tax system, which favors its wealthiest citizens, allows them to minimize their tax burden in ways that middle-class earners cannot.

Healthcare data compounds the growing sense of unease. In 2023, the United States spent nearly $13,500 per person on healthcare services—more than double the average for wealthy European nations—and allocated 16.5% of its GDP to healthcare, the highest share globally. Despite this significant outlay, life expectancy in the U.S. remains around 76 years, considerably

lower than the 82+ years seen in many European countries. Additionally, OECD data reveals a tougher work-life balance in the U.S. compared to Europe. It's clear why a growing number of Americans have been demanding policies that boost real incomes and improve quality of life, without triggering runaway inflation.

A Three-Pillar Strategy to Redirect Global Trade Flows

To address the average Joe discontent, the Administration essentialy intends to increase domestic production. It appears to have settled on common business tactics. Firstly, it imposes tariffs on foreign firms in line with what scholars term the "Raising Rivals' Costs" or Predatory Exclusion Model. By elevating the costs competitiveness of overseas manufacturers, officials hope multinational corporations will invest in U.S.-based facilities. While tariffs may shelter certain domestic industries, they also risk retaliation and higher consumer prices at home.

Secondly, retaliations' adverse effect on U.S. exports is preemptively addressed by a strategy to weaken the dollar, keeping American goods competitive abroad. Consider a simple example: one U.S. dollar equals one euro, French wine costs 15 euros, and a U.S.-made blender sells for $150. A 25% tariff might push the wine to $18.75 in the U.S., and a similar EU counter-tariff would lift the blender to $187.50. Both sides lose. But if the dollar drops by 25%, making a euro worth $1.25, the French wine ends up near $23.50, and the blender, still $187.50 in dollar terms, reverts to about 150 euros, reclaiming part of its competitiveness in Europe. The higher the retaliatory tarifs, the higher the devaluation will need to be. The increased uncertainty from tariff battles, in and by itself, is already of use, as it can prompt global investors and central banks to buy gold and sell the dollar, accelerating the greenback's decline. Normally, tariffs can strengthen the dollar by raising import prices and weakening foreign currencies, but if the domestic market slows and interest rates are cut, the greenback may fall.

Thirdly, to maintain the USD's global hegemony, the Administration must encourage investors to avoid shifting their assets to rival currencies. The main concern with a devaluing dollar is that international investors could move their capital into alternavies like the euro or the yuan, which would undermine the dollar's status as the world's primary reserve currency. This reserve status is vital for America's ability to borrow at low costs, particularly as the national debt now exceeds $35 trillion. To prevent this, the Administration has opened an new valve: cryptocurrency. Since Bitcoin is not a legal tender, capital flowing into it does not strengthen a rival fiat currency. On the 6th of March, President Trump signed the Strategic Bitcoin Reserve and U.S. Digital Asset Stockpile order, giving also the Federal Reserve the flexibility to soak up excess dollars and divert them into crypto, rather than simply retiring them.

Lessons from the Past and the Global Context Today

The Plaza Accord of 1985 serves as a historical precedent, highlighting both the advantages and challenges of currency interventions. In the early 1980s, the United States adopted tight monetary policies to combat inflation, which attracted substantial foreign capital and drove up the value of the dollar. As the dollar appreciated, American goods became more expensive abroad, exacerbating the U.S. trade deficit. For other economies, a strong dollar meant higher costs for imported intermediate goods and raw materials, raising concerns that key industries, especially those in export-oriented sectors, would face increased input costs and lose competitiveness in global markets.

In response, the finance ministers and central bank governors of the United States, Japan, West Germany, France, and the United Kingdom convened at New York's Plaza Hotel in September

1985. The resulting Plaza Accord committed these nations to coordinated foreign-exchange interventions aimed at weakening the dollar relative to the yen, the Deutsche Mark, and other major currencies. The goal was to address mounting trade imbalances and reduce pressure on export-oriented sectors struggling with currency misalignments.

By early 1987, the dollar had depreciated enough that worries arose about overshooting. Japan's economy grappled with the sudden competitiveness gap caused by a much stronger yen, while European nations feared the dollar might drop too far, risking inflation or speculation. In February 1987, the same group of countries (plus Canada) convened in Paris for the Louvre Accord, which effectively replaced the Plaza Accord by aiming to stabilize exchange rates at their new levels instead of pushing the dollar further down.

Several lessons emerge from this episode. First, currency interventions often achieve temporary goals and can quickly unravel once domestic pressures resurface. Second, sharp revaluations aid one country's export sector but can severely disrupt another's. Third, overshoot is a constant threat: a currency that weakens too rapidly can fuel financial volatility and political backlash. Finally, the transition from the Plaza to the Louvre Accord underscores how fragile international cooperation can be. When local considerations—ranging from inflation fears to export competitiveness—come to the fore, joint strategies may be abandoned.

In today's global climate, neither China nor the Eurozone shows much interest in deliberately weakening the dollar. A sharp drop in the greenback would risk unsettling capital flows in ways that could suppress demand for Chinese exports, undermining the growth China needs to care for its rapidly aging population. Meanwhile, Eurozone economies face sluggish expansion, inflationary pressures, and the challenges of monetary union. Any steep rise in the euro would undermine exports, particularly in manufacturing-heavy countries such as Germany, and hamper any embryonic recovery. As a result, both China and the Eurozone have limited motivation to join forces in a Plaza-style initiative—even if such an action might temporarily ease America's trade imbalances. It would likely harm their own longer-term economic interests.

The emerging idea of charging allies for U.S. security guarantees—whether through NATO or specific arrangements such as those involving Ukraine, appears part and parcel of creating leverage. It allows the U.S. to introduce geopolitical incentives to China, perhaps regarding a weakening defense commitment under the Taiwan Relations Act, and an upscaled one for the EU in the stand-off with Russia.

Smart EU Reaction: Balancing the Scales in Transatlantic Trade

Anticipating Washington's price-driven trade strategy—alongside the possibility of a new Plaza-style currency accord—the European Union and its partners are not without recourse. Several strategic avenues exist to recalibrate the transatlantic balance of power and nudge the U.S. toward a more cooperative posture.

The most effective countermeasures would focus on supply-side trade actions, which are largely immune to exchange rate fluctuations. For instance, import quotas could maintain consistent pressure on U.S. exporters regardless of dollar devaluation. This would incentivize American firms to relocate production to Europe while prompting consumers to consider alternative suppliers. The EU can also leverage its regulatory power to reinforce and expand the impact of such measures.

Importantly, the U.S. does not run an overall trade deficit with the EU; rather, it maintains a large surplus in high-value services, including financial services, IT, higher education, and entertainment. These sectors offer viable pressure points for the EU.

One of the most underappreciated but powerful tools at Europe's disposal to that effect is the recently adopted Anti-Coercion Instrument (ACI)—often dubbed "the Bazooka." This legal mechanism allows the EU to respond to economic coercion by third countries, including the United States, without being bogged down by prolonged WTO procedures. Should Washington continue to exploit trade policy, currency dynamics, or extraterritorial financial regulations to its advantage, the ACI enables the EU to deploy swift countermeasures—such as targeted tariffs, exclusion of U.S. firms from public procurement tenders, or investment restrictions—all within a coordinated and lawful framework. The ACI thus underscores Europe's growing capacity for strategic autonomy and acts as a credible deterrent.

Another potential lever is selective suspension of bilateral cooperation frameworks, especially those that disadvantage the EU. A prime candidate is the Foreign Account Tax Compliance Act (FATCA)—a U.S.-imposed compliance regime that places disproportionate burdens on European financial institutions. FATCA requires non-U.S. banks to report account information of U.S. persons to the IRS, while U.S.-based institutions face no comparable reciprocal obligations. This imbalance makes the U.S. a magnet for foreign tax-optimizing capital. Revisiting or abandoning FATCA could enhance the attractiveness of Europe's financial centers—Amsterdam, Dublin, Luxembourg—for both U.S.-owned capital and financial firms, while simultaneously challenging the global strength of the dollar.

The EU might also consider a temporary suspension of intellectual property right payments, particularly in sectors such as streaming services, as a targeted response to strategic pressure—thereby hitting U.S. soft power and entertainment exports without disrupting broader commercial ties.

Other responses could include tightening market access for U.S. tech giants, especially in digital sectors like gaming, entertainment, and social media, where the U.S. enjoys global dominance. The EU could further rechannel public scholarships, encouraging students to pursue higher education at institutions within Europe or allied countries such as the UK, Australia, Singapore, and Switserland, thereby reducing U.S. universities' intellectual contribution and revenue generating capacity.

Finally, Europe can accelerate efforts to reduce structural trade barriers with key partners—including China, ASEAN, and MERCOSUR. Expanding access to these markets would dilute the impact of any U.S. "deal-dollar" strategy, broaden the EU's commercial base, and support a more resilient, multipolar global trade environment.

A High-Stakes Experiment with Uncertain Outcomes

In essence, contrary to the widespread perception that the current U.S. Administration acts erratically, the White House's "business" approach to governing the country is emerging as a deliberate strategy—a bid to reshape an 80-year-old global trade order in America's favor, albeit a risky one. This strategy blends protective tariffs, deliberate dollar devaluation, and crypto tools into a cohesive approach. If successful, it could revitalize American manufacturing and sustain the dollar's dominance at a lower exchange rate, though the prospect of restoring large numbers of low-paid, repetitive jobs in an AI-driven era seems increasingly unrealistic.

However, the EU has several strategic measures at its disposal to recalibrate the balance of power. If the U.S. strategy backfires, it risks triggering a prolonged recession, fueled by the escalated trade war, higher borrowing costs, further social discpontent, and a loss of confidence in the dollar. In that case free trade may need quick revision likely under a next administration. Meanwhile, cryptocurrencies have emerged as a new valve to influence the international monetary system, adding another layer of uncertainty to the global economic outlook.

The hidden costs of a corporate-driven governance mentality may soon become painfully clear.

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