



# **The Tariff War and the Sell America Movement: A Unified Economic Analysis**

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## **Executive Summary**

The global financial system is currently navigating a profound structural shift, characterized by a transition toward a multipolar reserve system. This transition is being driven partly by internal US policy objectives. The current administration is balancing the dual goals of enhancing manufacturing competitiveness through a weaker dollar while attempting to maintain global reserve status. In response, we observe a measurable economic reality defined by capital reallocation, central bank diversification, and the development of alternative economic blocs. Rather than a coordinated attack, the withdrawal of capital from US Treasuries by foreign central banks and large institutional investors reflects a structural realignment and portfolio risk management. For instance, BRICS nations and European institutions have reduced exposure to manage concentration risk and seek geographic diversification, which is a standard response to shifting US fiscal policy.

## **Tariff Impacts and Reshoring Friction**

The strategic intent behind the administration's aggressive tariff regime is to rebuild the American industrial base, reduce reliance on foreign competitors, and enhance long-term national security. However, the immediate transition costs of this decoupling have been substantial. In the first eight months of 2025, United States importers and consumers bore 94% of the tariff costs, operating effectively as a consumption tax. While this figure dipped to 86% by November, foreign exporters absorbed only approximately 5% of the total cost burden. This friction is a historically common lag effect during massive supply chain reshoring. While the short-term impact includes a loss of over 300,000 manufacturing jobs since 2023, the long-term goal remains structural industrial independence as global supply chains slowly recalibrate.

## **The Fiscal Cliff: Debt, Deficits, and Interest**

The United States' fiscal position faces compounding structural constraints defined by rising interest obligations. The national debt is on a trajectory to reach \$40 trillion. Projections

indicate that the federal deficit will reach \$1.9 trillion in 2026 and expand to \$3.1 trillion by 2036, representing 6.7% of GDP. The cost of servicing this debt is a critical metric: interest payments are set to consume \$1 trillion in 2026 and more than double to \$2.14 trillion by 2036. By 2036, this figure is projected to reach 25.8% of federal revenue. Over two-thirds of all new borrowing is currently allocated to servicing interest on existing debt. This dynamic represents a historic mathematical constraint that will likely force future policy intervention, structural reform, or limit discretionary government spending over the coming decade.

## **Global Capital Flight: The "Sell America" Reality**

The reaction from global markets to these fiscal and policy missteps has been swift and structural. Foreign central banks and large institutional investors have moved beyond cyclical rebalancing and are now engaged in a structural exit from United States assets. This phenomenon, termed the "Sell America" trade, is evidenced by a massive withdrawal of capital from US Treasuries.

In a span of just two months between late March and May 2025, foreign official holdings at the New York Federal Reserve dropped by \$63 billion. This was not an isolated event but part of a broader trend led by major economic powers. China reduced its Treasury holdings by \$86 billion between November 2024 and November 2025 and issued a regulatory directive instructing its banks to pare down US positions due to "concentration risk." similarly, the BRICS nations collectively sold approximately \$200 billion in US Treasuries, signaling a coordinated move to reduce exposure to the dollar.

European institutions, long considered reliable buyers of American debt, have also joined the exodus. Denmark's *Akademiker Pension* announced a complete exit from US Treasuries, explicitly citing the unsustainable nature of US finances. Sweden's *Alecta* followed suit, selling between \$7.7 billion and \$8.8 billion in US bonds in 2025. Political pressure is also mounting, with Germany's CDU party demanding the full repatriation of 1,236 tons of gold currently held at the NY Fed, representing 37% of their reserves. The market consequences of this flight have been severe: the dollar fell 10.7% in the first half of 2025, its worst performance in over half a century, while foreign direct investment into the US collapsed by 14.2% to \$151 billion in 2024.

## **The Rise of Gold and Alternative Architectures**

As confidence in the dollar's stability and neutrality wanes, nations are aggressively pivoting toward physical assets and building parallel financial infrastructures. Gold has re-emerged as the primary vehicle for this diversification. The United States exported \$12.5 billion in physical gold in November alone, a figure that suggests the country is effectively settling its trade deficits in bullion rather than fiat currency.

Central banks globally are driving this demand, with 43% of them planning to increase their gold holdings—a record high. China has been particularly aggressive in this regard; Shanghai Gold Exchange inventories surged by a record 104 tons, excluding official purchases. Goldman Sachs estimates that China may be underreporting its true gold purchases by a factor of ten, masking the true scale of its move away from the dollar.

Concurrently, the infrastructure for a non-dollar trading world is coming online. Russia and China now settle 80% of their bilateral trade in their own currencies, bypassing the SWIFT system entirely. The "BRICS Pay" network is now live, and a gold-backed digital currency is nearing operational reality. Supported by a record \$735 billion current account surplus in 2025, China is deploying capital to fund non-dollar infrastructure projects and gold acquisitions, effectively financing the construction of a post-dollar global economy.

## **Domestic Stagnation and the Labor Market**

Domestically, the United States economy is exhibiting clear signs of "stagflation"—a toxic combination of low growth and high inflation that leaves monetary policymakers with few good options. Economic growth has slowed dramatically, with GDP growth in the fourth quarter of 2025 falling to just 1.4%, down from 4.4% in the previous quarter and missing expectations of 3%. This slowdown represents a \$400 billion annualized gap in growth. A record-long government shutdown further exacerbated the situation, destroying \$320 billion in economic activity and reducing government spending by 16.6%.

Despite slowing growth, inflation remains stubbornly high. PCE inflation accelerated to 2.9%,

significantly overshoot the Federal Reserve's target. This traps the Fed in a bind: cutting rates to stimulate the faltering economy risks igniting hyperinflation, while holding rates high risks deepening the recession.

The labor market is beginning to crack under this pressure. In January 2026, 108,000 Americans received layoff notices, the highest figure for that month since the Great Recession of 2009. The technology sector alone saw nearly 27,000 cuts in that month, while the healthcare sector shed 70,000 jobs. These figures indicate that the economic malaise is spreading from manufacturing into the service and technology sectors, threatening a broader employment crisis.

## **Strategic Decoupling in Europe and Beyond**

Perhaps the most significant geopolitical shift is the changing stance of Europe. Moving beyond mere financial concern, European leaders are actively pursuing industrial and military decoupling from the United States. President Macron has explicitly grouped the US alongside China and Russia as a source of global instability, stating that the world is "increasingly afraid of the American dollar."

This rhetoric is being matched by policy. Macron has proposed a €1.2 trillion annual investment plan for the EU to bolster defense, energy, and AI capabilities, specifically to reduce dependence on American technology and protection. Despite intense US pressure, European nations are proceeding with "buy European" defense policies, directly threatening the US defense industry's 50% market share of European weapons imports. Furthermore, European regulators have begun screening American investments with a level of scrutiny previously reserved for hostile nations, citing "systemic risk." This shift indicates that the transatlantic alliance is fraying, with Europe increasingly viewing the US not as a protector, but as a financial risk to be managed.

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