

# Trump escalates global economic war

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After the passage of his budget which involves the biggest transfer of wealth in history into the hands of the financial oligarchs, US president Trump has now moved his tariff war against the rest of the world to the top of his economic agenda.

Yesterday he sent letters to 14 countries saying the massive tariff hikes announced on April 2 would be imposed on August 1.

Two of the most significant diktats were letters to so-called US allies Japan and South Korea declaring they would be hit with a tariff of 25 percent. South Africa was also hit with a tariff of 30 percent.

Among the others, which are major sources of exports to the US such as textiles and apparel as well as auto products are: Thailand 36 percent, Indonesia 32 percent, Malaysia 25 percent, Cambodia 36 percent and Laos 40 percent.

The letter to Japan's prime minister Shigeru Ishiba said: "Please understand that these tariffs are necessary to correct the many years of Japan's tariff, and non-tariff and trade barriers, causing unsustainable trade deficits against the United States.

"This deficit is a major threat to our economy and, indeed, our national security."

The letters to Japan and Korea stipulated that if for any reason they decided to raise their tariffs against the US then "whatever the number you choose to raise them by will be added onto the 25 percent that we charge."

Letters sent to other countries were similar with the rate following closely the level set out in April.

The imposition of the hikes came after the three-month pause announced by Trump following the severe market reaction to the initial announcement which saw a spike in interest rates and a fall in the value of the US dollar.

The pause was supposedly to allow negotiations to take place and the announcement of deals and agreements. But apart from a limited agreement with the UK and one with Vietnam announced last week, nothing eventuated.

Japan held multiple discussions with the US—its chief trade negotiator travelled to Washington seven times—but returned empty-handed after trying to secure at least some concessions for the auto industry.

The blanket "reciprocal tariffs" have been invoked under the 1977 International Emergency Economic Powers Act, which gives the president powers to impose tariffs in a national emergency.

In May the Court of International Trade based in New York ruled the tariffs were illegal as there was no "national emergency." But this was set aside the following day for further adjudication by a higher court on appeal. This allowed Trump to proceed, confident that if the issue goes to the Supreme Court, he will receive a favourable ruling.

On top of the reciprocal tariffs, the US is proceeding under other legislation with national security investigations into a range of other goods, including aerospace, pharmaceuticals, timber, copper, computer chips and electronics.

Besides the imposition of tariffs against major US trading partners, Trump declared that any country which embraced the "anti-American policies" of the BRICS group of countries would be hit with an additional 10 percent tariff.

The threats came as the BRICS grouping—initially comprising Brazil, Russia, India, China and South Africa, but which has now expanded to include 11 countries, among them Iran—was holding a summit meeting in Rio de Janeiro.

Without naming the US, the meeting condemned the attacks on Iran and unilateral tariffs.

The chief concern of the US regarding BRICS is its efforts to develop other means of international payments which do not depend on the dollar.

During the election campaign, Trump said that if the dollar lost its global supremacy, it would be the equivalent of losing a war. Last December, he warned that any country would be hit with a 100 percent tariff if it tried to create an alternative to the dollar.

The issue of tariffs and the dollar was placed front and centre by Brazil's president Luiz Inácio Lula da Silva, the summit host, in his response to Trump's latest threats.

He said it was "very mistaken and very irresponsible" of Trump to make such threats.

"The world has changed. We don't want an emperor. We are sovereign countries," he told a news conference.

Turning to the key issue, he said there was "no going back" on reducing dollar dependence and it would go ahead "until it is consolidated."

"The world needs to find a way so that our trade relationship does not need to go through the dollar. Nobody has determined that the dollar is the currency standard."

While there is no immediate prospect of the BRICS constructing an alternative global currency, even small shifts

can have a major effect in undermining dollar dominance. The US will have been concerned about the significant fall in the dollar during the financial turbulence that followed Trump's initial April tariff announcement.

This was contrary to "normal" experience when the dollar is sought after as a safe haven amid similar turmoil.

Yesterday's measures by Trump did not include the European Union and India. Negotiations are still underway.

So far only two in principle agreements have been reached—with the UK and Vietnam, while the US and China have agreed to withdraw the retaliatory measures they introduced against each other after April 2.

The UK agreement also pointed to another aspect of the trade war—the stipulation that Britain had to align itself with US "national security" considerations regarding the sourcing of components from China. This issue will also be at the centre of any "deals" with the strategically important countries of southeast Asia.

Apart from China, the biggest issue in the tariff conflict is with the EU. At a press conference last week, European Commission president Ursula von der Leyen said a final deal was "impossible" before the deadline.

"It's a huge task because we have the largest trade volume globally between the EU and the United States €1.5 trillion [\$US1.76 trillion annually]—very complex and huge quantity. What we are aiming at is an agreement in principle."

But according to a report in the *Financial Times*, EU officials working on the five-page draft have said there is very little agreed-upon text within it and the US keeps adding new threats.

Last Thursday the EU trade commissioner Maroš Šefčovič was warned of a 17 percent tariff on EU food exports in discussions in Washington. Underscoring the chaotic character of the so-called negotiations with the Trump administration, it was not clear whether the food tariff would be on top of other tariffs or replace them.

Apart from the twists and turns by the US, one of the problems is divergent views in the EU. It is divided between those who want to accept higher tariffs and then continue negotiations amid some at least temporary stability and those who want the EU to launch retaliatory measures to force the US to compromise.

German chancellor Friedrich Merz wants to settle for a quick deal in order to try to get exemptions from the 25 percent tariffs on vehicles and the 50 percent tariff on steel.

"This is not about a finely crafted, comprehensive trade agreement with the USA negotiated down to the last detail," he has said.

The EU has prepared counter measures, approving the imposition of tariffs on €21 billion of US exports from July 14, with a package of tariffs on €95 billion more.

According to a European Commission spokesperson: "The EU position has been clear from the outset: we favour a negotiated settlement with the US, and this remains our

priority.... At the same time, we are preparing for the possibility that no satisfactory agreement is reached."

India is also involved in last minute talks with administration officials, including Trump, claiming that an agreement is near. But last week India informed the World Trade Organisation that it has prepared retaliatory actions in response to the tariff imposed on cars which could include an "increase in tariffs of selected products originating in the United States."

Even where deals have been announced, there is great uncertainty over what exactly has been decided. In the case of Vietnam, one of the key issues is how and by whom the 40 percent tariff imposed on goods deemed to be "transhipped" from China is to be determined. Goods from China are essential for manufacturing industries in Vietnam.

Adam Sitkoff, the executive director of the American Chamber of Commerce in Hanoi, told Bloomberg that assessing the pros and cons of the US-Vietnam agreement announced last week was "difficult without seeing further details about what the tariffs actually mean."

Lack of detail is also clouding the framework agreement between the US and China announced last month. China agreed to loosen export controls on rare earths vital for the manufacture of magnets that can operate in high temperatures, particularly vehicles.

US officials have refused to release details on what exactly was agreed, saying it is a private, confidential deal. But that has not stopped them saying China may not be honouring what it had agreed to.

Trump's April 2 announcements upended all the international trading relations of the post-war period—never to return.

Yesterday's decisions bring into clearer focus what will replace it—the return, at a higher level, of the conditions that characterised the disastrous decade of the 1930s, when the world was divided into rival trade and currency blocs which played a major role in creating the conditions for world war.



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