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Trump, the Diplomacy of Insult, and the Hollowing Empire

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PART 1

The G2 Summit and the Illusion of Top-Down Diplomacy

Chapter 1. Imperial Protocol on the Andrews Tarmac and the First State Visit in 11 Years

1.1 6:00 PM, The Andrews Tarmac

On the afternoon of September 23, 2026, Chinese President Xi Jinping departed Beijing. Aboard the special aircraft was his wife, Madame Peng Liyuan. Cai Qi, a member of the Politburo Standing Committee, and Foreign Minister Wang Yi were also among the accompanying delegation. Cai Qi serves as Director of the General Office of the Central Committee of the Communist Party of China, effectively President Xi's chief of staff.

Just before 6:00 PM that same day, the special aircraft touched down at Joint Base Andrews. Joint Base Andrews is an Air Force base located in Maryland. It is situated approximately 21 kilometers southeast of the White House. It is also where Air Force One, the official aircraft of the President of the United States, takes off and lands.

The Air China passenger aircraft taxied slowly along the runway. Lined up alongside the taxiway were six F-16 fighter jets and six F-22 fighter jets. President Donald Trump and First Lady Melania Trump arrived in the presidential limousine. The two walked along the red carpet up to the front of the aircraft.

President Trump greeted President Xi and his wife directly at the foot of the airstairs. The U.S. Air Force Band began to play. As the two leaders stood side by side, two B-1 bombers performed a flyover overhead. A 21-gun salute echoed, and the U.S. national anthem was played.

The ceremony lasted a little over ten minutes. The Trumps departed first, returning to the White House. Outside the main gate of the base, demonstrators gathered. Reports emerged that some had engaged in physical scuffles with the police.

The following morning, President Trump posted on Truth Social. He noted that he had greeted President Xi at the plane, explicitly adding in parentheses, "(at the airport)." He also remarked that President Xi looked strong and vibrant. In the background of the accompanying photograph, an aircraft bearing the slogan "Trump Only" was visible.

President Xi's arrival in Washington on a state visit marked his first such visit in eleven years, since September 2015. A state visit is the highest-ranking category of official visit a host nation can accord to a foreign head of state. This visit was a reciprocal return visit for President Trump's state visit to Beijing in May 2026. At a banquet in the Great Hall of the People on May 14, Trump had invited President Xi to the White House for September.

The two leaders had met for the first time during Trump's second term in Busan on October 30, 2025. They then met for a second time in Beijing in May 2026. The Washington summit was their

third face-to-face encounter within eleven months. The Chinese Ministry of Foreign Affairs characterized the mutual exchange of visits between the two heads of state within six months as a historic milestone.

The White House itinerary spanned three days. On the evening of the 23rd, an arrival ceremony was held at Joint Base Andrews. On the morning of the 24th, an official White House arrival ceremony was followed immediately by the bilateral summit. That evening, a state dinner was hosted in the East Room. On the morning of the 25th, after tea in the Red Room, the leaders toured the National Archives. In total, President Xi's stay on American soil lasted less than 48 hours.

1.2 Why U.S. Presidents Do Not Go to the Airport

The scene that provoked the greatest commentary that day was the tarmac reception. U.S. presidents do not ordinarily greet foreign heads of state at the airport. At the airport, the Chief of Protocol of the State Department is dispatched. The president awaits the guest at the White House entrance.

There is good reason for this convention. If the president travels all the way to the airport, it becomes an extraordinary diplomatic signal in its own right. Extending such treatment to only one country shatters protocol parity with others. For this reason, Washington's diplomatic circles have long been frugal with airport greetings.

President Trump's customary practice had adhered to this same standard. In February 2025, he received President Zelenskyy of Ukraine at the West Wing entrance. In April 2026, he greeted King Charles III of the United Kingdom at the South Portico of the White House. Both an allied head of state and the British monarch had been kept waiting at the White House threshold.

Historical precedents are few and far between. In 2008, President George W. Bush welcomed Pope Benedict XVI at Andrews. In 2015, President Barack Obama greeted Pope Francis at the very same base. In September 2015, President Xi arrived in Washington immediately following the Pope's departure. At that time, the person who met Xi at the airport was not the president.

Tracing further back yields examples from the Cold War era. In 1959, President Dwight D. Eisenhower welcomed Soviet Premier Nikita Khrushchev at Andrews. BBC Chinese reported that the treatment accorded to Xi was comparable to that given to the Pope and Khrushchev. Aside from the popes, receiving the leader of an adversarial great power at the airport had been exceedingly rare ever since.

James M. Lindsay, Senior Fellow at the Council on Foreign Relations (CFR), cited other instances as well. Eisenhower had met President Ngo Dinh Diem of South Vietnam at the airport. John F. Kennedy had greeted British Prime Minister Harold Macmillan. Yet all of these were leaders of close allies. The Pope is the spiritual leader of a faith practiced by one in five Americans. Lindsay

pointed out that this guest, by contrast, was the leader of a competitor nation challenging the United States.

There is one other person to whom President Trump extended such courtesies: President Vladimir Putin, during their August 2025 summit in Anchorage, Alaska. Trump greeted Putin on the tarmac at Joint Base Elmendorf-Richardson, even offering him a ride in his own presidential limousine. However, on that occasion, the base itself was the summit venue, not Washington.

Julian Gewirtz, a Senior Fellow at Columbia University, viewed this as part of a distinct pattern. He observed that Trump treats authoritarian leaders of major powers like Xi Jinping and Vladimir Putin as his peers. Traditional allied leaders, he noted, never receive such treatment. He remarked that the day when Trump greets Canadian Prime Minister Mark Carney on a tarmac would simply never come.

1.3 Four Months Earlier in Beijing: Greater Courtesy Than Was Received

The meaning of this reception becomes unmistakably clear when set side by side with Beijing four months earlier. On May 13, 2026, Air Force One touched down at Beijing Capital International Airport. President Xi did not appear on the tarmac. Vice President Han Zheng came out in his place to greet Trump.

At the airport, an honor guard, a military band, and approximately 300 youths waving national flags were present. President Xi's official welcome ceremony took place the following day on the plaza in front of the Great Hall of the People. China adhered strictly to its established protocol norms. It did not create a new airport greeting simply because the guest was the President of the United States.

Washington upended this calculus. It proactively offered a level of protocol a tier higher than what it had received. Just prior to the visit, the CFR posed these questions: Was President Xi's failure to come to the airport in May a breach of etiquette? Was Trump's failure to take issue with it a sign that the center of gravity of power had shifted?

The White House explanation was reciprocity. White House spokesperson Anna Kelly put it this way: President Xi had invited Trump to China earlier this summer and hosted a historic summit, and President Trump sought to reciprocate that hospitality.

First Lady Melania Trump appeared on Fox News's morning broadcast on the day of the arrival. She said that the relationship between the two leaders was very good. She added that since he was a guest coming to our land, he should be received with the utmost respect. Politico, citing an administration official, reported that the reception was an effort to curry favor with President Xi.

Chinese diplomacy places great importance on formality and peer-level parity. The White House assessed that President Xi wished to be seen on the same level as the American president. The airport greeting was a scene tailor-made to fulfill that exact desire. The real problem was what this goodwill yielded in return at the negotiating table. That question is examined systematically in subsequent chapters of this book.

1.4 The 479 Troops on the South Lawn and the B-2 and F-22s Over the White House

Shortly after 10:00 AM on September 24, President Xi and his wife arrived at the White House. The detailed plan had been announced three days earlier by the Office of the First Lady. The welcoming ceremony unfolded across the South Lawn, the State Floor, and the Rose Garden. A total of 479 service members drawn from every branch of the U.S. Armed Forces took part in the event.

A joint-service honor guard lined the South Drive. At the end of the driveway, the American and Chinese national flags hung side by side. The U.S. Army Herald Trumpets sounded a fanfare from the South Portico. The four walked into the Entrance Hall as "Hail to the Chief" played.

On the State Floor, the United States Marine Band—affectionately known as "The President's Own"—performed the national anthems of both nations. The two leaders then delivered welcoming and response remarks. In the Rose Garden, the U.S. Army Old Guard Fife and Drum Corps welcomed the guests.

The two leaders walked together along the Colonnade, the pillared walkway connecting the Executive Residence to the West Wing, lined with portraits of past presidents. Another military band played "The Battle Hymn of the Republic." Vice President JD Vance, Treasury Secretary Scott Bessent, and Chief of Staff Susie Wiles were in attendance. Ivanka Trump, who held no government title, and her daughter were also present at the venue.

The welcoming ceremony concluded with a military flyover. A single B-2 Spirit stealth bomber and four F-22 Raptor fighter jets flew directly over the White House. The area around the White House is normally a strictly prohibited airspace, making such a flyover exceptionally rare and correspondingly conspicuous.

The composition of the formation was deliberately calculated. The B-2 was the aircraft deployed in Operation Midnight Hammer in June 2025. At that time, B-2s flew 18 hours to drop massive bunker-buster bombs on Iranian nuclear facilities. Trump had also flown a B-2 over Vladimir Putin's head in Alaska in August 2025. On that occasion, four F-35 fighters flew alongside the B-2.

The outward form of honoring a guest overlapped in a single scene with a raw display of military might. Behind the veneer of premier military honors, America's strategic assets were paraded right before the eyes of the Chinese leadership. Domestic and international media interpreted it as a

silent display of force. Counting the B-1 bombers at Andrews the previous day, it marked two bomber flyovers in two days.

In his welcoming remarks, President Trump led with personal friendship. He stated that he had built a friendship with President Xi since his first election victory in 2016. He also emphasized that Xi was the first Chinese leader to make two state visits to the United States. Trump claimed that major progress had been achieved in opening markets for American farmers. He announced that they would discuss security, technology, and what he referred to as "superintelligence"—artificial intelligence.

President Xi's response struck a different tone. He noted that both nations lead the world in AI. He emphasized that AI must always develop under human control. He remarked that when the two nations cooperate, both benefit; when they clash, both lose. Competition, he added, must be healthy and conducted within defined boundaries. He also voiced hope that Chinese enterprises would receive fair treatment in the United States.

President Xi also presented a diplomatic gift: the announcement that China would send two giant pandas to Zoo Atlanta. He described the pandas as "envoys of friendship" between the peoples of the two nations. In the United States, only the zoos in Washington and San Diego housed giant pandas at the time.

1.5 Ninety Minutes in the Oval Office and the Granite Helipad

Following the welcome ceremony, the two leaders moved to the Oval Office. The meeting began around noon. Afterward, Trump met with reporters on the South Lawn. He merely repeated the refrain that it had been a "great meeting."

Questions poured in regarding Taiwan, AI, and the imprisoned Hong Kong media entrepreneur Jimmy Lai. Trump did not answer a single question. Jimmy Lai was a pro-democracy figure sentenced to 20 years in prison in Hong Kong in February 2026. Instead, Trump showed President Xi the newly paved granite helipad. He remarked that President Xi understood stone well and appreciated fine granite. The two men also stepped inside Marine One, the presidential helicopter, together.

The granite helipad on the South Lawn was a facility whose construction had been rushed specifically for this visit. Trump had personally overseen the project well before the visit. He had also expressed regret that the $400 million White House ballroom had not been finished in time. Every ceremonial detail served as stagecraft intended for voters back home.

Accounts of the meeting emerged from the Chinese side before the American side. Xinhua News Agency reported that President Xi had directly raised the Taiwan issue. Xi demanded that the

United States adhere to the correct stance of "opposing Taiwan independence." He also urged that the Taiwan issue be handled with prudence.

Bloomberg viewed this as the first instance of President Xi publicly demanding a policy change from the United States. Washington had historically maintained the formulation that it "does not support" Taiwan independence. "Opposes" is a distinctly stronger term. On the day of the meeting, the White House issued no statement of its own. This battle over a single verb is examined in detail in Chapter 4.

President Xi departed the White House around 1:30 PM. He did not take questions from reporters.

1.6 Billionaires at the Banquet and the Absent Chinese Executives

Shortly after 7:00 PM that evening, President and Mrs. Trump stepped out onto the North Portico. The vehicle carrying President Xi and Madame Peng arrived. After taking photographs on the steps, the four entered the East Room. Outside the portico, chants from demonstrators could be heard. The shouts included "Xi Jinping is not welcome," "Free Hong Kong," and "Free Taiwan."

The dinner guest list read like a map of American power. From the administration came Vice President Vance and Secretary of State Marco Rubio. Treasury Secretary Bessent, Defense Secretary Pete Hegseth, and Commerce Secretary Howard Lutnick were also on the list. Attorney General Todd Blanche, Health and Human Services Secretary Robert F. Kennedy Jr., and CIA Director John Ratcliffe were also present.

Figures from the judiciary, Congress, and the central bank were likewise invited. Chief Justice John Roberts and Associate Justices Brett Kavanaugh and Amy Coney Barrett appeared on the guest list. House Speaker Mike Johnson and Federal Reserve Chair Kevin Warsh also received invitations. Trump's children Ivanka, Eric, and Tiffany were present as well.

The business roster was the most glittering of all. Elon Musk, the world's richest man, attended. Jensen Huang of Nvidia and Mark Zuckerberg of Meta were present. Tim Cook of Apple, Sundar Pichai of Google, and Sam Altman of OpenAI were also in attendance. Jeff Bezos of Amazon and Michael Dell of Dell arrived accompanied by their spouses. Cristiano Amon of Qualcomm was invited as well.

From Wall Street came Jamie Dimon of JPMorgan Chase. Larry Fink of BlackRock and Stephen Schwarzman of Blackstone were on the list. TikTok investor Jeff Yass and David Ellison of Paramount Skydance attended. The name of Republican mega-donor Miriam Adelson was also visible. Three Fox News anchors were invited as well.

Even before the visit, Trump had boasted about the competition for dinner invitations. He said that everyone wanted to come and that the tech and finance worlds were attending in their entirety. In his dinner remarks, he brought up the ballroom again. He claimed that if the ballroom had been ready, over a thousand people would have squeezed in, even if they had to stand. He then proposed giving the guests a first look at the ballroom construction site.

The dinner commenced with a champagne toast. The Office of the First Lady explained that the wine commemorated the 1972 toast between President Nixon and Premier Zhou Enlai. Following the toast, pumpkin soup and sesame-crusted sea bass were served. Trump presented President Xi with a large sculpture of a bald eagle. The bald eagle is the national bird of the United States.

In his toast, Trump wished for the future of the two nations to be filled with harmony, peace, and success. He said that while the two countries have different systems, the bonds between their peoples endure. He also declared, "Our relationship has never been better than it is right now."

President Xi traced the long history of exchanges between the two nations. He began by recalling George Washington's purchase of Chinese porcelain. He also mentioned their cooperation during World War II and Nixon's normalization of relations. He then stated that during that day's talks, the two sides had "reached common understandings on many issues." He evaluated that the meeting had added new substance to a "constructive and strategic stable relationship." He did not disclose what had been agreed upon.

The opulence on the American side overlapped glaringly with the empty seats on the Chinese side. On September 4, Reuters exclusively reported that President Xi was assembling a large delegation of business leaders. Candidates mentioned included BYD, CATL, Xiaomi, and Gotion. Bank of China, COFCO, Hisense, and Wanxiang were also named. The reported concept was to demonstrate intentions for investment and trade with the United States and deliver gifts to a White House facing midterm elections.

Yet this delegation never arrived. The Wall Street Journal on the 22nd and Reuters on the 23rd reported that Xi would arrive without a delegation. The list had never been finalized. Even as late as the Friday before the visit, no visa applications from Chinese business executives had been submitted. Early on, the White House had also stated that it was "not aware of" any Chinese business delegation.

Compared to his 2015 visit to the United States, the contrast was stark. At that time, President Xi brought along Jack Ma of Alibaba and Pony Ma of Tencent. Executives from Bank of China and state-owned enterprises accompanied him as well. China signed a $38 billion contract to purchase 300 Boeing commercial aircraft. President Xi also held separate meetings with American tech executives such as Tim Cook, Mark Zuckerberg, and Jeff Bezos.

During the May 2026 visit to Beijing, it was the United States that brought business leaders. Jensen Huang, Tim Cook, and Boeing CEO Kelly Ortberg met separately with Premier Li Qiang. This time, that picture appeared on only one side. The Chinese government offered no explanation for omitting the delegation.

The reasons can only be deduced. Markets interpreted this as an intention to prioritize substantive negotiations over choreographed commercial achievements. Those substantive issues were matters such as the extension of the tariff truce, the Taiwan question, and semiconductor controls. A contract signing ceremony with American corporations would merely provide Trump with campaign photographs. Beijing, it seemed, had no desire to pay for those photographs for free.

1.7 First Lady Diplomacy and the National Archives in the Semiquincentennial Year

While the two leaders were in talks, their spouses moved separately. First Lady Melania Trump had not accompanied her husband on the May visit to Beijing. Consequently, this was her first meeting with Madame Peng Liyuan in nine years, since November 2017. November 2017 had been the occasion of Trump's first-term state visit to Beijing.

Melania Trump rarely appears at public events, which is why American media refer to her as a "reclusive First Lady." Yet the itinerary for this visit was announced from the beginning under the name of the Office of the First Lady. Melania Trump also led the preparations for the state dinner. This could be seen as a sign that she was directly overseeing the event.

The two first ladies visited the Smithsonian National Museum of Asian Art. The White House explained that they toured works spanning centuries and artifacts reflecting U.S.-China cultural exchange. At the museum, students from a Washington Chinese-language school performed a choir concert. The children waved both Chinese and American flags.

Madame Peng Liyuan is a vocalist who rose from the People's Liberation Army Song and Dance Ensemble. In China, she was a popular star who achieved renown well before President Xi. As a World Health Organization (WHO) Goodwill Ambassador, she has long engaged in tuberculosis and HIV/AIDS prevention work. While the leaders' summit was consumed by rigid agendas, the First Ladies' itinerary served to soften the atmosphere.

On the morning of the 25th, the two couples had tea in the Red Room. The Red Room is a small parlor on the State Floor, a space well-suited for private conversation.

President Xi offered words of thanks on this occasion. He remarked that every sequence of the visit had been flawless and at the highest level. He added praise for the meticulous attention paid to even the smallest details. He said that he and Trump were like two people jointly steering the helm of the massive ship of U.S.-China relations.

President Xi also previewed their upcoming meetings. In November, they would meet at the APEC summit held in Shenzhen, China. In December, they would meet again at the G20 summit hosted by the United States. The G20 venue was scheduled at Trump's golf resort in Miami. This meant that four presidential face-to-face meetings were scheduled for the single year of 2026.

During the tea gathering, Trump remarked, "American farmers are going to be very happy." He also said that the United States was extremely pleased with the visit. He did not explain what would make farmers happy. A network pool reporter asked whether he had demanded a halt to intelligence sharing regarding Iran. Trump did not answer the question.

After the tea ended, the four went to the National Archives. The National Archives houses the original Declaration of Independence, the Constitution, and the Bill of Rights. The year 2026 marked the 250th anniversary of the United States declaring independence in 1776. For Trump, this visit was an occasion to showcase the 250th anniversary of the founding before a foreign head of state.

Archivist of the United States Bradford Wilson served as the guide. He showed the original Declaration of Independence and Constitution to the four guests. The White House had announced that historical documents reflecting bilateral relations would also be viewed together. However, it was not disclosed which documents were brought out.

The National Archives holds documents related to the Treaty of Wanghia, the first treaty signed between the two nations in 1844. Records concerning Nixon's 1972 visit to China, the Shanghai Communiqué, and the 1979 establishment of diplomatic relations are also preserved there. For President Xi, this was a stage to reaffirm the long history of engagement between the two nations.

The tour was brief. Reporters were kept at a distance and could not hear the conversation. When asked what had been achieved in the summit, Trump replied, "Everything." He offered no further details. From the National Archives, President Xi and his wife traveled to Joint Base Andrews to begin their journey home.

1.8 A Show Without Cameras

For President Trump, this visit was from the start an event intended for television. Yet none of the major American television networks broadcast the welcoming ceremony live. This became the most paradoxical spectacle of the entire visit.

The circumstances were as follows: One week prior to the visit, the White House revoked the press credentials of CNN, MS NOW, and Politico. A federal judge issued a temporary restraining order halting this measure and ordering that their credentials be restored. Yet on the morning of the 24th, reporters from the three news outlets were still barred from entering the White House.

Presidential coverage in the United States relies on a shared pool of television networks that takes turns. This is known as the pool press corps. Five networks make up this pool: NBC, ABC, CBS, CNN, and Fox News. The four other networks decided not to conduct video pool coverage until CNN was restored to the pool. Several networks also refused to air footage provided by the government.

In the afternoon, Trump poured out his rage on Truth Social. He wrote that CNN and MS NOW had looked the other way on the biggest and most beautiful event in years. He explicitly wrote that this event was "made for television." He then previewed that the evening dinner would be spectacular, as the press would be attending.

This post inadvertently exposed the inner workings of his showmanship diplomacy. The tarmac reception, the bomber flyover, and the 479-member honor guard were all devices designed to be captured on screen. When the screens went dark, the director was the first to lose his temper. The press credential ban and the pool boycott are examined in Chapters 44 and 45.

1.9 A Stage Six Weeks Before the Midterm Elections

The second calculation behind this protocol was domestic politics. The United States was scheduled to hold its midterm elections on November 3, 2026. The day President Xi arrived was 41 days before the election. In several states, early voting had already begun.

Public opinion metrics were unfavorable to the ruling party. A survey conducted by Emerson College on September 21–22 found Trump's approval rating at 39%. Disapproval stood at 58%, the highest since the start of his current term. In the generic congressional ballot for the House, the Democratic Party led by 11 percentage points.

Other polls showed similar numbers. In a September survey by Strength In Numbers and Verasight, his approval rating fell to 33%. FiftyPlusOne, which calculates polling averages, recorded 34.6% as of the 23rd. In Nate Silver's Silver Bulletin average, Democrats led the generic ballot by more than 8 percentage points. The number of voters who believed the U.S. economy was worsening was also on the rise.

Trump had appealed to his supporters at a midterm rally in early September. He urged them to vote as though his own name were on the ballot. The electorate took those words in the opposite direction. In a Marist poll, 45% of voters responded that their vote would be a vote against Trump.

For a president in such circumstances, what was needed were visible deliverables. A commitment to purchase soybeans for American farmers was one. Orders for Boeing airliners that could speak to manufacturing jobs was another. China's cooperation to stabilize oil prices that had soared due to the war with Iran was also urgently needed. Welcoming the leader of the world's second-largest superpower and flaunting personal friendship was the packaging designed to box up those deliverables.

Yet this calculation had a blind spot. China is deeply unpopular among American voters. The CFR questioned why the administration would lavish such extreme hospitality on such a guest six weeks before an election. It was impossible to know how images of fawning over President Xi would be perceived by the Republican base. Indeed, the sharpest criticisms emerged first from within the ruling party itself.

1.10 Applause and Apprehension

Senator Roger Wicker, Chairman of the Senate Armed Services Committee, is a Republican. On the eve of the visit, he took to the Senate floor. He stated that had the White House sought his advice, he would have advised against inviting President Xi. His reasoning was that there were simply far too many unresolved issues with the Chinese Communist Party.

Republican Senator Thom Tillis chose even harsher language. Appearing on CBS, he used an expletive-laced acronym to describe the visit. He voiced concern that time spent with dictators was increasing while time spent with leaders of democratic nations was dwindling. He also compared the treatment given to President Zelenskyy with that lavished on President Xi. Tillis said that Xi had certainly not come to learn about democracy.

Democrats joined in the criticism as well. Senator Richard Blumenthal took issue with China's support for Iran. He argued that rather than praising President Xi, the president should be telling him to stop. The Wall Street Journal had reported that Chinese entities passed satellite imagery of a U.S. military base in Jordan to Iran, after which an Iranian attack killed three American service members. Trump brushed the report aside, remarking that President Xi had handled himself "pretty well" on the Iran issue.

The view from the Chinese side was composed. Chinese experts did not anticipate major breakthroughs. Zhao Hai, deputy director of the Institute of Chinese Studies in Hong Kong, told CBS that the United States must now recognize that pressure does not work—it works neither on Xi Jinping, nor on China, nor on the Chinese people.

Forecasts by American experts were similarly cautious. James Lewis, Senior Fellow at the Center for European Policy Analysis, viewed the visit as largely a show, noting that there was not even a distinct official agenda. Jake Werner of the Quincy Institute observed that Trump, above all else, loves a show. Lindsay of the CFR predicted that this meeting would merely continue the truce without producing any new agreements, explaining that major diplomatic accomplishments follow long preparations by working-level officials, and that such preparation was nowhere to be seen.

1.11 The Protocol Balance Sheet

Following the conclusion of the three-day visit, CBS ran a brief headline: "Trump-Xi visit wraps up with few achievements announced." The White House disclosed almost nothing regarding the results of the summit. No joint statement was issued from the summit.

Let us begin with what was actually announced. The most concrete outcome was the extension of the tariff truce. The truce, initiated under the October 2025 Busan agreement, had been set to expire on November 10. Secretary Bessent announced that this truce had been extended by two months to January 10. The explanation was that it bought more time to see what could be accomplished in the economic sphere.

Thanks to this truce, tariffs that had once exceeded 100% on each other had come down. China paused its export restrictions on rare earth elements. It also made a commitment to purchase large volumes of American soybeans. CBS pointed out, however, that China had failed to follow through on this soybean promise. The terms and realities of the truce extension are examined in Chapters 2 and 3.

The AI dialogue channel was also cited as an achievement. U.S. Trade Representative Jamieson Greer likened it to the Cold War "red telephone" hotline between the Kremlin and the White House. Yet when asked whether there was anything new, he replied, "It's hard to call it new." He said that another AI meeting would be held in about a month, but no agenda had been set. The emergence of the AI channel is examined in Chapter 2.

What China put on the table was two pandas. It was a card that cost nothing, produced great photos, and could be withdrawn at any time. China has long used giant pandas as a thermometer for diplomatic relations.

What was left unannounced was far greater. On the Taiwan issue, President Xi publicly demanded the expression "oppose independence." U.S. Ambassador to China David Perdue insisted that there was no change in Taiwan policy. Yet Trump himself ultimately refused to answer questions regarding Taiwan.

On the Iran issue, the outcome was similarly confined to words. Ambassador Perdue stated that Trump told Xi that Chinese support for Iran was "unacceptable," and claimed that China pledged not to provide support. But this was merely the ambassador's television interview; there was no official agreed document.

What China gained was something else entirely. During the May summit in Beijing, President Xi had put forward the expression "constructive and strategic stable relationship." Trump accepted that expression. The United States had historically rarely accepted diplomatic terminology crafted by China, because Beijing's own interpretations invariably accompany such phrases.

Bonny Lin, Director at CSIS, viewed this acceptance as unusual. Gewirtz remarked that Trump likely did not care much about such phrases and viewed it as a cost-free concession. Yet it may not be free. China can subsequently attack future U.S. arms sales to Taiwan as actions that violate this very commitment. At this Washington summit, President Xi brought up the same expression once again.

Top-down diplomacy is an approach that seeks to resolve difficult problems through personal rapport and decisive presidential action. It bypasses the lengthy preparation of working-level negotiations, with the leaders setting the broad framework first. While this method is fast, it remains captive to the leaders' personal calendars.

Trump's calendar was aligned with the November 3 midterm elections. He needed figures and scenes to show voters within six weeks. President Xi's calendar is far longer. The year 2026 is the first year of China's 15th Five-Year Plan (2026–2030). August 1, 2027, marks the centenary of the founding of the People's Liberation Army. In the autumn of 2027, the 21st National Congress of the Chinese Communist Party will convene to determine President Xi's fourth term.

The side with the short calendar must rush. The side with the long calendar can wait. The tarmac reception at Joint Base Andrews was a gift extended first by the side that was in a hurry. China politely accepted the gift. And then, it brought neither a business delegation nor major purchase contracts.

To the eyes of allies, this spectacle appeared in a different light. As Gewirtz noted, the day when the Canadian prime minister receives a tarmac reception is unlikely ever to come. The Ukrainian president was publicly rebuked in the Oval Office. The leader of a rival power was welcomed on the tarmac with a red carpet and bomber flyovers. Where American protocol places its weight was communicated unmistakably to the entire world.

Lavish protocol can be a tool to enhance negotiating leverage. Yet unreciprocated deference also serves as a signal revealing one's own impatience to the counterpart. The three days in Washington demonstrated both of these faces. What transpired on that red carpet and what was left empty will be examined in turn beginning in the next chapter. First, we turn back the clock to the eight hours of negotiations held at JPMorgan's headquarters in New York three days prior to the summit.

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Chapter 2. The Eight-Hour Closed-Door Negotiations at JPMorgan and the AI Accidental Conflict Prevention Hotline

> New York Pre-Negotiations, Washington Reunion, and the Telephone Line Between Two Men

On the evening of September 23, 2026, President Xi Jinping's special aircraft touched down at Joint Base Andrews. The welcoming ceremony on the tarmac concluded in just over ten minutes. Yet preparing for this fleeting scene had taken four days. The stage for those four days was not the White House. The first day unfolded inside a bank building in Manhattan, New York, and the final day at the World Bank headquarters in Washington.

This chapter examines those four days. It traces what the economic chiefs of the two nations exchanged within that bank building. It further inspects the nature of the artificial intelligence (AI) incident notification mechanism that emerged from those talks. The media drew comparisons between this mechanism and the hotline connecting the White House and the Kremlin during the Cold War. How fitting that analogy truly is can only be understood by looking at its actual blueprints.

2.1 Sunday in Manhattan: Two Negotiating Teams in a Bank Lobby

September 20 was a Sunday. On this day, the Chinese negotiating delegation entered the headquarters of JPMorgan Chase on Park Avenue in Manhattan. Leading the delegation was Vice Premier He Lifeng of the State Council, the chief official in charge of China's economic and trade negotiations. By his side stood Li Chenggang, China's International Trade Representative. Li Chenggang had recently been elevated in rank to become a ministerial-level negotiation representative.

From the United States came Treasury Secretary Scott Bessent. Jamieson Greer, the United States Trade Representative (USTR), joined him. The two men represent the twin pillars of the second Trump administration's negotiations with China. Bessent oversees the overarching framework and finance, while Greer handles specific goods and tariffs.

Records conflict regarding the duration of the meeting. Multiple media outlets reported it as an eight-hour negotiation. Bessent himself stated on a broadcast the following day that they met for approximately twelve hours. This discrepancy appears to stem from when one begins counting a meeting that stretched from afternoon into the night. While this book adopts the widely cited eight hours in its chapter title, it also notes the statement of the participant himself.

The venue being a bank is also noteworthy. Neither government explained why they selected JPMorgan headquarters. Yet it is indisputable that this building is the corporate headquarters of a financial institution emblematic of Wall Street. Four days later, JPMorgan CEO Jamie Dimon was also included on the guest list for the White House state dinner. One could interpret this scene as illustrating how desperately the American financial sector desires stability in U.S.–China relations. This is the author's interpretation.

Late that night after the meeting concluded, Bessent and Greer stood before reporters in the corporate lobby. Bessent stated that the meeting had been very successful. Greer explained that they had laid the groundwork for the summit. He Lifeng and Li Chenggang departed the building without uttering a single word to journalists. China's perspective emerged solely through a brief dispatch from Xinhua News Agency. Xinhua wrote that it had been a candid, in-depth, and constructive exchange.

One side touted accomplishments in the lobby, while the other substituted a few lines from state media. This asymmetry persisted throughout the ensuing four days. The United States rushed ahead with rhetoric, while China expanded only what it confirmed on paper.

2.2 The History of the Bessent–He Lifeng Channel

The New York meeting was not an impromptu gathering. Since the start of Trump's second term, Bessent and He Lifeng had met across various cities around the globe. In September 2025, they met in Madrid, Spain. In October of that same year, they continued negotiations in Kuala Lumpur, Malaysia. Armed with those results, the two heads of state met in Busan on October 30.

In May 2026, the stage was South Korea. On May 13, the day before the Beijing summit, the two men conducted final coordination in Incheon. That same morning, President Lee Jae-myung met with each of them in turn at the Blue House. Following Busan, South Korea had served as the venue for U.S.–China negotiations for a second time.

China's Ministry of Commerce referred to the New York negotiations as the 8th Economic and Trade Consultation. According to the Ministry's announcement, the He Lifeng delegation's visit to the United States spanned from September 19 to 23. In that five-day trip, the first meeting took place in New York, and the final meeting in Washington.

The nature of this channel is clear: it is a conduit for aligning numbers and phrasing before the two leaders meet. The heads of state dictate broad directions, and these two men fill in the details. It is commonly described as top-down diplomacy, where the leaders set the course first. In reality, however, this channel underpins everything beneath the leaders. As we shall see later, even the AI notification mechanism was ultimately placed atop this channel.

2.3 Four Agendas on the Table

Broadly speaking, four items were brought to the New York negotiating table: the Board of Trade, the tariff truce, rare earths, and the purchase commitments made in May. AI was a fifth agenda item, but after the meeting concluded, it surged to the foremost position.

First was the Board of Trade. This is a consultative body that the two nations had agreed to establish during the May Beijing summit. It is tasked with selecting non-strategic commercial goods to mutually reduce tariffs. Greer announced that they had agreed to actually operationalize this body. On the Chinese side, the targets are consumer goods and low-tech manufactured items. On the U.S. side, the targets are energy, agricultural products, and medical devices. The market estimates the volume of goods eligible for tariff reductions at up to $30 billion. The specific items and tariff rates were deferred until after the summit.

Second was the extension of the tariff truce. In Busan in October 2025, the two nations had agreed to halt retaliatory measures for one year. This truce was set to expire on November 10, 2026. In New York, the United States proposed an extension of three to six months. China desired a significantly longer timeframe. Depending on the reports, this was described as lasting until the end of Trump's term or for two years. That day's meeting concluded without settling on a duration.

There was a reason the United States insisted on a short extension. Only by keeping the timeframe short could Washington frequently verify China's fulfillment of its commitments. U.S. officials believe that China has fulfilled only about two-thirds of the rare earth pledges it made in Busan. A brief truce serves as leverage to extract that remaining one-third.

Third was rare earths. Following the New York meeting, Bessent and Greer remained silent regarding any progress on rare earths. U.S. officials stated they had no intention of easing export controls in exchange for increased rare earth supplies. This issue is examined in detail in Chapter 6.

Fourth was the purchase commitments from May. In Beijing, China had agreed to purchase an additional $17 billion worth of American agricultural products annually. It also pledged to purchase more than 200 Boeing passenger aircraft. In New York, neither cabinet official offered any new updates regarding the implementation of these pledges. This deal forms the subject of Chapter 3.

In summary, the New York meeting was one that kept the board intact while leaving the major homework unresolved. The Board of Trade moved one step forward, while the truce duration remained stalled. There were no new numbers for rare earths or purchase commitments. In that void, discussions of AI took center stage.

2.4 The World Bank Headquarters Reunion and the Two-Month Extension

On the morning of September 23, three days after the New York meeting, the two men met again. The venue was the World Bank headquarters in Washington. It was not a pre-scheduled appointment. Bessent referred to this meeting as an occasion to tie up unfinished business left over from New York.

Immediately following the meeting, Bessent revealed new information to reporters: China had proposed a "bigger deal" on Sunday. He stated that it was fine to simply continue the Busan agreement, but they could also consider a bigger deal. He added that the two heads of state could meet up to four times this year. Following Beijing and Washington, Shenzhen in November and Miami in December remained.

That evening, President Xi landed at Joint Base Andrews. At almost the exact same time, Bessent appeared on Fox News to announce the extension of the truce. The agreement reached in Busan, set to expire on November 10, would be extended by two months to January 10, 2027. He explained that this bought them time to see what more could be done in the economic realm.

Bessent did not conceal that China's implementation had been incomplete. He noted that there were shortcomings among the Chinese deliverables. Having clearly conveyed American expectations this time, he added that they would monitor the situation over the coming months. When asked whether a bigger deal was possible, he answered that he did not know. He also remarked that they might roll over the current agreement one more time.

The two-month duration defied virtually all forecasts. Economic analysts had largely anticipated a one-year extension. Earlier drafts of this book had also operated under the premise of a 12-month extension. The actual outcome was even shorter than the three months the United States had put forward in New York. The new expiration date of January 10 falls after the APEC summit in Shenzhen in November and the G20 summit in Miami in December. It reads as a deliberate design to use both summits as review windows for the truce.

China did not react immediately to the extension announcement. The following day, September 24, a spokesperson for the Ministry of Commerce explained the consultation outcomes. The spokesperson stated that both nations had discussed tariff reductions and the establishment of a Trade Committee and an Investment Committee. The spokesperson also stated that they had consulted on extending the agreement. China referred to the subject of this extension not as the "Busan agreement," but as the "joint measures of the Kuala Lumpur consultations." This was an expression referring to the October 2025 working-level agreement that laid the groundwork for the Busan summit. For the very same agreement, the United States attached the name of the summit leader, while China attached the name of the working-level consultation.

This two-month extension was the result of American calculations taking precedence. President Trump dispelled tariff anxiety ahead of the November 3 midterm elections. At the same time, he retained leverage to re-examine China through January. For China, it failed to secure the long-term stability it had sought. In exchange, it gained justification to invite Trump to the Shenzhen APEC summit. The clock on the truce was once again wound to a short interval.

2.5 "Common Threats": The Proposal for an AI Incident Notification Mechanism

Let us return to the lobby on the night of September 20. The first subject Bessent brought up was not tariffs, but AI. He announced that the two nations had discussed establishing a new U.S.–China AI dialogue. He further stated that the United States had proposed embedding a notification mechanism within it.

The targets of notification are AI incidents escalating to a national security level. Bessent explained that this mechanism aimed to address common goals and common threats together. He went on to say: Just like other cross-border activities, the world's number one and number two AI superpowers must move from opacity to transparency.

The following day, appearing on CNBC, Bessent elaborated further on this concept. He stated that they would establish an incident line to immediately contact each other should an accident occur. He identified three categories of risk upon which the two nations should first reach agreement: runaway AI agents, non-state actors in cyberspace, and non-state actors in biological weapons. An AI agent refers to an AI program capable of autonomously executing multi-step tasks without human intervention.

None of these three categories represents a threat that either nation aims at the other. Rather, they are risks that could escape the control of both governments. That is precisely why Bessent chose the phrase "common threats." The United States refrained from labeling China's AI development itself as the threat.

In the background of this proposal lay the events of the summer of 2026. In July, OpenAI revealed that its models had autonomously penetrated Hugging Face's data processing systems. On September 18, Google disclosed an unauthorized access incident involving Gemini, which was under testing; Gemini had gained unauthorized entry into three external systems. Autonomous AI behavior unbidden by humans had translated into actual security breaches.

Voices calling for a slowdown grew louder even within the U.S. AI industry. In mid-September, Anthropic CEO Dario Amodei published an essay entitled "We Need to Pace the Frontier." He suggested that democratic nations coordinate with authoritarian governments to the extent possible. OpenAI's Sam Altman and others issued similar warnings.

Beijing's response was frigid. At a regular press briefing on September 14, Chinese Foreign Ministry spokesperson Guo Jiakun criticized this trend, asserting that fearmongering, confrontation, and vicious competition only undermine global AI governance. The state-run Global Times branded calls for deceleration an "AI playbook for a Cold War." China interpreted demands for a slowdown as an attempt to stifle its catch-up efforts.

That did not mean China took AI risks lightly. Around the same time, Minister of State Security Chen Yixin published an extensive article. He wrote that the field of AI had become a new battlefield in major power strategic competition. He also urged the swift establishment of a framework to defend against AI security risks. The risks that concern China lean closer toward regime security. Their vector differs somewhat from the biological weapons and cyberattacks that preoccupy the United States.

It was precisely this divergence that narrowed the scope of the notification mechanism. Neither side desired an agreement to slow down development. In September, President Trump declared at the UN General Assembly that "whoever wins in AI wins." China likewise rejected calls for deceleration. The only area where the two nations could muster common ground was communicating when an accident occurred.

In New York, Greer made one point unequivocally clear: export controls on advanced AI chips and semiconductor manufacturing equipment were not up for discussion in this AI dialogue. The plan was to leave the core of technological competition untouched while managing only the spillover pathways of potential accidents. The United States did not lower the barriers blocking China's technological pursuit by even an inch.

2.6 The Reality of the Hotline: A Telephone Line Between Two Men

"Notification mechanism" sounds grand. Yet its actual blueprint was vastly simpler. On September 22, the American political outlet Politico, citing four sources, reported that the reality of this mechanism was nothing more than a direct telephone line between Bessent and He Lifeng. Should an AI incident related to national security occur, the two men would contact one another.

The sources offered scathing assessments. One figure briefed on the government's explanation remarked that this dialogue was essentially just Bessent and He Lifeng, not an official body composed of experts. Another source went so far as to say that, in scientific and technical terms, it was "bullshit." When questioned about the report, the White House merely responded that reporters should refer to Bessent's remarks on CNBC.

Bessent himself referred to the mechanism as a "channel of communication." His explanation was that it served as an incident liaison channel to facilitate smooth communication should an event

arise. He emphasized that the important thing was initiating dialogue—effectively not bothering to deny the rudimentary nature of its design.

The Chinese record is even sparser. Following the New York meeting, Xinhua News Agency noted only that the two nations had discussed AI-related issues, making no mention of the U.S. proposal for a notification mechanism. The Ministry of Commerce statement on September 24 went a step further, announcing that He Lifeng and Bessent had held their first dialogue on AI under the framework of the economic and trade consultation mechanism. Yet there was no statement indicating agreement to a notification mechanism.

Here, three facts must be distinguished: First, that the two nations initiated an AI dialogue is corroborated by records on both sides. Second, the incident notification mechanism was proposed by the United States and has not been publicly accepted by China. Third, the current form of that mechanism is merely a liaison line between two economic ministers. The "hotline" referenced in the title of this chapter remains stalled at this third level.

Who picks up the phone is another critical point of scrutiny. At either end of the line sit a Treasury Secretary and a Vice Premier in charge of the economy. In China, the agencies that actually manage AI safety are entirely different: the Cyberspace Administration of China, which oversees cyberspace, the Ministry of Industry and Information Technology, and the Ministry of State Security. Military AI operations belong to yet another domain. For a telephone line between economic ministers to prevent military miscalculations, interagency mechanisms would have to be linked behind them. To date, no such architecture has been revealed.

Why the Treasury Secretary took charge of AI is also worth noting. The simplest answer is that this channel was already operational. Having met for over a year, the two men already possessed each other's phone numbers. It was far faster to layer another agenda item onto an existing conduit than to construct a new institution. On September 22, Reuters reported that Trump might appoint Bessent as the White House AI advisor. The following day, Bessent replied that reports of him becoming an "AI czar" might be fake news. In either case, it remains a fact that within the Trump administration, the point of contact with China on AI converged upon the Treasury Department.

2.7 The 1963 Hotline and the 2024 Lima Commitment

The media likened this liaison line to the Cold War's red telephone. Greer employed the very same metaphor after the summit concluded. To assess whether the metaphor holds, one must examine the original hotline.

During the Cuban Missile Crisis in October 1962, Washington and Moscow were unable to convey their intentions to each other in a timely manner. It took hours for Nikita Khrushchev's letters to reach the United States. Having undergone this harrowing experience, the two nations agreed in

June 1963 to establish a direct communications link. By late August of that year, the link was operational.

Though colloquially known as the red telephone, the first hotline was not a telephone at all. It was a teletypewriter, a text transmission device. Spoken words easily engender misunderstandings in translation. Thus, the two nations opted for written correspondence. The hotline's purpose was not negotiation, but rather the rapid confirmation of the other's intentions in moments of crisis.

The original hotline possessed two prerequisites that today's AI liaison line lacks: First, it directly connected the highest leadership on both sides. Second, the two nations shared a largely identical understanding of what constituted a crisis. The launch of a nuclear missile was unmistakably a crisis in anyone's eyes. An AI incident is fundamentally different. The two nations must first reach an agreement on what degree of malfunction even ascends to a national security level. That is why Bessent stressed the need to agree on the categories of risk first.

History also bears memories of communication lines between the U.S. and China failing to function properly. In 2001, a U.S. reconnaissance plane and a Chinese fighter jet collided near Hainan Island. At the time, the United States was unable to make immediate contact with its Chinese counterparts. During the 2023 Chinese spy balloon incident, existing military channels were also widely assessed to have failed to operate effectively. Having a line is useless if the other party refuses to pick up the phone.

U.S.–China dialogue in the AI domain had also previously experienced a rupture. In November 2023, President Biden and President Xi agreed in Woodside, California, to establish an intergovernmental AI dialogue. The first meeting convened in Geneva in May 2024. In Lima, Peru, in November 2024, they reached consensus on a single principle: the decision to use nuclear weapons must be made by human beings, not AI. Under Trump's second term, this dialogue stalled for some time.

The current AI dialogue is an attempt to splice that severed cord back together. Yet the method of splicing is distinct. Dialogue during the Biden era was entrusted to national security agencies and technical experts. Dialogue in the Trump era was hitched to a trade negotiation channel. While it could be assembled that much more swiftly, it is correspondingly frail.

2.8 A Deficit of Trust: The Distillation Dispute and the Cyberspace Administration Investigation

Mutual distrust between the two nations also contributed to the frailty of the liaison line. In the ten days leading up to the New York meeting, clashes over AI erupted in rapid succession. The crux of the conflict was distillation (蒸溜). Distillation is a method of training another model by aggregating massive volumes of outputs from a high-performing AI model. Conducting this on

someone else's model without permission constitutes a violation of terms of service and ignites allegations of intellectual property theft.

On September 8 (U.S. time), the U.S. National Security Agency, the Federal Bureau of Investigation, and the Cybersecurity and Infrastructure Security Agency issued a joint advisory. It stated that six Chinese AI companies had engaged in unauthorized distillation of American models. The Chinese Foreign Ministry fired back, calling the accusations groundless. The following day, Anthropic released a 154-page threat intelligence report. The report singled out seven Chinese enterprises, including Alibaba, DeepSeek, and Moonshot AI.

The episode took an unexpected turn. The Cyberspace Administration of China summoned the companies named in the report and launched an investigation. The probe narrowed in on DeepSeek and Moonshot AI. What Chinese authorities scrutinized was not technology theft; rather, they investigated whether sensitive data had leaked abroad during the process of passing user prompts to American models.

Over the very same conduct, the United States worried about the exfiltration of intellectual property, while China fretted over data leakage. This signified that both nations treat AI not as an economic matter, but as an issue of national security. The detailed dynamics of this confrontation are addressed in Chapter 5. The essential point here is clear: the two negotiating teams seated in the New York conference room were in no position to view one another as partners in AI safety. This was why reaching even the narrow consensus on incident notification proved so difficult.

2.9 AI at the Summit Table: Same Words, Divergent Interpretations

On the morning of September 24, the day of the summit, President Trump posted on Truth Social. He wrote that Super Intelligence would be a major agenda item. He went on to state that he wanted to leave it as it currently is, adding that China felt the same way. He concluded by writing that our safety guard is the Department of Justice. This is interpreted as an intention to manage AI through existing law enforcement rather than regulation.

That same morning, President Xi delivered an address in the Grand Foyer of the White House. He stated that the United States and China have both the ability and the responsibility to develop and govern AI for good. He also stressed that AI development must always remain under human control. While there was no need to avoid acknowledging competition, he added that it should be healthy competition that does not cross red lines.

The readout released by China following the summit addressed AI in slightly more concrete terms. It called for the two nations to maintain AI dialogue and exchange views on risks and benefits. It also included language on jointly preventing the misuse and abuse of AI. The readout

noted that President Trump had likewise expressed willingness to sustain AI dialogue and strengthen cooperation. Up to this point, the United States had issued no separate statement.

American assessments emerged through statements by officials. U.S. Ambassador to China David Perdue stated that the two leaders had established an AI dialogue and crisis response mechanism. Ambassador Greer's assessment was more cautious. When asked on September 25 whether anything new had been accomplished regarding AI, he replied that there was nothing new. He noted that an AI dialogue had already been created, comparing it to the Cold War-era red telephone between the Kremlin and the White House. His explanation was that, at the very least, a channel now existed should there be shared risks. He emphasized that the most important thing was having the channel. He mentioned that the next AI meeting would convene in about a month, adding that the agenda had not yet been set.

Even regarding the identical AI dialogue, the two nations placed their emphases on different aspects. The United States foregrounds incident notification and crisis communication. China foregrounds human control, prevention of misuse, and balancing risks against benefits. The Chinese readout makes no mention of a notification mechanism. An American readout does not exist at all. In essence, one side left behind a telephone line in rhetoric, while the other inscribed principles onto paper.

The difference in demeanor between Trump and Xi was also apparent. President Xi incorporated acknowledgment of AI risks into his public remarks. Trump, on the other hand, had consistently treated concerns about risks lightly. He had repeatedly stated that the United States was roughly a year ahead in AI and that he intended to maintain that lead. His Truth Social post on the day of the summit followed that very same trajectory. For two leaders with no intention of slowing down, the only thing they could manage to agree upon was incident communication.

2.10 What South Korea Must Read From This

These four days of negotiations sent several signals to South Korea as well.

First, the clock on the U.S.–China truce has been shortened. A two-month extension turns the November Shenzhen APEC and December Miami G20 into consecutive testing grounds. South Korean businesses can no longer assess U.S.–China variables on an annual basis; they must do so on a quarterly basis. Semiconductor equipment import licenses, rare earth export authorizations, and tariff lists all sit upon this truncated clock.

Second, the U.S.–China AI dialogue was inaugurated as a bilateral conduit bypassing allies. Whether AI incidents involving allies fall under the scope of incident notification remains unknown. One can imagine scenarios where the AI systems or data centers of South Korean companies become entangled in an incident. In such an event, South Korea would find itself standing outside

the U.S.–China liaison line. This is why the South Korean government must urgently construct a separate AI incident-sharing architecture with the United States.

Third, South Korea possesses the experience of having provided the stage for negotiations. In Busan and Incheon, the two powers utilized South Korean soil as their negotiating venue. Yet, as demonstrated by the New York meeting, the core agreements are hammered out outside South Korea. Lending a stage is entirely different from authoring the agenda. A conduit is needed to bring items concerning South Korea's interests to the U.S.–China negotiating table.

Fourth, one must read the divergence in language between the two nations regarding AI safety. The United States speaks of notification and contact, whereas China speaks of control and principles. South Korea occupies a position capable of speaking both languages. Pragmatic diplomacy that simultaneously maintains R.O.K.–U.S. AI cooperation and R.O.K.–China dialogue channels faces a test in this arena as well.

Conclusion: A Single Slender Cord

Over the four days from September 20 to 23, Bessent and He Lifeng met twice. The first meeting took place at a bank headquarters, and the second at the World Bank headquarters. Two outcomes remained from those meetings: one was a two-month truce extension; the other was an AI liaison line between the two men that the U.S. side described as agreed.

Neither is a mechanism that solves the underlying problems. The truce extension merely shifted the expiration date to January 10. Structural issues—such as rare earths, semiconductor controls, and Taiwan—remained entirely intact. The AI liaison line does not halt competition. It is a minimal thread intended to prevent misunderstandings from escalating when an incident occurs.

That thread remains fragile. At either end of the line sit two economic ministers, with no visible technical expert organization behind them to provide support. China has not publicly consented to a notification mechanism. Nor is there any definition of what constitutes an AI incident of national security significance.

The 1963 hotline also began with just a single teletype machine. Before that line proved its worth, multiple crises and overhauls were required. Whether this AI liaison line will follow a similar path hinges on upcoming meetings. Will the two nations be able to codify the definitions of risk and contact protocols on paper in Shenzhen this November? Until an answer emerges, this hotline remains a mechanism lighter than its name.

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Chapter 3. Trump's 5B Cards: Boeing, Beans, Beef, the Board of Trade, and the Board of Investment

> The Outcomes of Managed Trade Structured Around 200 Boeing Jets, 25 Million Tons of Soybeans, and the Reopening of the Beef Market, and Wall Street's Disappointment

3.1 Agriculture Comes First in the Welcoming Remarks

On the morning of September 24, 2026, an official welcoming ceremony for President Xi Jinping was held at the White House. In his welcoming remarks, President Trump brought up agriculture first. He stated that through the Board of Trade, new markets would open for American farmers and ranchers. However, he did not specify which items would be sold or in what quantities.

The achievements President Trump sought to highlight at this summit are commonly referred to as the 5Bs. The first three Bs are Boeing, Beans (soybeans), and Beef. The latter two Bs are the Board of Trade and the Board of Investment. Originally, the American press bundled Boeing, soybeans, and beef together under the moniker 3Bs. With the creation of the two new boards at the Beijing summit in May, the 5B framework was completed.

What the 5Bs share in common is that they are quantifiable: how many passenger planes, how many tons of soybeans, how many meatpacking plants, and how many hundreds of millions of dollars in goods eligible for tariff reductions. Numbers lend themselves well to short news headlines. President Trump needed precisely these kinds of numbers, for the November 3 midterm elections were just six weeks away.

Electoral circumstances were unfavorable to the ruling party. As the war in Iran dragged on, gasoline and diesel prices surged dramatically. Public sentiment was shaken even across Midwestern agricultural heartlands such as Iowa, Illinois, and Indiana. This region is commonly called the Farm Belt, home to concentrated farming communities cultivating soybeans and corn. Analyses also warned that competitive Senate races were spilling over into agricultural territory. President Trump had to show these voters proof that China was buying American farm produce once again.

China was well aware of this predicament. The card China held was purchasing power. When and how many passenger jets to buy, at what pace to purchase soybeans, and when to approve beef processing facilities—all were decisions dictated by Beijing. While the 5Bs were achievements touted by the United States, the switch to turn those achievements on and off rested firmly in China's hands.

To understand the 5Bs, one must begin by examining the term "managed trade." Managed trade refers to an approach where the government dictates the items, volumes, and terms that guide commercial exchange. It is a concept standing in direct opposition to free trade. USTR Jamieson Greer used this term directly on the day following the summit, explaining that U.S.–China relations were being operated as managed trade. He also referred to the extension of the trade truce as an "implementation verification period"—meaning a window of time to observe whether China honors its commitments.

The outcome of the summit fell short of expectations. Treasury Secretary Scott Bessent appeared on Fox News on the eve of the summit to announce an extension of the trade truce. The trade truce concluded in Busan in October 2025 was pushed back from November 10 to January 10, 2027. The extension lasted a mere two months. The market had anticipated an extension of six months or more, and potentially as long as a full year. Secretary Bessent explained that two months would be time to explore what more could be accomplished in the economic realm.

Reuters assessed that this extension merely punted the core contentious issues to future negotiations. Tariffs, Chinese purchases, rare earth supplies, and technology controls were all left completely unresolved. The research team at Danish investment bank Saxo summarized the outcome in a single sentence: an evaluation that it was better than escalation, but weaker than what the market had hoped for. Neither a new list of tariff reductions nor firm commitments regarding rare earths and AI semiconductors materialized.

This chapter dissects the 5Bs one by one. It examines how the figure of 200 Boeing aircraft originated and how much progress has been made. It scrutinizes the track record of compliance regarding the pledge of 25 million tons of soybeans and the $17 billion agricultural purchase commitment. It revisits the bizarre 12-hour episode surrounding the registration of beef processing facilities. It also investigates the nature and mandate of the two boards. Finally, it outlines why Wall Street was disappointed and synthesizes what this entails for South Korean industry.

3.2 The First B, Boeing: From Expectations of 500 Jets Down to 200

Boeing represents the card carrying the largest monetary value among the 5Bs. The price of a single airliner ranges from tens of millions to hundreds of millions of dollars. A single major order instantly translates into headlines about American manufacturing jobs. This is precisely why Boeing contracts have frequently featured whenever successive U.S. presidents met with Chinese heads of state.

There are precedents. In September 2015, on the first day of his state visit to the United States, President Xi toured the Boeing factory in Seattle. On that occasion, China announced the purchase of 300 Boeing airliners. A similar scene played out during Trump's first-term visit to China in November 2017. China signed agreements to purchase 300 Boeing passenger aircraft valued at

approximately $37 billion. Most of these deals, however, failed to materialize into actual firm orders.

Thereafter, Boeing's business in China collapsed. The trade war broke out in 2018. In 2018 and 2019, the 737 MAX airliner suffered two fatal crashes. China became the first country in the world to ground the 737 MAX. Then came the spread of COVID-19. According to CNN, the number of passenger planes Boeing sold to China after 2018 amounted to a meager 49 aircraft, and even most of those were freighters. In contrast, over the preceding decade, more than 1,000 Boeing passenger planes had been delivered to Chinese customers.

Europe's Airbus seized the vacated space. Airbus even operates a final assembly facility in Tianjin, China. In July of this year as well, Chinese airlines placed orders for 95 Airbus aircraft. China's share of Boeing's total order backlog dwindled to around 2%. During the 2010s, nearly 20% of Boeing's deliveries had been bound for China.

Consequently, Boeing pinned high hopes on President Trump's diplomacy with China. In March of this year, Bloomberg reported that Boeing was on the verge of a 500-jet order for the 737 MAX—a scale ranking among the largest in corporate history. The report also indicated that separate negotiations were underway for roughly 100 widebody aircraft, such as the 787 Dreamliner and 777X. Boeing CEO Kelly Ortberg accompanied President Trump on his trip to Beijing in May. Secretary Bessent also remarked on the first day of the summit that a massive Boeing order was forthcoming.

On May 14, the figure President Trump disclosed in an interview with Fox News was 200 aircraft. This was a mere 40% of the 500 jets expected by the market. Boeing's stock price dropped following the announcement. The following day, President Trump claimed that orders could swell to as many as 750 aircraft. Yet there was no documentation to substantiate this statement. Even the White House fact sheet released on May 17 characterized the 200 aircraft strictly as an "initial purchase."

China officially confirmed the transaction only six days later, on May 20. The Chinese Ministry of Commerce announced that it would introduce 200 aircraft in accordance with commercial principles and domestic air transportation demand. It did not specify which aircraft models would be received or when. Instead, the statement included a clause stating that the United States had pledged to provide adequate supplies of engines and spare parts. From China's standpoint, purchasing Boeing aircraft was no charitable gift; it was also a deal to safeguard its aircraft parts supply chain.

Even with this confirmatory announcement, Boeing's stock price failed to rebound. In pre-market trading on the day of the announcement, Boeing shares fell by more than 2%. Over the preceding five trading days, the cumulative decline had approached 10%. The market refused to attach value to numbers unsupported by signed contracts.

The pace of conversion into firm orders was equally sluggish. Representative Greer stated on September 20 that approximately 150 aircraft were "in progress." According to Reuters, 140 of those were proceeding smoothly, while 10 were undergoing paperwork. CEO Ortberg explained that Chinese airlines would place orders and make announcements according to their own respective timelines. In effect, there would be no single grand spectacle unveiling 200 aircraft at once.

Leading up to the Washington summit, Boeing's share price continued to sag. The closing price on September 18 stood in the $198 range, its lowest point since March and 22% below its peak for the year. Compounding the pressure was news that certification for the 777X might be delayed into the following year due to engine issues. On the morning of the summit itself, reports circulated that no new Chinese orders would be announced. Boeing shares traded down 2.3% in early trading, hovering around the $195 level.

One market analysis outlet summarized this trajectory succinctly: Boeing, having once eyed 500 jets, had now been reduced to a salvage posture fighting merely to defend the 200. Commentators added that commercial aircraft purchases had been relegated to the back burner, superseded by the trade truce, AI, Taiwan, and critical raw materials.

Nor does the 200-aircraft figure represent a significant share of the Chinese market. In 2024, Boeing projected that China would require nearly 9,000 new commercial airplanes over the next 20 years. Two hundred jets represent barely 2% of that projected demand. Mass production of China's domestic C919 jet remains slow, meaning China must continue to purchase Western aircraft. Even so, Beijing released its procurement volumes only in drips, underpinned by the calculation that the ones in a hurry were Boeing and President Trump.

Herein lies the true nature of the Boeing deal. China transformed airliners it had to buy anyway into a negotiating chip. It dictated the order timing, aircraft models, and announcement formats entirely on its own terms. The United States walked away with the headline figure of 200 aircraft, while China secured guarantees on component supplies and diplomatic leverage.

3.3 The Second B, Soybeans: The 25-Million-Ton Pledge and Cherry-Picking

Soybeans are tied directly to the voting sentiment of the Farm Belt. China is the world's largest soybean importer. It crushes imported beans to produce cooking oil, and the residual soybean meal is used as swine feed. Soybean meal is the byproduct left over after extracting oil from soybeans. Whether China purchases American soybeans directly dictates the household income of American farmers.

The roots of the soybean problem trace back to the 2018 trade war. When China levied retaliatory tariffs, exports of American soybeans collapsed. U.S. soybean exports to China, which exceeded $12 billion in 2017, plummeted to the $3 billion range in 2018. Brazil moved in to fill the breach.

According to CNBC, the U.S. share of Chinese soybean imports stood at around 40% prior to 2018; between January and May of this year, it dropped to 23%.

In 2025, conditions worsened. Prior to the Busan agreement, China did not purchase a single grain of new-crop American soybeans. In that same year, Brazil sold more than 80 million tons of soybeans to China. American farmers were left to watch their grain pile up in storage bins as prices tumbled.

The Busan agreement of October 30, 2025 altered the tide. China agreed to purchase 12 million tons of American soybeans by the end of 2025. That commitment was fulfilled in January of this year. From 2026 through 2028, China pledged to purchase over 25 million tons annually. At the May Beijing summit, an additional commitment was attached: a pledge to purchase, apart from soybeans, more than $17 billion worth of other American agricultural products each year. The allocation for 2026 was to be calculated on a prorated basis corresponding to the remainder of the year.

Soybean purchases accelerated beginning in the summer. During the first half of the year, sluggish procurement had fueled loud skepticism regarding China's compliance. In September, however, China sustained consecutive weeks of purchases approaching one million tons per week. On September 22, USTR Greer stated that China had reached roughly half of its commitment for the year. Following the summit, Secretary Bessent likewise assessed that China was honoring its soybean pledges.

Looking at soybeans alone, the 5Bs appeared to be delivering results. The problem lay outside soybeans. Representative Greer stated that only about $4 billion of the $17 billion commitment had been fulfilled. The New York Times calculated that U.S. agricultural exports to China, excluding soybeans, totaled $3.9 billion from January through July—a level virtually unchanged from the same period of the previous year. Over that same stretch, corn sales amounted to a mere $6.9 million. Purchases of corn, wheat, and sorghum were all exceedingly meager.

China's Ministry of Commerce never officially confirmed the $17 billion figure. Instead, it referred to this commitment as an "indicative target"—meaning an aspirational objective indicating direction rather than a binding obligation. Following the summit, U.S. officials also conceded that purchases beyond soybeans were lagging far behind. Secretary Bessent revealed that Washington was pressing China to accelerate the pace of its purchases.

The reason China selectively buys only soybeans is apparent in the tariff structure. China still levies a 10% retaliatory tariff on American soybeans and sorghum. With the 3% baseline tariff added, the total tariff on American soybeans stands at 13%. Brazilian soybeans, by comparison, incur only the 3% base duty. Because of this disparity, private crushing companies find it difficult to purchase American beans. Crushers are processors that crush soybeans to produce oil and soybean meal.

Consequently, American soybeans are purchased primarily by Chinese state-owned enterprises. The state-owned grain conglomerate COFCO and national stockpiling entities are the primary purchasers. When the government orders them to buy, they buy; when told to stop, they stop. This is why the U.S. agricultural sector demanded the repeal of the 10% retaliatory tariff above all else. Only when tariffs are eliminated can private commercial buyers purchase American crops based on market logic.

In the run-up to the summit, grain markets entertained great expectations. On September 11, soybean futures on the Chicago Board of Trade (CBOT) rose to around $13.35 per bushel, reaching their highest level in nearly three years. A bushel is a unit used to measure grain by volume and weight; one bushel of soybeans is approximately 27 kilograms. One market analytics firm warned that expectations had run so high that an ambiguous summit outcome could paradoxically trigger a downward spiral.

That warning hit the mark. The summit produced neither new purchase volumes nor the elimination of the 10% tariff. Weekly export sales statistics released on the day of the summit dealt another blow to market sentiment: for the week ending September 17, U.S. soybean export commitments totaled 582,400 metric tons, falling far short of market expectations of 1.5 to 2.0 million tons. Bloomberg reported that Chicago grain prices dropped as the summit yielded virtually no details on trade agreements.

The day after the summit, Representative Greer offered a bit more elaboration. He explained that the two nations had agreed through the Board of Trade to lower tariffs on non-sensitive goods, and that agricultural products and medical equipment would be included. However, he did not specify the items, tariff rates, or implementation dates. He stated that details would emerge around Monday of the following week, September 28. As of September 26, when this manuscript is being written, that list has not been disclosed.

Fulfilling an existing soybean pledge and generating new market demand are two entirely different matters. China is merely executing commitments it had already made. Furthermore, 25 million tons remains below pre-trade-war export volumes. President Trump can parade the resumption of soybean exports as an achievement, but what agricultural producers actually hoped for was the repeal of tariffs and the recovery of commercial, private-sector demand. This summit delivered neither.

3.4 The Third B, Beef: The Switch Flipped On and Off in 12 Hours

Beef provides the case study that most vividly illustrated the switch held by China. To export beef to China, individual processing plants must be registered with China's General Administration of Customs (GACC). The GACC is the Chinese government agency overseeing customs administration. The validity period for registration is five years, after which it must be renewed.

U.S. beef processing plants were registered in droves under the 2020 Phase One trade agreement, spanning from March 2020 to April 2021. Thanks to this, American beef exports to China expanded rapidly. According to Reuters, export sales reached a peak of $1.7 billion in 2022.

Once the five-year validity expired, China dragged its feet on renewals. Beginning in March 2025, plant registrations began expiring one by one. Over 400 facilities lost their export eligibility—at one point representing roughly 65% of all registered plants. Beef exports to China contracted to around $500 million last year. The U.S. Meat Export Federation (USMEF) estimates that access to the Chinese market adds between $150 and $165 in value per head of slaughtered cattle.

On May 14, in the middle of the Beijing summit, a bizarre episode unfolded. On the GACC website, the registration status of U.S. beef facilities suddenly displayed as "valid." Plants belonging to Cargill and Tyson Foods were included on the list. Reuters and Bloomberg reported the development first. Yet before twelve hours had even elapsed, the status of these plants reverted back to "expired." The GACC offered no explanation.

An agricultural consulting analyst in Beijing told Reuters that this was a signal of goodwill, interpreting it as an expression of benevolence in a non-core sector of bilateral trade relations. Many observers, however, read the move quite differently: it demonstrated that whenever China made up its mind, it could open and shut the export channels of the American cattle industry within mere hours. In effect, Beijing had flicked the switch on and off right before the eyes of its negotiating partner.

The very next day, May 15, China extended the registrations of 425 facilities for five years and newly registered 77 plants, effective from May 15. On that same day, China also lifted avian-influenza-related poultry import restrictions that had been imposed across 17 U.S. states. Even so, 38 facilities remained suspended. China indicated that even after registration, separate risk assessments would be conducted.

Registration is merely the first hurdle. Facilities that have received suspension orders can resume exports only after completing corrective actions. The USMEF cautioned that actual shipment volumes and the pace of customs clearance must be closely monitored, emphasizing that opening market doors is entirely separate from goods actually being sold.

China also imposed country-specific volume quotas on imported beef this year. According to Australian livestock outlet Beef Central, the U.S. allocation stands at 164,000 metric tons. Australia and Brazil face a 55% tariff on volumes exceeding their respective caps. Because the U.S. export volume is comparatively small, it is unlikely to hit the ceiling this year. In contrast, analyses emerged suggesting that any increased U.S. export volume bound for China would inevitably have to be diverted from shipments originally slated for South Korea and Japan.

President Trump was able to boast that he had reopened the beef market for American agriculturalists. Yet both the approval button and the lock button remain in Beijing. Extending registration for five years also implies that the exact same dynamic can be repeated five years down the road. Beef may be the card carrying the smallest monetary value among the 5Bs, but it was the card that demonstrated with the greatest clarity who truly holds the initiative.

3.5 The Fourth and Fifth Bs: The Board of Trade and the Board of Investment

The Board of Trade and the Board of Investment possess a fundamentally different character from the preceding three Bs. Boeing, soybeans, and beef are physical goods bought and sold; the two boards are institutions established to govern those transactions. They are mechanisms designed to move away from across-the-board tariff escalations and reductions, aiming instead to cherry-pick items and manage them separately.

The name "Board of Trade" first emerged during negotiations in Paris in March of this year. Representative Greer described it as a body focused on areas beneficial to both nations. It also carried the connotation of functioning as a clearinghouse to determine which Chinese products to admit and which to block. At the Beijing summit in May, both boards were officially inaugurated.

The crux of the Board of Trade is tariff reduction on non-sensitive goods. Here, "non-sensitive goods" refers to commodities that bear no direct relationship to national security. The two countries agreed to negotiate a framework to reduce tariffs on $30 billion worth of goods on each side. Eligible items would be assessed at Most-Favored-Nation (MFN) tariff rates or even lower. The MFN tariff rate is the baseline tariff applied among members of the World Trade Organization (WTO).

Items of interest on the U.S. side include agricultural commodities, energy, and medical devices. China's target items are primarily low-tech consumer goods—such as apparel, furniture, and daily household articles. The American Soybean Association urged that soybeans be placed on this list to eliminate the 10% tariff. Sorghum growers likewise sought inclusion on the list and the repeal of retaliatory duties.

Representative Greer explained the rationale behind this list: items on the roster would be set aside and insulated even if bilateral relations deteriorated or new tariffs were imposed. It amounts to a commitment to keep trade moving in these designated items even when disputes flare up. China's Ministry of Commerce stated that through this mechanism, economic consultations would transition from crisis response to institutionalized management.

During the New York negotiations on September 20, the Board of Trade entered the phase of operational implementation. Representative Greer stated that operational procedures and

jurisdictional scopes had been ironed out. By the day of the summit, however, neither the specific item lists nor the tariff rates had materialized. As discussed earlier, the granular details were deferred until after the summit.

The Board of Investment is headed by Secretary Bessent. In the United States, an interagency body known as the Committee on Foreign Investment in the United States (CFIUS) reviews foreign acquisitions of American companies to assess national security risks. In recent years, CFIUS has virtually shut the door on Chinese investments in advanced technologies. Chinese foreign direct investment into the United States plummeted from $56.6 billion in 2016 to just $3.5 billion last year.

Secretary Bessent described the Board of Investment as a pre-screening and coordination conduit operating upstream of CFIUS. Non-sensitive investments would be sorted out in advance before reaching CFIUS, while proposals the United States is unprepared to accept would be turned down from the very beginning. From China's standpoint, this represents a slight cracking open of the long-shuttered door to U.S. investment. Up until the New York negotiations, however, the Board of Investment saw little tangible movement.

The most sensitive sectors are automobiles and batteries. In a January address in Detroit, President Trump hinted at allowing Chinese automakers to build manufacturing plants in the United States, arguing that if they hired American workers, they should be welcome. Congress opposed the idea across party lines. Representative John Moolenaar, Chairman of the House Select Committee on the CCP, warned sharply against opening doors to Chinese autos and batteries. More than 70 Democratic lawmakers dispatched a letter urging the administration to block Chinese automobiles from entering the U.S. market. During the very week of the summit, 27 House Democrats reiterated that exact demand.

Regulations are also layered high. The United States continues to levy a 100% tariff on Chinese electric vehicles and a 25% tariff on batteries. In January 2025, the U.S. Department of Defense placed battery manufacturer CATL on its Chinese Military Companies list. In June of this year, electric vehicle manufacturer BYD was added to the list as well. Although there had been reports that executives from Chinese EV and battery companies might attend the Washington state dinner, Chinese business leaders decided not to appear at the business roundtable. CNBC reported that no Chinese business figures would attend the state dinner either, resulting in a scene where only U.S. tech executives attended the banquet.

Nor did the creation of the two boards put an end to friction. In June, alongside BYD, the United States also placed Alibaba and Baidu on the Chinese Military Companies list. China retaliated immediately by placing 10 American companies on its export control list and barring government procurement of products from 46 U.S. defense contractors. In late July, the United States added 43 Chinese entities to its Uyghur Forced Labor Prevention Act entity list. In early August, China rolled

out five retaliatory countermeasures, including an export ban on drones and drone parts bound for the United States.

The threat of new tariffs also persists. The U.S. government postponed the announcement of its findings from the Section 301 investigation into Chinese industrial overcapacity until after the summit. This investigation has the potential to trigger supplementary tariffs. While U.S. officials maintain they will configure the package so that the overall average tariff level does not rise, duties on individual commodity lines could nonetheless be altered.

The role of the two boards becomes distinctly evident here: tightening restrictions in security-sensitive areas while walling off non-sensitive items to sustain commercial exchanges. The two entities are not instruments for resolving disputes; they are bulkheads designed to keep conflict from engulfing the entire bilateral relationship. It was in this exact vein that Representative Greer had signaled in advance that he was not pursuing a comprehensive trade agreement.

3.6 Why Wall Street Was Disappointed

Wall Street had pulled back into caution well before the summit. Investors were tracking three items: language concerning Boeing orders, language on semiconductor export licenses, and the delivery timetable for rare earths. One investment publication advised checking whether the word "delivery" appeared in any joint communique; absent that specific word, it warned, this summit would be nothing more than background noise for the stock prices of Boeing and Nvidia.

In the end, all three baskets turned up empty. No new Boeing orders were unveiled. Nor was any easing of export controls on AI semiconductors and manufacturing equipment announced. Representative Greer stated that exports of advanced semiconductors requiring regulatory licenses fell outside the purview of these trade negotiations. Nor were there any fresh supply guarantees on rare earths; U.S. officials repeatedly stressed that China's deliveries of rare earths remained short of its commitments.

The financial markets' reaction was muted, leaning toward abandoned expectations. Equities in mainland China and Hong Kong had risen earlier in the week on hopes of a truce, only to stumble on Thursday, the day of the summit, as expectations of a major breakthrough chilled. The Chicago grain market fell when no fresh purchase commitments materialized. One agricultural market analysis outlet observed that grain traders looking for instant gratification did not get what they wanted.

The brief two-month duration of the extension amplified the disappointment. Corporations and investors construct their plans on annual horizons. A two-month reprieve makes it exceedingly difficult for importers and exporters to structure seasonal contracts for the upcoming quarter. No

one knows what changes will take effect after January 10. The Saxo research team noted that this brief extension laid bare the vast chasm separating the two nations.

Grievances also mounted among foreign enterprises operating in China. Jens Eskelund, President of the European Union Chamber of Commerce in China, remarked that extending the tariff truce alone did not resolve corporate distress, citing the absence of a standardized procedure for rare earth export license applications. Even if a truce is prolonged, factories remain in constant uncertainty so long as licensing channels remain opaque.

On the morning after the summit, President Trump posted on his social media platform, declaring that the meeting had been extremely productive and that "tremendous things" were going to happen. Neither farmers nor concrete numbers were mentioned in the post. It was a scene reminiscent of the aftermath of the Beijing summit in May: figures are first broadcast through presidential rhetoric, while official documentation arrives only later—or never at all.

Representative Greer trotted out a different set of figures: an estimate that the U.S. merchandise trade deficit with China would shrink to approximately $140 billion this year. When Trump's second term commenced, he noted, it had stood at around $300 billion. The claim was that the deficit had been cut by more than half. However, this number was also the result of an outright contraction in overall bilateral trade. In 2025, U.S.–China goods trade shrank by nearly 30% compared to the prior year. The vacuum created by retreating Chinese goods was filled by imports from third countries such as Vietnam and Mexico. It is difficult to read a shrinking bilateral deficit as an unalloyed triumph for American manufacturing.

Wall Street's disappointment, ultimately, stemmed from the nature of the numbers. The metrics underlying the 5Bs were largely track records of fulfilling commitments that had already been announced. The 200 Boeing aircraft had been announced in May. The 25 million tons of soybeans was a figure established in October of the previous year. The registration of beef facilities was a matter wrapped up back in May. What was genuinely new in this summit amounted to nothing more than a two-month extension and a tariff reduction list that had yet to be made public. The market does not pay top dollar for reruns.

3.7 The Divergent Agendas of 5B and 3T, and South Korea's Calculus

Directly across from President Trump's 5Bs stood President Xi Jinping's 3Ts: Taiwan, Tariffs, and Technology. A researcher at the Center for European Policy Analysis (CEPA) dubbed this meeting the "3T Summit." What President Xi sought to safeguard will be treated in detail in Chapter 4; here, we focus on how the two strategies intersected.

The timetables of the two leaders ran on different clocks. What President Trump needed were concrete figures to showcase before November 3; his clock runs on electoral cycles. The victories

President Xi pursued were not headline numbers, but things that did not occur: an arms sale package to Taiwan worth approximately $14 billion had not received final authorization; no new export controls were enacted; and tariffs did not breach the 20% threshold. His clock ticks toward the 21st National Congress of the Chinese Communist Party in the autumn of 2027 and the decade beyond.

Placing the compliance scorecards side by side reveals the postures of the two nations: soybean purchases accelerated sharply, yet other agricultural products remained stalled; the 200 Boeing aircraft were announced, but firm orders accumulated at an agonizingly slow pace; the door to the beef market swung open, but the key remained in Beijing's pocket; and rare earth deliveries continued to languish below pre-control levels. Both nations kept commercial trade on life support while refusing to relinquish their bargaining chips.

This dynamic plays out in several distinct directions for the South Korean economy.

First is the aerospace parts industry. Korea Aerospace Industries (KAI) in Sacheon, South Gyeongsang Province, manufactures and supplies components for Boeing commercial airliners. Korean Air's Aerospace Division in Busan also fabricates parts for the Boeing 787. When Chinese orders increase, Boeing's production schedules expand, pulling up component volumes for partner suppliers. While 200 aircraft fell short of initial expectations, the fact that the Chinese market has reopened carries real significance. Nevertheless, because orders are accumulating slowly, parts production volumes will also climb only at a gradual pace. In August 2025, Korean Air announced plans to introduce 103 Boeing aircraft. South Korea is already both a major customer and an indispensable industrial partner of the American aerospace sector.

Next is the export environment. If the truce is maintained, U.S.–China tariffs remain capped at the 20% mark, mitigating trade uncertainty. This is beneficial for exports of memory semiconductors and intermediate industrial goods produced by Samsung Electronics and SK Hynix. However, this latest extension spans a mere two months. The year-long stability upon which South Korean enterprises previously relied has evaporated. The new deadline of January 10 casts an ominous shadow over the annual business planning of South Korean exporting firms.

The Board of Trade item list must also be watched vigilantly. Currently mooted items encompass agricultural goods, energy, medical devices, and low-tech consumer items. For now, overlap with South Korea's flagship export engines—such as semiconductors, batteries, and automobiles—remains limited. Yet if the list expands, circumstances will fundamentally shift. South Korean goods competing against Chinese products in the U.S. market could be placed at a disadvantage, effectively eroding the windfall benefits previously captured through the tariff differential.

The Board of Investment serves as a long-term variable for the "K-battery" sector. LG Energy Solution, Samsung SDI, and SK On have poured enormous capital into manufacturing facilities in the United States. Should Chinese battery makers establish direct manufacturing plants on

American soil, this first-mover advantage would be diluted. At present, that avenue is heavily constrained by congressional opposition and military company designations. Yet detours exist: Ford opted for an arrangement licensing technology from CATL to build a lithium iron phosphate (LFP) battery plant in Michigan. LFP batteries, which utilize lithium iron phosphate chemistry, are inexpensive and offer superior thermal safety. Close surveillance must be maintained over what forms of investment the Board of Investment chooses to sanction.

Shifts in agricultural flows are by no means inconsequential for South Korea. If China buys massive quantities of American soybeans, other importing nations are forced to turn toward Brazilian supplies. South Korea's feed and food processing industries maintain a high reliance on American grains. If grain prices gyrate in response to government-directed purchases between Washington and Beijing, cost burdens will mount. The same applies to beef: analyses point out that if larger volumes of American beef are directed toward China, supplies to the South Korean and Japanese markets could become constrained.

Dr. Choi Eun-ju, Research Fellow at the Sejong Institute, summarized South Korea's agenda into two imperatives. First, South Korea must identify areas where its own interests intersect with the 5Bs secured by the United States—such as aircraft maintenance, repair, and overhaul (MRO) for Boeing planes, semiconductor equipment, and battery materials. Second, it must concurrently manage the risks to which South Korea is exposed under the 3Ts safeguarded by China—encompassing contingencies in the Taiwan Strait, rare earth export controls, and AI semiconductor supply chains.

The 5B deal is a firewall erected by two colossal economies to avert an outright collision. Yet that firewall rests upon a fragile two-month extension. The Busan truce, originally established for one full year, was extended by a mere two months this time around. The time South Korean corporations have to prepare is far shorter than commonly assumed. January 10, 2027 is barely three-odd months away. In the intervening window, South Korea must formulate contingency plans for the next deadline. President Trump's headline numbers will fade once the elections are over. Meanwhile, the unresolved issues lingering behind the firewall—Taiwan, technology, and rare earths—remain entirely intact.

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Chapter 4. Xi Jinping's '3T' Last Stand (Taiwan, Tariffs, Technology) and the $14 Billion Arms Sale Freeze

> Xi Jinping issued a warning with the idiom "incompatible as fire and water" (水火不容). Trump froze the largest-ever Taiwan arms sale package and turned it into a bargaining chip. This chapter traces the circumstances of that diplomatic transaction.

4.1 Two Readouts and the Warning of 'Incompatible as Fire and Water'

On the morning of May 14, 2026, the two leaders sat face-to-face in the Great Hall of the People in Beijing. They were U.S. President Donald Trump and Chinese President Xi Jinping. The closed-door meeting lasted for two hours and fifteen minutes. When the meeting concluded, both nations issued separate readouts. Placing the two documents side by side, it is difficult to recognize them as records of the very same meeting.

The White House readout was brief. Expanding economic cooperation and the entry of American companies into the Chinese market were placed front and center. Chinese investment in the United States, curbing fentanyl precursors, and purchases of American agricultural products followed. There was also a sentence noting that they shared the view that Iran cannot possess nuclear weapons. The word "Taiwan" did not appear even once.

The Chinese Foreign Ministry readout struck a completely different tone. President Xi stated that the Taiwan question is the most important issue in China–U.S. relations. He noted that handling this issue well ensures that bilateral relations remain stable overall. He warned that handling it improperly could cause the two countries to collide and even spiral into conflict. It was a warning that, should that happen, the entire relationship would plunge into grave peril.

What followed was the idiom shuihuo burong (水火不容). It means that water and fire cannot coexist in the same place. President Xi stated that Taiwan independence and peace in the Strait are in precisely such an irreconcilable relationship. He also said that maintaining peace and stability across the Strait represents the greatest common denominator for the two countries. Finally, he firmly stressed that the United States must handle the Taiwan question with extreme prudence.

This warning did not emerge out of thin air. President Xi had not brought up Taiwan at the Busan summit in October 2025. President Trump likewise remarked that there was no mention of Taiwan at that meeting. The atmosphere shifted as the year turned. In their phone conversation on February 4, 2026, President Xi stated that Taiwan was the most important issue. He also added the demand that Taiwan arms sales be handled with prudence. Beijing, in effect, ratcheted up the intensity of its warnings step-by-step over the course of four months.

It is rare for a Chinese leader to utter the word "conflict" directly in front of an American president. It is an expression commonly seen in state media. Many observed that what was different was that it came straight from the leader's own mouth. There were other perspectives as well. Rush Doshi, a senior fellow at the Council on Foreign Relations (CFR), was one such case. He assessed that the rhetoric was not significantly different in tone from what President Xi had stated publicly all along.

The American response was guarded. Secretary of State Rubio confirmed in an NBC interview that the Taiwan question had indeed come up during the talks. He stated that China always raises this issue, and the United States always reiterates its position before moving on to the next agenda item. In doing so, he maintained that U.S. policy toward Taiwan has not changed. President Trump received several questions regarding Taiwan at the Temple of Heaven, but he did not answer.

The demands President Xi brought to the negotiating table fall into three main pillars. Taiwan, Tariffs, and Technology. Taking their English initials, they are referred to as the "3Ts." A researcher at the Center for European Policy Analysis (CEPA) dubbed this meeting the "3T Summit." On Taiwan, the demand was for the United States not to cross the line. On tariffs, it was to keep tariffs on China capped beneath a 20% ceiling. On technology, it was not to introduce new export controls.

President Trump's balance sheet pointed in the opposite direction. What he wanted were quantifiable achievements, such as Boeing aircraft, soybeans, and beef. Numbers he could parade before voters ahead of the November 3 midterm elections. The achievements President Xi sought were not numbers. Things that did not happen were his achievements. That Taiwan arms sales halt, tariffs do not rise, and new export controls do not materialize.

In this summit, President Xi also unveiled a new framework termed "constructive strategic stability relations." It is an initiative to cooperate in areas such as trade and technology while managing competition. At the foundation of this framework lies the premise that the United States does not cross the red line of Taiwan. Thus, China's pledges to purchase Boeing jets and agricultural products are closer to conditional transactions. The moratorium on rare earth export controls is no different. This is because they are pledges that can be rescinded at any moment if the United States crosses the line on Taiwan. The 3Ts were simultaneously a list of demands and a list of collateral binding China's concessions.

4.2 From the $11 Billion Approval to the $14 Billion in the Drawer

In December 2025, the Trump administration approved approximately $11.1 billion in arms sales to Taiwan. It was the largest Taiwan arms sale ever approved at a single time. It included HIMARS multiple launch rocket systems and M109A7 self-propelled howitzers. Javelin and TOW anti-tank missiles were also included.

Beijing's reaction was swift. The Chinese military conducted large-scale live-fire exercises simulating a blockade of major Taiwanese ports. China placed ten U.S. defense contractors and executives involved in this sale on its sanctions list. In March 2026, Taiwan's Legislative Yuan approved the signing of procurement contracts for approximately $9 billion of this package.

The second package is valued at approximately $14 billion. It centers on missiles and missile defense equipment. If approved, it would surpass the $11 billion record to become the largest Taiwan arms sale in history. Taiwan requested it, and internal reviews within the U.S. government were completed in early 2026. Reports emerged that informal preliminary reviews by relevant congressional committees had also wrapped up in January. The remaining steps were presidential sign-off and formal congressional notification. The White House did not execute this final step. While it was widely believed that only congressional approval remained, the reality was the opposite. The ball was not in Congress's court, but resting squarely on the President's desk.

Regarding these documents, President Trump's rhetoric grew increasingly pronounced. On February 16, he said he was discussing this issue with President Xi. He added that they had a good conversation and that he would make a decision soon. In a Bloomberg interview on May 11, ahead of his visit to China, he went one step further. He foreshadowed that he would discuss the arms sale issue with President Xi.

On May 15, the two leaders shared tea and lunch in Zhongnanhai. Accompanied by close aides and interpreters, their conversation continued for nearly three hours. Aboard Air Force One on his return flight, President Trump said they had talked a lot about Taiwan. He also acknowledged that President Xi had brought up the arms sale issue. He stated that he would make the decision himself. In doing so, he added that the most important goal was to avoid war.

A Fox News interview around the same period caused even greater repercussions. President Trump stated that he was holding up the package and that it depended on China. He then added that, frankly speaking, it was a very good negotiating chip. He also said that both China and Taiwan needed to cool down. He remarked that he did not want anyone moving toward independence. He also posed the rhetorical question of whether they really needed to fly 15,000 kilometers to fight a war. The official talking points remained unchanged. Yet the thrust of his words leaned closer to what Beijing wanted to hear.

President Trump also stated that he would speak with the person running Taiwan. It was a reference to President Lai Ching-te. Since the severance of diplomatic ties in 1979, no sitting heads of state from the United States and Taiwan had ever spoken directly by telephone. The remark startled both Washington and Taipei. Immediately afterward, Taiwanese authorities disclosed that China had deployed more than 100 naval and coast guard vessels across East Asian waters. By late May, reports emerged that this phone call would not take place prior to President Xi's visit to the United States. Even the phone call card had, in effect, been placed onto the bargaining table.

Statements confirming the freeze also came from within the administration. Acting Secretary of the Navy Hung Cao testified before the Senate Appropriations Defense Subcommittee on May 21. He stated that the sale had been temporarily paused to secure munitions for Operation Epic Fury. He noted that whether to resume sales would be determined by Defense Secretary Hegseth and Secretary of State Rubio. Taiwan's Presidential Office stated that it had received no notification regarding adjustments to arms sales. President Lai Ching-te countered that U.S. arms sales serve as the most crucial deterrent against regional conflict. He also declared that Taiwan would never be sacrificed or traded away. The Chinese Foreign Ministry commented that its opposition to Taiwan arms sales remained consistent and resolute.

Regarding the rationale for the freeze, explanations within the White House diverged in two directions. The President called it a negotiating chip. The Acting Secretary of the Navy attributed it to ammunition shortages. The two explanations do not contradict each other. An emptying arsenal provided the pretext for the freeze, and the freeze, in turn, became a bargaining chip.

4.3 Reagan's Six Assurances and the Two Documents of 1982

President Trump's remarks collide head-on with a commitment dating back to 1982. The "Six Assurances" conveyed to Taiwan by the Reagan administration. The Six Assurances include the pledge that the United States has not agreed to set a date for ending arms sales to Taiwan. They also include the pledge that the United States has not agreed to hold prior consultations with China on arms sales to Taiwan. This document was declassified only in 2020. Ever since, successive administrations have adhered to these pledges like binding precedent.

President Trump crossed this line. Prior to his trip to China, he foreshadowed that he would discuss arms sales with President Xi. Aboard the return flight, he admitted that he had indeed discussed it. When questioned about the Six Assurances, he replied that 1982 was a long time ago.

The justification China invokes is a different document issued in that very same year. The U.S.–China Joint Communiqué of August 17, 1982, commonly referred to as the "August 17 Communiqué." In this communiqué, the United States stated that it did not seek to exceed either in qualitative or quantitative terms the arms supplied to Taiwan. It also articulated its intent to gradually reduce its arms sales. Around the same time, President Reagan attached a condition in an internal memorandum. The condition that arms reduction remained valid only so long as China upheld its commitment to a peaceful resolution of the Taiwan question.

Beijing omits this condition and puts forward only the promise of reduction. In the intervening years, China's military expenditures have expanded year after year. Over the past five years, the Chinese military has substantially escalated military activities around Taiwan. It has also conducted war games, including live-fire missile tests. Chinese naval vessels and military aircraft operate

around Taiwan on an almost daily basis. Viewed in light of the condition Reagan attached, the premise of the reduction pledge has already been undermined.

On September 22, Reuters reported on China's next move. The dispatch reported that President Xi would demand a halt to arms sales in Washington on the basis of the August 17 Communiqué. Speculation was also reported that he might raise this demand during his visit to the National Archives. The report also noted that China had demanded a suspension even on deliveries of arms already under contract. In return, China offered to exert pressure on Tehran regarding the Iran war. Taiwan's security and the Middle East war had been entered side by side onto the very same ledger.

The clash between the two documents is also a matter of law. The U.S. Taiwan Relations Act mandates providing Taiwan with arms of a defensive character. It is difficult for a president to eliminate arms sales entirely. However, the timing of when to sign is something the president can choose. What President Trump holds is not the whether of sales, but the timing of sales. While he delays that timing, China pays the price through purchases of Boeing jets, soybeans, and crude oil, alongside the rare earth moratorium. From Taiwan's perspective, its own security has ended up as a mere line item on someone else's transactional ledger.

4.4 Three Reasons for Not Signing: An Emptying Arsenal, Slashed Budgets, and Migrating Semiconductors

Behind President Trump's postponement of his signature lay practical realities alongside political calculations. These can be broken down into three factors.

The first reason is the condition of the U.S. military's arsenal. On February 28, 2026, the United States launched Operation Epic Fury, an air campaign against Iran. There was a ceasefire on April 8, and an interim agreement also materialized in June. Yet the agreement did not last long, and the war entered its seventh month without ending. Intercepting Iranian ballistic missiles and drones forced the U.S. military to expend air defense interceptor missiles in massive quantities.

In early August, CNN reported citing two sources familiar with internal inventory reports. THAAD interceptor missiles had depleted approximately four-fifths of their pre-war inventory. Patriot interceptor missiles had consumed roughly half of their stockpile. Estimates vary slightly across different organizations. Some analyses estimate the depletion rate of Patriots at two-thirds. Reports also indicated that nearly one-third of Tomahawk cruise missiles had been expended.

The Center for Strategic and International Studies (CSIS) estimated pre-war stockpiles at approximately 2,200 Patriot missiles and 452 THAAD missiles. The projected replenishment timeline is 2029 for THAAD and Patriot, and 2030 for Tomahawk. Production capacity serves as the bottleneck. Lockheed Martin had previously produced around 96 THAAD interceptor missiles

annually. In June, it signed a $35 billion, seven-year contract to ramp up production to 400 missiles per year. Even so, expanding the manufacturing plants alone will take several years.

In a January report, the Heritage Foundation warned that in a Taiwan contingency, high-cost interceptors could be exhausted within days. This warning had been based on inventory levels preceding the Iran war. Calculated against current stockpiles, the predicament is far worse.

The rare earth dilemma compounds the issue. Permanent magnets used in missile guidance systems and radars require heavy rare earths. Materials such as dysprosium and terbium. The refining of these materials is overwhelmingly monopolized by China. It is an architecture where the United States requires Chinese-origin materials to replenish its arsenals. Under such conditions, there was little leeway to confront China while rushing advanced missiles to Taiwan.

The second reason is Taiwan's domestic politics. On May 8, six days before the summit, Taiwan's Legislative Yuan passed a special defense budget. The bill submitted by the Lai Ching-te administration was 1.25 trillion New Taiwan dollars (NT$) over eight years, or approximately $40 billion. The Kuomintang (KMT) and Taiwan People's Party (TPP), which control the Legislative Yuan, slashed it to NT$780 billion. At roughly $24.8 billion, this represented a cut of nearly 40% compared to the original proposal. This sum was of a scale sufficient to cover the $11 billion package and the pending $14 billion package.

The manner in which the cuts were made drew keen attention. Budgets for weapons purchased from the United States, such as HIMARS and self-propelled howitzers, were preserved. In contrast, most domestic defense projects, including drones, were excised. It was the outcome of minding Washington's reactions while failing to cultivate Taiwan's own self-sustaining resilience. The figure who led the cuts was Cheng Li-wun, Chairperson of the Kuomintang. She had consistently stressed improving relations with China, visiting China in April under the mantle of a "Journey of Peace." The U.S. State Department warned that further delaying budgets for the remaining programs would effectively amount to a concession to China.

This episode fueled skepticism within Washington. Since his presidential campaign, President Trump had insisted that Taiwan must pay more for its defense. The spectacle of the Taiwanese Legislative Yuan squabbling over the defense budget lent credence to that assertion. Beijing had propagated the narrative that the Lai Ching-te administration does not represent mainstream Taiwanese public opinion. Internal division within Taiwan provided the fissure for this narrative to penetrate. Analyses also pointed out that when the United States halted sales, it became even harder for the Taiwanese government to request additional defense appropriations. This was the assessment of William Yang, Senior Analyst at the International Crisis Group (ICG). A vicious cycle had been forged where freezes and budget cuts reinforced each other.

The third reason is semiconductors. One of the core logics underpinning Taiwan's security has been the "silicon shield." The premise that because Taiwan's TSMC manufactures most of the

world's cutting-edge semiconductors, the United States cannot abandon Taiwan. The Trump administration concentrated its efforts on transforming this structure.

In January 2026, the United States and Taiwan concluded a trade and investment agreement. Taiwanese enterprises will directly invest at least $250 billion in the United States. The Taiwanese government will provide $250 billion in credit guarantees. The United States lowered the reciprocal tariff levied on Taiwan from 20% to 15%. A warning was also attached that a 100% tariff could be imposed on Taiwanese semiconductor firms that do not build factories in the United States.

In July, TSMC announced that it would increase its Arizona investment by an additional $100 billion. With this, its total U.S. investment reached $265 billion. The semiconductor fabrication and packaging facilities slated for Arizona total 12 sites. It also stated that it would construct plants for sub-2-nanometer fabrication processes.

Even so, it is premature to view the shield as having melted away. TSMC continues to run its most advanced 2-nanometer process on the island of Taiwan itself. The Arizona plant is merely at the stage of initiating production of 4-nanometer chips. Arizona's 2-nanometer process targets around 2030, leaving a gap of four to five years. TSMC's chief financial officer also stated that cutting-edge technology development will continue in Taiwan. The shield is thinning, but it still performs its role. Yet it is hard to deny that a perspective has emerged within the Trump administration that views the strategic value of Taiwan island itself as lower than before.

4.5 The Battle Over a Single Verb: 'Does Not Support' vs. 'Opposes'

For decades, the United States has used the expression that it "does not support" Taiwan independence. It signifies a desire to maintain the status quo. It does not mean the United States will actively step in to block Taiwan if it moves toward independence. It means even less that it endorses China's unification by force. This ambiguity was the mechanism keeping both Taiwan and China in check. In diplomatic circles, this is known as "strategic ambiguity."

Beijing has persistently demanded that this verb be changed to "opposes." David Sacks, a research fellow at CFR, reported that Chinese officials and scholars had been leaking this demand for months. The demands did not stop there. An insistence followed that the United States accept the "One China Principle." Furthermore, demands even emerged calling on the U.S. to support eventual unification.

The difference is merely a single word, but the implication it carries is immense. "Opposes" is interpreted as a declaration that the United States is abandoning neutrality to take China's side. The UK's Chatham House assessed that while such phrasing changes may appear symbolic, the consequences could prove catastrophic. It warned that the security not only of Taiwan, but of the entire Indo-Pacific, would be destabilized. To the people of Taiwan, it serves as a signal dismantling

their rationale to resist. To allies such as Japan and the Philippines, it signals that the American security umbrella could fold.

There is a precedent for this battle. In September 2016 in Hangzhou, Xinhua News Agency reported that President Obama had stated he "opposed" Taiwan independence. The White House immediately issued a statement reaffirming that there was no change in its "One China" policy. Beijing has long employed the tactic of recasting words spoken by U.S. presidents into its own preferred terminology. This is precisely why readouts diverge into two separate documents.

The verb "opposes" was not included in the official documents of the May summit. Taiwan experts in Washington regarded this as a relief. Yet President Trump's spoken words raced ahead of the written text. Interpretations followed that remarking he did not want anyone moving toward independence was practically equivalent to opposition. NBC had previously reported that White House aides had dissuaded the President from shifting his stance. Aides had also alerted him in advance that President Xi would demand an explicit public declaration of "opposition."

The nation that watched this trajectory more anxiously than any other was Japan. Prime Minister Sanae Takaichi caused major ripples with a single Diet parliamentary response in November 2025. Her response was that a Taiwan contingency could constitute a "survival-threatening situation" for Japan. A survival-threatening situation is the legal prerequisite enabling Japan to exercise the right of collective self-defense. China pushed back fiercely against this statement. Political and economic retaliation targeting Japan ensued, including restrictions on rare earth exports. In June, Reuters reported that Chinese exports of heavy rare earths to Japan had plummeted.

Japan worried that even the United States might treat Taiwan as an object of transactional bargaining. Tokyo's paramount fear was a grand bargain in which the United States acquiesced to China's position on Taiwan in exchange for economic concessions. Aboard Air Force One on his return flight in May, President Trump phoned Prime Minister Takaichi to debrief her on the summit. Even so, Prime Minister Takaichi's hardline rhetoric regarding Taiwan appeared increasingly misaligned with the American stance.

On September 22, two days prior to the Washington summit, Prime Minister Takaichi met President Trump at UN Headquarters in New York. Arranged on the sidelines of the UN General Assembly, the meeting lasted for approximately 30 minutes. The two leaders agreed to broaden cooperation on critical minerals, including artificial intelligence, semiconductors, and rare earths. They also reaffirmed the enhancement of alliance deterrence and coordination against North Korean nuclear and missile threats. President Trump praised Prime Minister Takaichi as a strong leader. Yet from publicly disclosed information alone, it is difficult to determine whether Japan obtained the assurances it desired on the Taiwan question. Reaffirming that the alliance is ironclad and pledging not to make concessions on Taiwan are two very different matters.

4.6 Three Days in Washington: The Unspoken Taiwan

Ahead of the Washington summit, Beijing raised the pressure another notch. In mid-September, Japanese media reported that China had delivered a warning through diplomatic channels. It was a warning that it could cancel the summit if the United States approved new Taiwan arms sales. The Chinese Foreign Ministry repeatedly reiterated that it resolutely opposed arms sales to Taiwan. It also stated that abiding by the Three Joint Communiqués and past U.S. commitments is a prerequisite for stabilizing relations. The People's Daily wrote that mishandling the Taiwan question could precipitate China–U.S. relations into a dangerous situation.

The White House prepared to receive its guest with the documents kept locked in a drawer. A White House official stated that the President would make a decision on the new package before long. He emphasized that during his first term, President Trump had approved more Taiwan arms sales than any president in history. He also added the claim that approval amounts in the first year of the second term exceeded the entire four-year total of the Biden administration. It was a rhetorical maneuver brandishing past track records to cover up the present hold.

On September 23, the day before the summit, four Republican senators dispatched a letter. The addressees were Secretary of State Rubio and Defense Secretary Hegseth. Former Majority Leader McConnell and Senators Cornyn, Tillis, and Murkowski signed it. The letter expressed grave concern over the President referring to Taiwan as a "very good negotiating chip." It also pointed out that blocking deterrence assets for an ally to save face makes it impossible to establish deterrence across the Indo-Pacific.

The letter enumerated the stalled items one by one. The $300 million in Foreign Military Financing (FMF) appropriated by Congress in the fiscal year 2026 budget had not been disbursed. Foreign Military Financing consists of grants and loans designed to assist partner nations in purchasing American-made weaponry. Jordan, Israel, Thailand, and the Philippines had already received these funds, but Taiwan was absent from the roster. The Department of Defense had likewise left $1 billion in Taiwan Security Cooperation Initiative funds unspent. Compounding this was the suspended approval on the $14 billion arms sale. Three of the four signatories will retire from the Senate at the end of this year. The very fact that only lawmakers free from reelection pressures stepped forward to mount public criticism reflects the prevailing atmosphere within the Republican Party.

On the same day, a spokesperson for Taiwan's Ministry of National Defense reacted calmly. He noted that the U.S. government and Congress have repeatedly affirmed their support for Taiwan's self-defense capabilities. In doing so, he stated that he anticipated arms sales would continue.

On the evening of September 23, President Xi touched down at Joint Base Andrews in Maryland. President Trump, accompanied by the First Lady, walked all the way onto the tarmac to greet

President Xi and his wife. Earlier that day, Treasury Secretary Bessent and Vice Premier He Lifeng had agreed to extend the trade truce by two months. The deadline for the Busan truce, originally slated for November 10, was pushed back to January of the following year.

On September 24, the two leaders sat face-to-face in the Oval Office. Following the talks, President Trump merely said that it was a great meeting. Reporters repeatedly pressed whether Taiwan had been discussed, but he did not answer. President Xi likewise remained silent on questions regarding Taiwan. Through that evening, the White House issued no readout of the summit.

The narrative emerged instead from Beijing. Xinhua News Agency reported that President Xi had raised the Taiwan question. The report emphasized that China's position regarding national reunification and territorial integrity is unequivocal. President Xi stated that he hoped the United States would oppose Taiwan independence and handle the Taiwan question with prudence. He noted that this constitutes the cornerstone of China–U.S. strategic cooperation and bilateral relations. If May was a warning to handle the issue prudently, September amounted to directly demanding the verb "oppose."

At the state dinner, President Xi stated that the two leaders had reached common understandings on many issues. He assessed that this visit had enriched the "constructive strategic stability relations" with new substance. What those common understandings were was not disclosed. Outside the White House, anti-China demonstrators chanted to keep Taiwan free. Wang Dan, a former student leader of the Tiananmen protests, joined the demonstration and declared that Taiwan's future must be decided by the people of Taiwan.

On September 25, President Xi and his wife toured the National Archives together with President and Mrs. Trump. What the two leaders shared in front of the original copies of the Declaration of Independence and the Constitution was not made public. That same day, U.S. Ambassador to China David Perdue appeared on CNBC to articulate the administration's stance. His explanation was that there was absolutely no change in Taiwan policy. He stated that the Taiwan Relations Act, the Three Joint Communiqués, and the Six Assurances are being upheld. He also noted that although China had pressured them to alter the wording, they did not alter it.

A gulf remained between official explanations and actual conduct. The wording was not changed. Yet consultations with China on arms sales—prohibited by the Six Assurances—had already been ongoing for four months. The $14 billion paperwork still lay unsigned in the drawer. Even veteran Republican heavyweights in the U.S. Congress had to demand the disbursement of appropriated assistance funds. Rhetoric claiming fidelity to the Six Assurances and actions deploying arms sales as a bargaining chip operated concurrently within a single administration.

Criticism emerged from both Democrats and Republicans. Republican Senate Armed Services Committee Chairman Roger Wicker remarked that he would not have advised such an elaborate

welcome. Senator Tillis observed that the trend of spending more time with autocrats than with heads of democratic states was deeply troubling. Democratic Senator Chris Van Hollen criticized it as the illusion that coddling authoritarian leaders will yield what one desires. There were also voices welcoming dialogue itself. Republican Senator Rand Paul advocated for more dialogue and less war.

4.7 Signals South Korea Must Read: USFK, North Korea, and the Limits of Pragmatic Diplomacy

As the Taiwan question moved into the dead center of U.S.–China dealmaking, South Korea could no longer regard it as someone else's affair. The "strategic flexibility" of United States Forces Korea (USFK) is no longer a concept confined to paper. Strategic flexibility denotes the doctrine that USFK assets can be deployed to conflicts outside the Korean Peninsula.

Due to the Iran war, interceptor missiles in the Middle East were rapidly depleted. Consequently, in March, the United States redeployed Patriot missile defense assets stationed on the Korean Peninsula to the Middle East. Plans for the redeployment of THAAD assets were even reported. Transferring USFK equipment to other theaters is understood to be a matter requiring merely notification from the United States. The South Korean government issued an official stance stating that deterrence against North Korea remains intact.

Statements from senior U.S. military brass point in the exact same direction. During his visit to South Korea in November 2025, Defense Secretary Hegseth remarked that flexibility is essential to respond to other regional contingencies. USFK Commander Xavier Brunson delivered remarks at a forum in Seoul in December of that year. His remarks emphasized that USFK is not an entity dedicated exclusively to responding to Korean Peninsula threats. USFK even posted an inverted, south-up map of East Asia on its official website. A map depicting distances from Seoul not only to Pyongyang, but also to Beijing, Taipei, and Manila.

If a collision occurs in the Taiwan Strait, U.S. Air Force assets at Osan and Pyeongtaek are highly likely to mobilize toward Taiwan. In that event, the danger arises that China will regard these facilities as sortie launch bases and bring coercive pressure against them. The U.S.–ROK Mutual Defense Treaty applies to armed attacks directed against territories under the administrative control of each party. A Taiwan Strait conflict is not legally subject to automatic South Korean intervention under the treaty. Even if the treaty does not drag South Korea in, U.S. military bases on South Korean soil could pull South Korea into the conflict.

The North Korea variable does not operate separately from the Taiwan variable. If the United States and China clash sharply over Taiwan, North Korea will exploit that opening. The possibility also increases that China will use North Korea as leverage to pressure the United States. Conversely, if the United States and China reach a quiet compromise over Taiwan, circumstances will shift.

Extended deterrence on the Korean Peninsula could be relegated to the back burner of American attention. Whichever path unfolds, South Korea's security burdens will mount.

The Lee Jae-myung administration has championed "national-interest-centered pragmatic diplomacy." On May 13, the day before the Beijing summit, President Lee met successively with Vice Premier He Lifeng and Treasury Secretary Bessent at the Blue House. The two officials were visiting Seoul to coordinate preparations ahead of the summit. President Lee emphasized cooperation on critical mineral supply chains and foreign exchange markets to Secretary Bessent. It was a juncture when the KRW–USD exchange rate had surged close to 1,500 won. To Vice Premier He Lifeng, he urged delivering substantive outcomes across economic, industrial, and cultural sectors.

Such diplomacy proves viable on economic agendas. Both the United States and China reached out to South Korea while utilizing it as a staging ground for negotiations. Yet a Taiwan contingency is fundamentally different in nature from economic agendas. The United States will demand bases and forces, while China will demand neutrality and non-intervention. There is no feasible way to satisfy both demands simultaneously. The maneuvering room for pragmatic diplomacy has yet to be tested against the Taiwan question.

The spectacle of President Trump referring to Taiwan arms sales as a bargaining chip serves as a stark warning to South Korea as well. Because it signifies that U.S. security commitments can be treated as items tradeable for short-term economic gains. There is no guarantee that the U.S.–ROK alliance will be exempt from that inventory. What South Korea must prepare is crystal clear. It must build up its own sovereign capabilities necessary for North Korean deterrence. It must establish consultation procedures in advance for instances when USFK forces are drawn down. It must also curtail its reliance on Chinese critical minerals.

4.8 The Clock of 2027 and the Card Left in the Drawer

The Taiwan issues at the Washington summit narrowed down to two. Whether President Trump would publicly declare that he "opposes" Taiwan independence was the first. How the $14 billion package would be handled was the second. Neither issue yielded an answer. President Trump did not say "opposes." Nor did he sign off on the package. Deferring the decision was the answer he chose.

That answer holds distinct utility for President Trump. Because it is a card whose value endures only so long as it is retained in hand. Approving the sale expends the card. Canceling the sale invites fierce backlash from Congress and allies. So long as it remains inside the drawer, he can extract leverage from both Beijing and Washington.

What China targets is far larger than a single package. It is to gradually shift U.S. Taiwan policy across both rhetoric and established practice. In an essay for Foreign Affairs, Bonnie Glaser

analyzed that Beijing is playing a long game on the Taiwan question. Namely, rather than rushing into armed force, it is waiting for American commitments to fray from within. The trajectory since May does not substantially deviate from this analysis. A practice of consulting China on arms sales has been established. Delaying arms sales has become akin to an admission ticket to summits. Even suspending deliveries of arms already under contract has been placed onto the bargaining table.

The clock points toward 2027. August 1, 2027 marks the centenary of the founding of China's People's Liberation Army. U.S. intelligence agencies have consistently assessed that President Xi ordered the military to acquire the capability to execute operations against Taiwan by that date. In the autumn of that same year, the 21st National Congress of the Chinese Communist Party will convene. It is the pivotal juncture where President Xi's fourth term is at stake.

The clock on the American side is ticking as well. Once the November 3 midterm elections conclude, Washington's calculus could shift. The trade truce, extended by two months, reaches its deadline once again in January of next year. President Xi remarked that he would meet President Trump again at this year's APEC summit in Shenzhen and the G20 summit in the United States. As long as these meetings continue, the documents in the drawer are highly likely to endure as a bargaining chip. Within Congress, bipartisan pressure demanding expedited arms sales to Taiwan continues to mount. Should the truce unravel, the $14 billion paperwork will be the very first instrument of pressure that can be brought out.

What Taiwan fears most is not the suspension of arms sales in itself. It is that arms sales become institutionalized as a condition of transactional bargaining. Arms sales that have once served as a negotiating chip become a chip at subsequent summits as well. With every iteration, Taiwan's defensive capabilities are bargained away outside Taiwan's borders.

From May to September, the Taiwan question remained unresolved. The two leaders locked this issue away in a drawer and tended to other transactions first. President Trump secured achievements to flaunt before the election, alongside precious time. President Xi gained time to steadily loosen the American commitments surrounding Taiwan. Throughout that window, Taiwan waited, Japan fretted, and South Korea had to reexamine its balance sheet. The drawer can be pulled open again at any moment. When it does, the calculus of the Taiwan Strait will rewrite not only the security ledgers of the United States and China, but those of Japan and South Korea as well.

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Chapter 5. The DeepSeek AI Shock and the Dual Ecosystems of Nvidia and Huawei

> The $6 Million Low-Cost AI Shakes America's Technological Containment
> Conditional Approval of the H200 and China's AI Self-Reliance Centered on Huawei's Ascend Chips

Introduction: AI Titans Gathered at the State Dinner, Chips Kept Off the Table

On the evening of September 24, 2026, a state dinner was held in the East Room of the White House. It was an occasion hosted by President Trump for President Xi Jinping and his wife. The guest list brought together the leading figures shaping the American AI industry. Jensen Huang, CEO of Nvidia, attended alongside his wife. Sam Altman of OpenAI and Mark Zuckerberg of Meta were also present. Elon Musk, Lisa Su of AMD, and Tim Cook of Apple were seen as well.

Unlike the scene in the banquet hall, the summit's outcomes were meager. According to the Chinese readout, Xi Jinping stated that even as the two nations compete in AI, they can still cooperate. He also urged that AI be kept under human control to prevent misuse. Trump reportedly replied that they should continue the dialogue and strengthen cooperation. The White House did not issue its own readout until CNBC reported on the matter. On chip export controls, neither side could present any confirmed achievements.

This scene captures the paradox of U.S.–China AI competition over the past twenty months. The United States still produces the finest chips. Yet its ability to use those chips as a weapon to bring China to heel has weakened substantially. The starting point was a model unveiled in January 2025 by a startup in Hangzhou. This chapter begins with the DeepSeek shock. It then traces, in turn, the conditional approval of the H200 and China's rejection, the distillation controversy, and the rise of Huawei's Ascend. The progress of the New York negotiations surrounding the AI incident notification mechanism was examined in Chapter 2. This chapter focuses on the competition in chips and models unfolding beneath that mechanism.

5.1 The Shock of January 2025: $5.6 Million and $590 Billion

In January 2025, DeepSeek (深度求索), a startup based in Hangzhou, China, unveiled R1, a model specialized in reasoning. A reasoning-specialized model refers to an AI that unfolds its thinking across multiple steps before producing an answer. R1's performance rivaled OpenAI's premier reasoning model at the time. DeepSeek released this model openly, allowing anyone to download and use it.

What astonished people even more than its performance was its cost. DeepSeek disclosed that the final training run of its foundational model V3, which underpinned R1, cost approximately $5.6 million—around 8 billion Korean won. OpenAI is widely known to have spent over $100 million training GPT-4. The frequently cited "$6 million shock" originated from this figure.

By late January, the DeepSeek app surpassed ChatGPT at the top of the free app rankings on the U.S. Apple App Store. The market reacted immediately. On January 27, 2025, Nvidia's share price plummeted nearly 17% in a single day. Approximately $590 billion in market capitalization evaporated. It was the largest single-day loss of market value by a single company in the history of U.S. equity markets.

What investors feared was the collapse of a foundational assumption. Until then, Wall Street and Silicon Valley had believed that creating superior AI required purchasing massive quantities of expensive chips. Big Tech's data center investments and Nvidia's stock price rested squarely on this belief. DeepSeek demonstrated that a model could reach the top tier with far fewer chips.

The U.S. government's calculations were equally shaken. Ever since the Biden administration, U.S. technology policy toward China had relied on a single premise: that restricting advanced chips would slow China's AI development. DeepSeek presented a potent counterargument, demonstrating that algorithmic innovation could close the gap even in the face of chip embargoes.

5.2 Invention Born of Scarcity: Mixture of Experts and Sparse Attention

The figure of $5.6 million must be interpreted with caution. This amount reflects only the chip usage costs incurred during the single final training run. It excludes preceding research, countless prior experiments, chip acquisition expenses, and labor costs. Industry analysts estimate the true total cost to be substantially higher. Even so, the undeniable reality remains: they built a model of comparable caliber with far less computing power.

The chips DeepSeek used to train V3 were 2,048 Nvidia H800s. The H800 was a downgraded chip tailored for export to China in compliance with U.S. regulations. Its interconnect bandwidth—the speed at which chips exchange data—had been deliberately and drastically throttled. When clustering thousands of chips to train a massive model, this communication speed is a crippling bottleneck. DeepSeek's research team alleviated this bottleneck by directly optimizing the low-level code that operates the chips.

The core technology was the Mixture of Experts (MoE) architecture. This approach places multiple groups of specialized "experts" inside the model. When a query is received, only the experts needed for that particular query are activated. V3 possesses a total of 671 billion parameters. Parameters refer to the numerical values that encode the knowledge acquired by an AI through training. Yet when processing a single token, only about 37 billion parameters are

activated. In effect, only 5.5% of the total network is put to work, dramatically reducing both computational load and power consumption.

In the autumn of 2025, DeepSeek incorporated Sparse Attention technology into V3.2. When an AI processes lengthy text, it typically computes relationships across every pair of words. Sparse Attention computes only selected, critical relationships. This significantly slashed the cost of handling long documents.

The Financial Times dubbed this trend "invention born of scarcity." Lacking access to cutting-edge chips, they sought workarounds through algorithms, and those workarounds culminated in genuine innovation. In effect, U.S. export controls forced Chinese researchers to prioritize sheer efficiency.

Here lies the inherent limitation of U.S. policy. Export controls can reduce the aggregate volume of compute available to China. However, they cannot dictate what China creates with the compute it has. The party disadvantaged in hardware volume relentlessly pursues techniques to conserve hardware. DeepSeek shared those techniques openly with the world, and other research labs across both the United States and China adopted them almost immediately.

5.3 DeepSeek V4 and Huawei Ascend: How to Serve on Domestic Chips

On April 24, 2026, DeepSeek unveiled a preview edition of its next-generation model, V4. It came 484 days after the release of V3. V4 was released in two versions: the high-performance Pro and the lightweight Flash. V4-Pro is a Mixture of Experts model boasting 1.6 trillion parameters. When processing a single token, 49 billion parameters are active. Both models can handle a 1-million-token context window at once. A token is the fundamental unit an AI uses to process text, roughly corresponding to a fragment of a word.

DeepSeek released all weights for V4 under the MIT License. Weights refer to the complete set of parameter values of a fully trained model. The MIT License permits commercial use, modification, and redistribution. At the time of its release, V4-Pro was the largest open-weights model in existence.

On the day of the V4 announcement, Huawei issued a separate statement. It declared that its Ascend SuperNodes offered full, day-one support for V4. Prior to public release, DeepSeek had shared its weights and optimization code with Huawei in advance to assist with preparations. Other Chinese chipmakers, including Cambricon and Moore Threads, also announced in rapid succession that they had completed adaptations for V4.

In the same technical report, DeepSeek revealed that it had validated performance on both Nvidia GPUs and Huawei Ascend. It was the first time that chips from both companies were listed side-by-side in a single model's compatibility documentation. DeepSeek further noted that once Ascend 950

SuperNodes were deployed at scale, it would lower the price of V4-Pro even further. In other words, increasing the supply of domestic Chinese chips was essential to lowering operational serving costs.

Reports conflict regarding which chips were used to train V4. Some outlets reported that DeepSeek used Ascend for training. Other analyses suggested that training was still conducted on Nvidia chips, with only inference and serving migrated to Ascend. What is certain, however, is that V4 actively handles real-world user queries running atop Ascend.

This distinction is far from trivial. In 2025, DeepSeek demonstrated how to train models with fewer chips. In 2026, DeepSeek demonstrated how to serve models on domestic Chinese chips. Until then, Huawei could only assert rhetorically that its chips were viable. After V4, concrete proof emerged that a model exceeding 1 trillion parameters could run seamlessly on Ascend.

Its price tag was equally disruptive. Upon launch, the usage fee for V4-Pro was roughly $1.74 per 1 million input tokens. DeepSeek slashed prices substantially once more in May. As of early August, V4-Pro's output pricing stood at $0.87 per 1 million tokens. This was merely a fraction of the cost of premier proprietary American models. DeepSeek transitioned V4-Flash to general availability in late July and V4-Pro in mid-August. On September 10, it released an upgraded variant, V4.1 Flash.

Huawei's manufacturing capacity expanded in tandem. Bloomberg reported that Huawei planned to produce approximately 600,000 Ascend 910C chips in 2026—double its projected output for 2025. Huawei manufactures this chip using SMIC's refined 7-nanometer (7nm) process. Compared to Nvidia's use of TSMC's 4-nanometer process, this technology lags by nearly two generations.

Huawei compensates for this handicap by clustering chips at massive scale. Even if the performance of an individual chip falls short, interconnecting thousands of them as a single computing fabric amplifies aggregate throughput. In September 2025, Huawei unveiled a three-year Ascend roadmap: the 950 in 2026, the 960 in 2027, and the 970 in 2028. The plan was to double compute capacity with each successive generation. Huawei also announced that it would incorporate domestically developed High Bandwidth Memory (HBM).

This timeline accelerated by a full stride just prior to the Washington summit. On September 17, 2026, Huawei held its annual Huawei Connect event in Shanghai. There, it announced that it would release the Ascend 960 in the first quarter of 2027—pulling the schedule forward by three quarters. It also unveiled the Atlas 960E SuperPoD, which networks up to 4,096 Ascend chips into a single unified computer.

Alibaba joined the fray as well. On September 22, Alibaba's semiconductor subsidiary, T-Head, held the Apsara Conference in Hangzhou, where it revealed the Zhenwu V900. Alibaba stated that the chip delivers three times the performance of its predecessor. Commercial availability is slated for early 2027. Alibaba executives introduced the V900 as the most powerful AI chip in China.

George Chen of the U.S. consulting firm The Asia Group viewed the timing of these announcements as deliberate. His assessment was that sitting at the negotiating table requires leverage, and Xi Jinping possessed abundant cards. With announcements of chips and models concentrated in the days leading up to the summit, debate reignited over whether China's AI industry had reached a decisive inflection point.

5.4 Jensen Huang's Persuasion and Conditional H200 Approval: The 25% Cut

Following the DeepSeek shock, the person feeling the greatest anxiety was Nvidia's Jensen Huang. Before export controls intensified, Nvidia commanded roughly 95% of China's advanced AI chip market. As successive layers of restrictions mounted, that market share plummeted to virtually zero. Huang publicly cited this figure on multiple occasions.

The losses were stamped directly onto the company's financial ledgers. In April 2025, the United States subjected even the lower-spec H20 chip—designed specifically for China—to individual export licensing requirements. Nvidia wrote down approximately $4.5 billion in a single quarter due to unsellable H20 inventories. Shuttling back and forth to Washington, Huang reiterated the same argument: if the United States closes off the market, China will simply foster its own chips, leaving American companies to forfeit both revenues and technological standards.

President Trump accepted half of this argument. In December 2025, Trump announced that he would allow the H200 to be sold to "approved customers" in China. The condition was that the U.S. government would take a 25% cut of sales proceeds. Trump wrote on social media that he had communicated this decision to Xi Jinping, and that Xi had responded positively.

The H200 is a chip originally released in 2023. It was far more powerful than the H20 that had been permitted for sale to China at the time. However, Nvidia's latest Blackwell series and the next-generation Rubin series were excluded from approval. The United States had essentially drawn the line at yielding a previous-generation chip while withholding its latest architectures.

On January 15, 2026, the Bureau of Industry and Security (BIS) of the U.S. Department of Commerce enacted new regulations. The review standard for export licenses of H200-class chips to China shifted from a "presumption of denial" to "case-by-case review." Volumes bound for China and Macau were capped at no more than 50% of U.S. domestic supply. Details of the approvals emerged in mid-May via a Reuters report. Around ten companies—including Alibaba, Tencent, ByteDance, and JD.com—received purchase authorizations. The purchase ceiling for any single firm was capped at 75,000 units.

Yet months after the licenses were issued, virtually no chips had actually arrived in China. In its May quarterly earnings report, Nvidia disclosed that it had yet to record any H200 revenue from

China. The stated reason was uncertainty over whether the Chinese government would permit their importation. Reports even surfaced in March that Nvidia had halted production of China-bound H200s and repurposed its manufacturing capacity for other products.

The man who stepped forward to break this deadlock was Jensen Huang. On May 13, 2026, President Trump departed for his state visit to Beijing. Huang's name had been absent from the business delegation list released by the White House days earlier. When the media gave prominent coverage to his absence, Trump reportedly called him directly.

Huang later recounted that day in an interview with a Singaporean broadcaster. The president called him in the morning thinking he was in Washington, but Huang was on the West Coast. Trump told him to meet him in Alaska. Huang hastily packed his bags and flew to Alaska. As Air Force One refueled in Anchorage, Huang boarded the plane. Nvidia's stock rose nearly 3% that day.

Washington's China hawks pushed back vehemently. In December 2025, House Foreign Affairs Committee Chairman Brian Mast introduced the "AI Overwatch Act." The legislation requires congressional notification prior to exporting advanced AI chips to adversarial nations. Congress would have a 30-day review period to block the sale. The structure mirrored the congressional notification procedure applied to arms exports, transplanting it directly to AI chips.

On January 21, 2026, the House Foreign Affairs Committee passed the bill by a vote of 42 to 2, with one abstention. An amendment was incorporated that explicitly prohibited sales of Blackwell chips to China by law. Prior to the vote, Mast invoked video games, remarking that if it were about gaming, it wouldn't matter to whom or how much Jensen Huang sold, but that this was an issue of warfare.

David Sacks, the White House AI policy coordinator, opposed the legislation. Conservative online commentators also attacked the bill. Ranking Democratic Member Gregory Meeks voiced regret that the bill failed to ban H200 sales outright, but voted in favor, arguing that it at least created a mechanism to delay sales and provide congressional oversight. The bill has yet to clear the full House floor and the Senate.

Nvidia found itself in a peculiar predicament. In Washington, it had to lobby for the loosening of export restrictions. In Beijing, it had to lobby for permission to let Chinese firms purchase American chips. The same corporation was engaged in diametrically opposed lobbying campaigns directed at two different governments.

5.5 Zhongnanhai's Bolt: Only 13% of H200s Penetrate

When the United States opened the door, this time China bolted it shut. Approved Chinese companies deferred their purchases because the Chinese government issued directives instructing

them to wait. Instead, authorities encouraged them to redirect investments toward domestic chips like Huawei's Ascend.

It had not been that way from the start. In January 2026, reports pointed in the opposite direction, indicating that ByteDance, Alibaba, and Tencent had secured purchase approvals totaling over 400,000 H200 chips. Beijing's stance shifted thereafter. Every single purchase was subjected to case-by-case approval by China's National Development and Reform Commission (NDRC). It amounted to a de facto embargo.

The ostensible concern raised by China was security. For the U.S. government to claim its 25% cut of revenues, the H200 chips had to pass through U.S. territory for export processing. Beijing suspected that hidden backdoors or mechanisms could be implanted into the hardware during this process. China's top internet regulator is the Cyberspace Administration of China (CAC). As early as the summer of 2025, the CAC had summoned Nvidia representatives to scrutinize whether the H20 contained location-tracking functions or remote kill-switch capabilities.

The deeper rationale was strategic. The Xi Jinping administration has consistently pursued its "Dual Circulation" strategy, which prioritizes domestic demand and technological self-reliance. There is also the "China Standards 2035" plan, designed to place core technological standards in Chinese hands. In the short term, utilizing high-performing H200s is certainly more convenient. Yet doing so meant re-attaching China's lifeline to a pipeline whose valve Washington could shut at any moment. Even while acknowledging lower power efficiency, China chose to nurture its domestic chip ecosystem.

Statements from U.S. officials corroborated this reality. On July 14, Under Secretary of Commerce for Industry and Security Jeffrey Kessler testified before a congressional hearing, stating that H200 shipments had commenced, but in very small quantities. On August 19, the Financial Times reported the first concrete numbers: ByteDance and Tencent had each received approximately 10,000 H200 chips in recent weeks.

Ten thousand units represents roughly 13% of an individual company's licensed ceiling of 75,000. Compared to the 400,000 units the three tech giants reportedly secured in January, it amounted to a mere 2.5%. Alibaba and JD.com were entirely absent from that delivery roster. Nvidia partners such as Lenovo informed Chinese clients that they had resumed taking orders for H200 servers, yet the condition requiring separate NDRC approval for each order remained firmly intact.

Chinese regulatory authorities also permitted H200s to be imported and operated in Hong Kong, which maintains a customs system distinct from the mainland. However, Hong Kong lacks the data center capacity required to host vast quantities of chips. This effectively diverted a substantial portion of licensed allotments to locations where they could hardly be deployed, leaving the mainland market reserved for domestic chips.

During this same period, Chinese tech firms tapped American chips through alternative channels—namely, renting the compute power of Nvidia GPUs remotely via data centers across Southeast Asia. The United States moved to close chip procurement avenues used by overseas subsidiaries of Chinese firms. Commerce Secretary Howard Lutnick likened export controls to a game of whack-a-mole: close one hole, and another pops up.

Lutnick articulated the administration's stance on September 2 at the G20 Innovation Ministers' Meeting in North Carolina. He explained that while Trump had offered to sell the H200 and AMD's equivalent chips, China had effectively declined to take them up. He remarked that the president had extended an olive branch, but China did not grasp it. Consequently, he stated that the easing of export controls would not be addressed at the upcoming summit. Instead, he pledged that export licenses for AI chips would be expedited swiftly for allies.

There is some divergence between reports of small-scale deliveries and Lutnick's public remarks. Yet both converge on the reality that intake fell dramatically short of authorized limits. Projections from market research firms point in the identical direction. Bernstein forecast Nvidia's share of the Chinese AI chip market to slide from approximately 40% in 2025 to around 8% by late 2026, while Huawei's share was projected to climb to roughly 50% over the same period. TrendForce anticipated that domestic silicon would account for nearly 90% of China's AI hardware market by year-end.

This trajectory reveals where the upper hand in chip transactions has shifted. Washington grants export licenses, but Beijing determines whether the chips actually enter the country. China also holds the potent counter-leverage of rare earth export restrictions. Refraining from buying H200s has itself become a bargaining tool. Beijing's posture is that it is in no hurry until the United States releases its most advanced chips, such as Blackwell.

Trump's calculations went awry here. Trump believed that releasing the H200 would secure two prizes: revenue for Nvidia and a 25% windfall for the U.S. Treasury. The reality fell short on both counts. The United States breached its own core principle of chip containment, only for China to barely utilize the opening. Washington ended up putting a bargaining chip on the table first, without extracting anything in return.

5.6 The Distillation Controversy and CAC's Counter-Investigation: One Act, Two Names

Just before the summit, a fresh flashpoint erupted in the AI technology war. This time, it was "distillation" (蒸溜). In AI, distillation is a technique in which vast volumes of responses from a superior model are collected to train another model. The former is often analogized as the teacher, and the latter as the student. When conducted internally among models owned by the same company, it is a standard, routine training method. When another company's proprietary model is

scraped without authorization, however, it becomes both a violation of terms of service and an issue of intellectual property theft.

Anthropic had already sounded an initial alarm in February 2026. It singled out three entities: DeepSeek, Moonshot AI, and MiniMax. Anthropic reported that using approximately 24,000 fraudulent accounts, these companies had exchanged over 16 million conversational interactions with Claude. Anthropic contended that this case bolstered the justification for chip export controls: limiting compute chips would constrain both direct training and the scale of illicit distillation.

Disclosures targeting Alibaba followed. In a letter sent to U.S. senators, Anthropic revealed activities linked to Alibaba affiliates between April 22 and June 5. Through roughly 25,000 fraudulent accounts, they had extracted 28.8 million conversational exchanges. After the contents of this letter became public, Alibaba banned its employees from using Claude Code, citing security risks.

A comprehensive report capturing activities through late August was released on September 10. Anthropic published a 154-page threat intelligence report categorizing detected and disrupted AI misuse cases between December 2025 and August 2026 across seven domains: cyber operations, influence operations, surveillance, fraud, biological misuse, conventional weapons development, and distillation.

The report singled out seven Chinese AI enterprises: Alibaba, Moonshot AI, DeepSeek, Zhipu, MiniMax, SenseTime, and Xiaomi. The largest in scale was Alibaba. Anthropic revealed that activities linked to Alibaba exceeded 151 million exchanges between May and July. It was the largest distillation campaign Anthropic had ever detected. Up to nearly 3 million exchanges per day originated from more than 3,500 fraudulent accounts. Anthropic concluded that this data was utilized to train Alibaba's Qwen models.

DeepSeek and Moonshot AI employed a slightly different technique. Both companies secretly rerouted portions of user queries arriving at their own services directly to Claude. They then harvested Claude's outputs to train their own models. Users had no idea their queries were being processed by an American model.

Between May and July, Moonshot AI channeled over 23 million conversations to Claude, mobilizing 5,380 fraudulent accounts. Over one ten-day stretch, approximately 300,000 queries flowed to Claude through 5,000 accounts. Among these were requests suspected of having ties to the Chinese military. One query requested an evaluation of whether an individual captured in closed-circuit video footage was "behaving abnormally." For its part, DeepSeek transmitted over 12.1 million queries across 14 days in July alone.

The American perspective is straightforward: intellectual capital and model knowledge built at the cost of billions of dollars were illicitly siphoned away. This issue interfaces directly with export

controls. Even if chips are blocked, copying model outputs narrows the technology gap. According to the author's comprehensive report, on September 8 (U.S. time), three U.S. intelligence and security agencies—the National Security Agency (NSA), the Federal Bureau of Investigation (FBI), and the Cybersecurity and Infrastructure Security Agency (CISA)—issued a joint advisory highlighting unauthorized distillation by Chinese firms. China's Ministry of Foreign Affairs dismissed the accusations as groundless.

The affair then took an unexpected turn. On September 22, the American tech outlet The Information reported that China's CAC had launched an investigation. The CAC initially summoned executives from all seven companies named in the report. It subsequently narrowed the focus of its probe to DeepSeek and Moonshot AI. Regulators visited the offices of both companies to interview executives and employees.

What the CAC was investigating was not intellectual property theft; it was data leakage. When user queries were funneled to Claude, sensitive Chinese domestic data may have crossed the Pacific into the United States. Anthropic's report detailed one such instance: engineers developing an incident management system for a local public security bureau submitted data to Claude. The data was intended to cross-reference individual travel histories with police logs and national identification numbers. Anthropic alleged that DeepSeek had rerouted this request to Claude.

Anthropic assessed that this query rerouting likely violated privacy regulations as well as the respective companies' terms of service. The CAC appears to have harbored similar concerns. The CAC is examining whether this constituted a violation of China's outbound data transfer regulations. An investigation does not immediately signify a confirmed violation, and penalties have yet to be determined.

The circumstances grew complicated for both companies. DeepSeek had been scheduled to deliver a presentation on AI risks before the United Nations Security Council during the UN General Assembly. Moonshot AI had filed a confidential application for a $3 billion initial public offering in Hong Kong. Under active regulatory scrutiny, such proceedings must be disclosed in the IPO prospectus. Some American media outlets interpreted the probe—surfacing just before the summit—as a conciliatory signal directed at Washington. Beijing offered no comment on such interpretations.

This episode illustrates the dual layers of risk inherent in the AI technology war. The United States sees the knowledge of its domestic firms leaking out. China sees its sensitive domestic data leaking into the United States. Confronting the exact same act, one side calls it theft, while the other calls it a data leak. Both nations converge on the reality that AI is treated not merely as an economic issue, but as a matter of national security.

5.7 The Washington Summit and the Two AI Ecosystems

The AI agenda for the September 24 Washington summit was narrow from the outset. As Lutnick had previewed, easing chip export controls was not on the table. The only realistic achievement cited by experts ahead of the meeting was the AI incident notification mechanism—a channel to alert each other should an AI accident of national security magnitude arise. As examined in Chapter 2, Treasury Secretary Bessent and Vice Premier He Lifeng had addressed this framework in New York. The two nations agreed to meet again within two months in Shenzhen, China, to flesh out the details.

Alok Mehta of the Center for Strategic and International Studies (CSIS) noted in an interview with CNBC that leaders of both nations were unnerved by the cyber capabilities of AI. They feared that autonomous AI agents might slip out of control and infiltrate websites. Indeed, OpenAI had disclosed that one of its research models accessed parts of the Hugging Face platform without authorization. The incident notification mechanism grew out of precisely such anxieties.

The summit's actual outcome was as described earlier. The Chinese readout contained only the overarching principle of continuing dialogue on AI. No agreement regarding chips was confirmed. Even the incident notification mechanism did not materialize as a formal document signed by the two leaders. Before the summit, Trump remarked to reporters that failing to win in AI would leave the country in a dire position, signaling that he had no intention of halting the race. Xi Jinping likewise had no reason to slow the pace of technological self-reliance.

Outside the summit room, two distinct AI ecosystems are hardening into place. The American ecosystem centers on Nvidia chips and CUDA software. CUDA is the suite of development tools used to run AI programs on Nvidia GPUs. Built atop this architecture are the proprietary, frontier models of OpenAI, Anthropic, and Google. The Chinese ecosystem centers on Huawei's Ascend chips and CANN software. CANN is Huawei's counterpart development toolkit to CUDA. Built atop this stack are open-weights models such as DeepSeek, Alibaba's Qwen, and Moonshot's Kimi.

The two ecosystems also diverge in their modes of expansion. The United States moves toward fast-tracking chip export licenses for allies and friendly partners. Lutnick noted that the Commerce Department's licensing bureau was flooded with applications. The United Arab Emirates was elevated to the highest-trust tier of export control partners. China, by contrast, leverages low-cost, open models to penetrate the Global South—including the Middle East, Southeast Asia, and Africa. At the APEC summit in Gyeongju in November 2025, Xi Jinping proposed establishing a "World Artificial Intelligence Cooperation Organization." Nations unable to obtain American chips can now run near-frontier AI atop Ascend hardware.

Yet the two worlds have not decoupled entirely. DeepSeek V4 can run in American cloud and Nvidia Blackwell serving environments. Suspicions of chip smuggling through third countries

persist unabated. The channel through which Chinese companies rent compute from American chips hosted in overseas data centers remains open. And as the distillation controversy illustrated, model outputs effortlessly transcend borders.

The debate within the United States continues unresolved. On the eve of the summit, Senate Democratic leaders held a press conference demanding a vote on chip export control legislation, arguing that Trump must draw a hard line against China. Senator Elizabeth Warren asserted that AI export policy must be codified into law, rather than settled across negotiating tables where Big Tech CEOs sit alongside foreign leaders. Roger Wicker, Chairman of the Senate Armed Services Committee, embraced Senator Tom Cotton's chip-related legislation, agreeing to incorporate it into an amendment to the Fiscal Year 2027 National Defense Authorization Act (NDAA). It is a structure of direct confrontation between the White House and Congress over hegemony in chip policy.

Between these two ecosystems, the South Korean semiconductor industry faces a severe trial. SK Hynix and Samsung Electronics supply the High Bandwidth Memory (HBM) integrated into Nvidia's AI chips. HBM is a memory architecture that stacks multiple DRAM dies vertically to achieve rapid data transfer speeds. The H200 also incorporates HBM. At the same time, both companies operate massive manufacturing bases in China: Samsung Electronics produces NAND flash in Xi'an, while SK Hynix manufactures DRAM in Wuxi and NAND in Dalian.

The calculus for South Korean firms cannot be viewed through a single lens. If the United States allows more chip sales to China, Nvidia's HBM orders increase, benefiting South Korean memory makers. But if the Chinese ecosystem succeeds in achieving self-reliance, the equation shifts entirely. In December 2024, the United States banned HBM exports to China. South Korean companies cannot sell HBM for Huawei's chips. Huawei is actively seeking to foster its own proprietary memory and HBM produced by domestic manufacturer CXMT (ChangXin Memory Technologies). As the Chinese ecosystem expands, the foothold left for South Korean firms contracts.

The fate of South Korean semiconductor fabrication plants in China also hinges on annual approvals from Washington. On August 29, 2025, the United States revoked the Validated End-User (VEU) status of both companies. VEU was a comprehensive authorization allowing American equipment to be brought into facilities without requiring case-by-case licenses. Although authorizations to import equipment for 2026 were secured in December 2025, they expire at the end of 2026. Reports have emerged that both companies are testing equipment from Chinese etching toolmaker AMEC—a contingency measure in the event that spare parts and maintenance support for American equipment are cut off. This issue and the significance of the 12-month waiver are examined in detail in Chapter 50.

Conclusion: The Paradox of Containment and Empty-Handed Technology Talks

Surveying the trajectory of the twenty months since DeepSeek, a single paradox endures. America's chip blockade slowed the pace of Chinese AI, but it failed to alter its direction. If anything, it forced China down the path of algorithmic efficiency and domestic silicon. DeepSeek discovered how to train models with fewer chips. Huawei compensated for lagging individual chip performance through massive interconnectivity. And Beijing closed of its own accord the very door to the H200 that the United States had opened.

The Trump administration attempted to resolve this dynamic through a transaction. It was a structure under which the H200 was released in exchange for a 25% cut of sales revenues. Trump took Jensen Huang aboard Air Force One all the way to Beijing. Yet China barely purchased any chips. As Lutnick put it, the olive branch was not accepted. At the Washington summit, chips were dropped from the agenda altogether.

The distillation controversy demonstrated that this competition does not end with hardware. Even if chips are blocked, model outputs leak across borders. If model outputs are blocked, issues of data sovereignty flare up in turn. Confronting the same phenomenon, the United States and China reacted through their respective lenses of national security.

The incident notification mechanism is a fragile safety net strung across this fierce contest—a device intended merely to prevent an accident between two speeding superpowers from escalating into outright war. Beneath it, the race over chips and models is only accelerating. Huawei's Ascend 960 has been pulled forward to the first quarter of 2027. Alibaba's V900 will enter the market during that same window. The year 2027 is also when the political calendars of Trump and Xi Jinping collide. The Washington summit drew to a close without rewriting a single rule of this competition.

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Chapter 6. Weaponization of Rare Earth Permanent Magnets and the Western Supply Chain's 10-Year Achilles' Heel

> The Impact of China's Extended Heavy Rare Earth Export Controls and the 0.1% Extraterritorial Provision on U.S. F-35 Fighters and the Defense Industry, and the 5- to 10-Year Structural Limitations for the West to Establish an Autonomous System

6.1 Stoppage at the Chicago Plant and Beijing's Licensing Regime

In May 2025, Ford's assembly plant in Chicago halted operations for a week. It was the line producing the Explorer SUV. The missing component was neither an engine nor a battery. The rare earth magnets used in the motors and drive units had failed to arrive on time.

Around the same time, several auto parts factories in Europe also halted their lines for the exact same reason. Japanese automakers recalculated their production schedules while taking inventory of their warehouses. The cause was a single notice issued in Beijing a month earlier.

On April 4, 2025, China's Ministry of Commerce and General Administration of Customs issued Announcement No. 18 of 2025. (The General Administration of Customs is the agency equivalent to the customs service.) The announcement placed seven heavy rare earth elements on the export control list: samarium, gadolinium, terbium, dysprosium, lutetium, scandium, and yttrium. Alloys and magnets containing these elements were also targeted.

Rare earths (rare earth elements) is a collective term for seventeen elements. They are divided into light rare earths, which have lower atomic weights, and heavy rare earths, which have higher atomic weights. Heavy rare earths have smaller deposits and are far more difficult to separate, making China's dominance over them that much greater.

This announcement was a countermeasure against the so-called "Liberation Day Tariffs" unveiled by President Trump two days earlier. On the very same day, China also slapped a 34% retaliatory tariff across all U.S. goods. It answered tariffs with tariffs, and technological containment with minerals.

The method China chose was not an outright export ban. Instead, it was a system requiring exporters to obtain government approval before shipping. Outwardly, it seemed like a subtle difference, but the practical effect was entirely different.

An outright ban easily triggers disputes over violations of World Trade Organization (WTO) rules. A licensing regime, on the other hand, can be framed as an administrative procedure for national security. In principle, the review period is 45 business days. In practice, however, if successive

requests for supplemental documentation are made, the duration can be extended indefinitely. Authorities also demand dossiers detailing the identity of the end user and its intended application.

Ultimately, Beijing dictates whether to grant a license, when to grant it, and who receives it first. It is an architecture that controls the speed and direction of supply without severing it entirely. Rather than turning off the tap, Beijing seized hold of the valve handle.

This was not the first time China had wielded this weapon. During the 2010 dispute over the Senkaku Islands (Diaoyu Islands in Chinese), China effectively blocked rare earth shipments to Japan. It did so informally by stalling customs clearance without any official announcement. Subsequently, the United States, the European Union, and Japan challenged China's rare earth export restrictions before the WTO. China lost that dispute in 2014.

The 2025 licensing regime was designed on the foundation of that past defeat. It adopted legal form and chose delay over outright blockage. The licensing regime fits neatly within the framework of national security exceptions permitted under international norms. It is a method that proves exceedingly difficult for the West to challenge.

The shock spread rapidly. As licensing applications accumulated in Beijing, China's magnet exports plummeted in May. American automotive, aerospace, and defense contractors began counting down their inventories.

On May 12, 2025, the United States and China agreed in Geneva to lower tariffs for 90 days. The U.S. reduced its tariffs from 145% to 30%, while China slashed its tariffs from 125% to 10%. Only then did magnet exports begin to loosen bit by bit. A transactional structure—conceding tariff cuts in exchange for rare earths—emerged for the first time. Over the following eighteen months, this structure hardened into the fundamental framework of U.S.–China negotiations.

6.2 'Golden Screws' and the Rare Earths in a Single Weapon

The elements China selected were by no means chosen at random. In the defense industry, there is a term known as "Golden Screws." It refers to components that are inexpensive and required in small amounts, yet whose absence brings an entire piece of equipment to a standstill. Heavy rare earths are precisely such materials.

A permanent magnet is a magnet that retains its magnetism without an electric current. The strongest among them is the neodymium magnet. It is made by combining neodymium, iron, and boron. It is widely used in electric vehicle motors, wind turbines, robotic joints, and the actuators that control missile fins.

Neodymium magnets have a flaw: as temperatures rise, their magnetism weakens. Dysprosium and terbium are what compensate for this weakness. Adding a small amount of these two elements

enables the magnet to preserve its strength even in high-temperature environments. For magnets operating adjacent to engines or inside high-speed electric motors, this addition is indispensable.

Samarium is the raw material for samarium-cobalt magnets. These magnets have weaker magnetic force than neodymium magnets, but are vastly more resistant to heat and corrosion. Consequently, they are utilized in extreme environments such as around fighter jet engines and in precision-guided munitions.

Yttrium is used not in magnets, but in coatings. The turbine blades of jet engines must withstand gases hot enough to melt metal. Applying a yttrium-infused ceramic thermal barrier coating to the blade surface protects it from the heat. Without this coating, the engine cannot operate for sustained periods.

Data from the U.S. Congressional Research Service (CRS) estimates the quantity of rare earths entering individual weapon systems as follows: roughly 417 kilograms in a single F-35 fighter jet; about 2,359 kilograms in an Arleigh Burke-class destroyer; and approximately 4,173 kilograms in a Virginia-class nuclear submarine. These figures are frequently cited as indicators illustrating just how heavily the U.S. defense sector relies on rare earths.

However, taking these figures at face value is problematic. In 2026, Adamas Intelligence, a rare earths market research firm, analyzed the components of the F-35 one by one. Its conclusion was that pure rare earths account for only around 11 to 20 kilograms. Even expanding the scope to all rare-earth-bearing materials yielded only about 40 to 70 kilograms. The 417-kilogram figure appears to be a broad estimate encompassing the total weight of the components in which rare earths are contained.

Yet squabbling over weight misses the essential point. The crux is not quantity, but grade. The F-35 uses high-temperature samarium-cobalt magnets and neodymium magnets doped with dysprosium and terbium. These are precisely the products that are most difficult to procure outside of China. Lockheed Martin is known to be the largest consumer of samarium in the United States. In a single F-35, the samarium-cobalt magnets alone weigh approximately 23 kilograms.

The F-35 has actually been halted over rare earths before. In September 2022, the U.S. Department of Defense suspended deliveries of new F-35s after discovering that a small magnet in the auxiliary power unit next to the engine used a Chinese-origin alloy. U.S. law prohibits the use of Chinese materials in such magnets.

This alloy had not been purchased directly by Lockheed Martin. Nor was it procured by Honeywell, which built the engine component, or by Honeywell's Tier 1 suppliers. It was a material brought in by a supplier several tiers further down. The Pentagon ultimately issued a waiver and resumed accepting deliveries. This incident demonstrated just how deep supply chain

vulnerabilities run: even the world's most powerful fighter jet can be grounded by a single magnet from a supplier several levels down.

The 2025 licensing regime took direct aim at this weak link. The traces of constricted supply were captured plainly in the statistics. According to Chinese customs data, only 17 metric tons of yttrium were shipped to the United States between April and December 2025. In the same period prior to the controls, that figure was 333 tons—a collapse to one-twentieth.

The price of yttrium spiked. According to Reuters, in February 2026, the price of yttrium oxide in Europe was approximately 69 times higher than a year earlier. Yttrium oxide selling for less than $8 per kilogram inside China was trading at over $400 in European warehouses. It was not production costs, but export licenses that dictated the price.

In the same month, Reuters reported that two North American aerospace coating firms had temporarily halted production because promised shipments of yttrium oxide failed to arrive. One firm turned away smaller and overseas clients, rationing supplies exclusively for major engine manufacturers. China approved the export of 60 metric tons of yttrium oxide to the United States in March 2026 and another 29 tons in July. This was merely cracking the valve open slightly, not a return to normal supply.

Here, it is necessary to separate fact from interpretation. The confirmed impact so far is not an outright shutdown of the F-35 production line. Lockheed Martin cited rare earth supply volatility as a risk factor in its 2026 disclosures. In the first half of 2026, F-35 deliveries totaled 51 aircraft—roughly half the 97 delivered a year earlier. However, the company attributes this decline not to rare earths, but to delays in the Technology Refresh 3 (TR-3) avionics upgrade program.

The impact manifested first one or two tiers below the fighter jet assembly line: coating companies pausing production lines, and component suppliers rationing shipments. The U.S. defense supply chain has not yet collapsed. However, it stands in a precarious position where it could collapse if Beijing turns the handle just a little more. This is the tangible reality behind the fear felt in Washington.

6.3 The Second Card of October 9: The 0.1% Rule and Prohibition of Military End-Use

On October 9, 2025, Beijing played its second card. The Ministry of Commerce issued multiple announcements in a single day, just three weeks ahead of the summit between President Trump and President Xi Jinping in Busan.

Announcement No. 57 added five elements—holmium, erbium, thulium, europium, and ytterbium—to the controlled items list. With this, 12 of the 17 rare earth elements came under export controls. Announcement No. 56 restricted rare earth production equipment. Announcement

No. 62 clamped down on overseas transfers of mining, separation, and magnet manufacturing technologies. Beijing had blocked not just the raw materials, but the very machinery and technologies used to produce them.

The one that had the greatest reverberations was Announcement No. 61. Its targets were products manufactured outside of China. It dictated that any product containing 0.1% or more of Chinese rare earths by value required a license from Beijing to be exported.

This rule took a weapon the United States had long used and turned it in reverse. The United States enforces the Foreign Direct Product Rule (FDPR), which subjects foreign goods made with U.S. technology or equipment to American export controls. The United States used this rule to choke off Taiwanese and South Korean semiconductors bound for Huawei. China applied the exact same logic to rare earths. Its claim was that if even a fraction of Chinese raw materials was incorporated, the product fell under Beijing's jurisdiction regardless of where it was manufactured.

Whether it was German automotive components, Japanese electronic parts, or South Korean electric motors, the circumstances were identical. If Chinese raw materials made up just 0.1%, it had to undergo Beijing's review. It made no difference whether the destination was the United States or Europe. In this respect, Announcement No. 61 was characterized as an extraterritorial regulation—applying domestic laws to transactions taking place outside national borders.

The provision concerning defense was even more explicit. It established a policy that items intended for military end-use would, in principle, not be granted export licenses. The Center for Strategic and International Studies (CSIS) assessed this measure as China's strongest-ever action targeting the defense sector. Their analysis concluded that beginning December 1, 2025, companies tied to foreign militaries would find it virtually impossible to obtain export approval. Most contractors serving the U.S. Department of Defense were caught in this net.

Manufacturers across Europe and Japan scrambled to trace their supply chains. They had to determine at what stage and in what proportion Chinese rare earths were incorporated into their products. This proved far harder than anticipated. A single magnet passes through multiple countries and numerous distinct companies on its journey from the mine to the finished product.

The documentation required for licensing applications was another heavy burden. The dossiers demanded by China included sensitive corporate intelligence such as customer lists, end uses, and production volumes. Even if approval were granted, many companies balked at the very act of handing over such proprietary business data to the Chinese government. The licensing regime served not only as a dial to regulate supply volumes, but also as an intelligence funnel collecting proprietary information on Western corporations.

The next day, President Trump retaliated aggressively. He declared that starting November 1, an additional 100% tariff would be slapped on Chinese goods. He also warned of export controls on

critical software to China. The two nations once again teetered on the brink of an all-out confrontation.

6.4 The Tariff Boomerang and the Busan Truce

The tariff war imposed steep costs on the United States as well. In April 2025, U.S. tariffs on China had escalated to 145%, while Chinese tariffs on the U.S. reached 125%. A substantial portion of the high tariff costs was borne by American importers and consumers.

China exerted pressure through agricultural commodities as well. During the 2025 harvest season, China refused to buy American soybeans, redirecting its demand to Brazil. Midwestern farming communities—a cornerstone of President Trump's political base—took the hit first. Squeezed on one side by farmers and on the other by the defense and automotive industries, pressure mounted rapidly on the White House.

Ultimately, the two leaders met in Busan on October 30, 2025. It was the first in-person summit of Trump's second term. The United States reduced its fentanyl-related tariffs from 20% to 10%. It also postponed for one year the implementation of the so-called "Affiliates Rule" issued by the U.S. Department of Commerce in late September—a rule that extended sanctions to subsidiaries owned 50% or more by sanctioned entities. China agreed to purchase 25 million metric tons of American soybeans annually over three years.

Rare earths were at the heart of this deal. On November 7, China's Ministry of Commerce issued Announcement No. 70, suspending the enforcement of the six announcements published on October 9 until November 10, 2026. The 0.1% rule, the expansion to 12 elements, and the export controls on equipment and technology all lost their effect for one year.

Aboard Air Force One, President Trump declared that the rare earth issue was completely resolved. He added that while the agreement was for one year, it would be extended routinely going forward. The White House fact sheet touted the agreement as effectively eliminating China's existing rare earth controls.

Market assessments, however, were quite different. Analysts at the U.S. investment bank Piper Sandler wrote to clients that China was extracting more than the United States in the recent truce negotiations. Their assessment was that President Xi had prepared for Trump 2.0 and possessed a potent weapon in rare earths. Nicholas Burns, the former U.S. Ambassador to China, described the agreement as an "uneasy truce"—a truce within a long and still simmering trade war.

6.5 Washington's Self-Reliance Investments and the 2027 Procurement Ban

In the meantime, Washington rushed to achieve self-reliance. Its strategy moved along three tracks: the government directly acquiring equity stakes, guaranteeing price floors, and mandating demand through regulation.

The first pillar was MP Materials. The company operates the Mountain Pass mine in California. Mountain Pass had been the world's largest rare earth production site until the 1990s. It was subsequently driven out of business by Chinese competition and shut down, before being revived. In July 2025, the U.S. Department of Defense invested $400 million in the company, becoming its largest shareholder. (The U.S. Department of Defense began concurrently using the name "Department of War" under a September 2025 executive order; this chapter adheres to the familiar designation of the Department of Defense.)

The Department of Defense also guaranteed prices. It pledged to cover the difference for ten years whenever the price of neodymium-praseodymium (NdPr) oxide dropped below $110 per kilogram. This was a mechanism designed to block China's predatory strategy of depressing prices to starve competitors out of business. In the past, China had driven foreign rare earth companies into collapse multiple times using this exact tactic.

It guaranteed demand as well. The Department of Defense agreed to purchase 100% of the output from MP Materials' new magnet facility in Texas—dubbed the "10X Facility"—for ten years. Ground was broken on this plant in Northlake, Texas, in the first quarter of 2026. The target is an annual production of approximately 10,000 metric tons of magnets, with commercial operations slated to begin in late 2028.

Government equity investments expanded to other companies as well. In January 2026, the Trump administration pursued a transaction injecting $1.6 billion into USA Rare Earth in exchange for a 10% equity stake. According to tallies by the Center for Strategic and International Studies (CSIS), the funds committed by the Trump administration to this sector exceeded $7.3 billion.

Support extended beyond national borders. The Department of Defense moved to secure a 49% stake in a refinery being built jointly with Ma'aden, the state-owned mining company of Saudi Arabia. It also agreed to purchase oxides refined in Malaysia by Australia's Lynas at a price floor of $110 per kilogram. The National Defense Stockpile budget was boosted by $2 billion. "Project Vault," a stockpiling initiative for economic security, was also launched. Furthermore, critical mineral cooperation frameworks were established with Australia, Japan, Malaysia, and Saudi Arabia.

The second pillar was regulation. At its core was a provision within U.S. defense procurement regulations formally designated as Defense Federal Acquisition Regulation Supplement (DFARS) 252.225-7052. Effective January 1, 2027, defense contractors delivering goods to the Department of

Defense are prohibited from using magnets containing materials mined, refined, separated, melted, or produced in China, Russia, Iran, or North Korea.

This provision was not newly invented by the Trump administration; its origins trace back to the National Defense Authorization Act (NDAA) passed by Congress. The Department of Defense finalized the rule in May 2024. Until now, scrutiny was applied only to the melting and manufacturing stages of the magnet. Starting in 2027, every single step from the mine to the finished product will be scrutinized. For samarium-cobalt magnets, tracking must trace back to the raw ores of samarium and cobalt; for neodymium magnets, back to the initial mining of neodymium, iron, and boron.

President Trump added momentum to this regulation. In January 2026, a White House presidential proclamation under Section 232 of the Trade Expansion Act designated rare earth permanent magnets as essential items for virtually all electronic equipment and vehicles. It explicitly framed import dependence on processed critical minerals as a national security issue. On July 20, he signed an executive order to secure defense supply chains. This order raised the threshold for obtaining waivers to the procurement ban and imposed stricter requirements on contractors for supply chain due diligence.

Yet a gap yawns between regulation and reality. The statute contains waiver provisions: waivers can be granted if compliant materials cannot be obtained at a reasonable cost and in a timely manner. CSIS pointed out that unless new production capacity expands rapidly, meeting the 2027 deadline will be extremely difficult. As the deadline approaches, the plants designed to substitute for Chinese products remain under construction. Ultimately, the outcome is likely to be one of two things: either a flood of waiver approvals, or severe delays in weapons production.

6.6 The 5- to 10-Year Time Lag of 'Mine-to-Magnet'

By the numbers, the path ahead is still long. According to data from the U.S. Geological Survey (USGS), the United States produced 8,900 metric tons of rare earth compounds and metals in 2025—its highest volume in decades. Even so, this amounted to only about one-third of domestic consumption. The remaining 18,100 tons were imported, and 71% of that came from China.

The reason it takes so much time lies in the production process. Ore extracted from a mine cannot simply be turned into a magnet immediately. First, in the separation process, the intertwined elements are isolated one by one. Next is refining to filter out impurities. This is followed by metallization, converting the elements from an oxide state into metal. These metals are mixed with other elements to form alloys. Finally, the alloy is pulverized into powder, compacted, and magnetized to produce the finished magnet.

This entire progression is commonly known as "Mine-to-Magnet." In the West, the intermediate links of this chain are missing. The United States and Australia have mines. Yet separation, refining, metallization, and alloying take place overwhelmingly in China. According to the International Energy Agency (IEA), China refined 91% of the world's magnet rare earths and manufactured 94% of finished permanent magnets in 2024.

The reason the separation process is so demanding lies in the nature of the elements. Rare earth elements share remarkably similar chemical properties. Consequently, they must pass through hundreds of extraction stages just to be separated one by one. In this process, acidic wastewater and radioactive materials are generated. This is precisely why Western nations offloaded this entire stage to China after the 1990s: running plants in compliance with strict environmental regulations made it impossible to compete with Chinese prices.

Building a new factory is merely the beginning. Environmental permits must be obtained, and technical engineers must be trained. Above all, products must pass stringent quality certifications. Automakers and defense contractors do not immediately adopt magnets from a new supplier; they conduct thousands of hours of testing to verify performance parity before use. For fighter jet components, this timeframe is even longer. Building a plant, securing permits, and clearing certification typically takes between five and ten years.

Progress is not entirely absent. MP Materials plans to bring a heavy rare earth separation facility online at Mountain Pass in the second half of 2026, aiming to produce approximately 200 metric tons of dysprosium and terbium annually. Once operational, it will mark the first commercial-scale separation of heavy rare earths on American soil. Magnet deliveries to General Motors (GM) are also slated to expand in the fourth quarter of 2026. USA Rare Earth announced plans to operate its magnet manufacturing facility in Stillwater, Oklahoma, at an annualized capacity of 600 metric tons in the fourth quarter of 2026.

Yet placing these numbers alongside China's output reveals the vast disparity in scale. China exported 41,890 metric tons of magnets in the first eight months of 2026 alone. Even if all of America's new facilities fulfill their targets, they will only reach an annual capacity of 10,000 to 20,000 tons by 2028–2029. Bloomberg Economics projects that China's dominance over the rare earth supply chain will endure at least through 2030. Industry analyses corroborate that a substantial portion of Western alternative capacity will not become operational until between 2028 and 2030.

There are also notable failures. GKN Powder Metallurgy, which pursued permanent magnet production in Europe, ran a pilot plant but ultimately shut down the project citing financial uncertainty. Unless the price gap with Chinese goods can be bridged, sustaining a plant after building it is extraordinarily difficult. This is precisely why the U.S. government stepped in with guaranteed price floors and full offtake commitments.

The aerospace industry faces a similar plight. In September 2026, Reuters reported that several aerospace component makers were re-testing legacy coating formulations abandoned decades ago—blends that use less or no yttrium. However, experts assessed that it will take several more years before these firms can genuinely replace modern rare earth coatings, because altering coating formulations necessitates recertifying the engines from the ground up.

CSIS evaluated the achievements of the past year by distinguishing "distance traveled" from "net change in position." In terms of policy announcements and committed capital, a long distance has been covered; yet in terms of actual physical output, the needle has barely moved from the starting line. The IEA calculated what would happen if all of China's export controls were fully implemented, estimating that $6.5 trillion worth of manufacturing output outside China would be impacted. Between the speed at which Washington announces self-reliance plans and the pace at which factories actually operate lies a gulf of several years.

6.7 The Asterisk on the Truce and the Two-Month Extension at the Washington Summit

The suspension that followed the Busan truce carried an inconspicuous asterisk (*). What was suspended applied strictly to the announcements issued on October 9, 2025. The April 4 licensing regime governing the seven heavy rare earth elements—Announcement No. 18—remained fully alive. Even after the Busan agreement, this licensing system was not paused for a single day.

The White House explained that China had agreed to issue general licenses for these items. A general license allows multiple shipments over a certain period once approved, imposing less burden than transaction-by-transaction approvals. Even so, Beijing alone decides which companies receive them.

U.S.-bound trade data demonstrated this clearly. According to Chinese customs data cited by Bloomberg, China's rare earth magnet exports to the United States were 512 metric tons in August 2026—a 21% decrease from July. The monthly average in 2026 hovered around 504 tons, falling short of the pre-control 2024 monthly average of 621 tons.

During the same period, China's worldwide magnet exports actually increased. Shipments from January through August reached 41,890 metric tons, up 23% from a year earlier. Magnets were flowing out into the global market, but the pipeline bound for the United States was throttled. Some American companies waited more than six months for export licenses.

The United States was not the sole target of these controls. In January 2026, China implemented new export controls against Japan, one element of an intensifying pressure campaign following remarks concerning Taiwan by Japanese Prime Minister Sanae Takaichi. Thereafter, exports of controlled items to Japan were all but completely cut off. In September 2026, MP Materials

executives stated that shipments of gadolinium, yttrium, dysprosium, and terbium to Japan and the United States were near zero.

Conversely, magnet shipments to Europe surged substantially. This laid bare the fact that Beijing was fine-tuning the valve country by country: releasing finished permanent magnets generously, while tightly throttling raw heavy rare earth materials directly tied to defense manufacturing. It was a supply chain running at two speeds.

The rare earth problem was not resolved at the Beijing summit in May 2026 either. The White House fact sheet included only a single, brief sentence stating that China would address U.S. concerns regarding shortages of yttrium, scandium, neodymium, and indium. There were no designated volumes and no binding timelines. U.S. Trade Representative (USTR) Jamieson Greer gave China's compliance at the time a passing grade at best. Right before the September Washington summit, however, he criticized China for using rare earth export controls to inject deliberate uncertainty into the extension negotiations.

Leading into the summit, Washington's demeanor was decidedly different from a year earlier. Reuters reported that the Trump administration refrained from threatening punitive tariffs or technology export bans this time around. Experts cited rare earths as the decisive reason. The Washington Post likewise conveyed the view of analysts that China's stranglehold over rare earths had induced a far less confrontational posture from the White House.

A senior fellow at the Council on Foreign Relations (CFR) wrote that Beijing believed it had tamed the Trump administration through rare earth controls—and that Washington sometimes seemed to believe so as well. China scholar Orville Schell remarked in an NBC interview that Trump had pivoted from bullying China to trying to appease it, pointing to the shift in power between the two nations since Trump's first term as the underlying backdrop.

Not everyone agreed with this interpretation. Representative John Moolenaar, Chairman of the House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, maintained that Trump was entering the talks from a position of strength. The United States rolled out several measures prior to the summit, such as banning imports from 43 Chinese entities. Yet many of these measures had already been announced months before the meeting.

On September 21, two days before the summit, rare earths also surfaced as a hot topic at a Chinese Foreign Ministry briefing. Journalists inquired whether China had fully restored rare earth shipments and whether it would extend the November 10 deadline. They also asked whether the export curbs against Japan would be addressed at the Washington summit. The foreign ministry's response went no further than reiterating broad general principles.

The summit's paramount challenge was the extension of the Busan truce. This issue was settled before the two leaders even sat down across from each other. On September 23, Treasury Secretary Scott Bessent announced that the Busan agreement would be extended until January 10, 2027. It was the very day President Xi touched down at Joint Base Andrews. China's Ministry of Commerce confirmed the two-month extension as well.

The extension lasted a mere two months. A year earlier, President Trump had claimed that this agreement would be renewed routinely. The actual extension amounted to just sixty days. The cliff of November 10 had simply been pushed back to January 10.

Even after the summit on September 24, no new agreement on rare earths emerged. Foreign Policy reported that the two leaders did not announce any comprehensive agreement on tariffs, rare earths, or soybean purchases. The Chinese readout contained only the phrase "a new joint commitment" without specifying any dates. The two leaders are scheduled to meet again at the Asia-Pacific Economic Cooperation (APEC) summit in Shenzhen in November and the Group of 20 (G20) summit in Miami in December.

Jens Eskelund, President of the European Union Chamber of Commerce in China, pointed out that extending the truce failed to touch the root of the problem: the absence of standardized procedures for rare earth export license applications remained entirely unaddressed. The Diplomat observed that while the summit might temporarily ease anxieties over rare earth supplies, it did not lower the political and institutional barriers to access. For Beijing, rare earths will remain a state-controlled strategic resource for the foreseeable future.

Examining the structure of the suspension clarifies the nature of this transaction. For China, a suspension is a low-cost concession: it does not mean handing over minerals, but merely postponing the enforcement date of a regulation. Announcement No. 61 was never repealed. Once the suspension period expires, it takes effect again without any separate procedure. In effect, the valve remained untouched while Beijing merely took its hand off the handle temporarily.

President Trump, on the other hand, needed reassuring news that there would be no supply disruptions ahead of the November 3 midterm elections. A two-month extension carried him past election day. It was a deal where one side obtained stability for an election, while the other retained a control valve that could be turned again at any moment.

The diplomatic clock and the industrial clock also operate on entirely different gears. Heads of state can redraft truce documents every few months. But one cannot build a heavy rare earth separation plant and a fully certified magnet production line in just a few months. The new truce expiration date of January 10, 2027, is separated by a mere ten days from January 1, 2027, when the U.S. Department of Defense's procurement ban takes effect.

In January 2027, American defense contractors will face two simultaneous deadlines. Their own nation's regulations demand the removal of Chinese magnets. If China's suspension expires, products containing Chinese raw materials will once again require Beijing's approval. Meanwhile, alternative factories remain under construction. If Beijing turns the valve handle again at that juncture, how broad will Washington's remaining options be? Judging by the current pace of investment, that window of options is highly likely to remain narrow.

6.8 Coordinates of Korean Industry: Caught Between Two Regulatory Regimes

South Korea's predicament is no better than that of the United States. South Korea does have sites where rare earths are deposited, but lacking economic viability, it imports virtually its entire supply. According to data from the Korea Development Institute (KDI), Chinese imports account for 88% of the neodymium permanent magnets used in electric vehicles and wind power generation.

These magnets are used throughout South Korean manufacturing. The EV traction motors of Hyundai Motor and Kia, compressor motors for household appliances, and servomotors for industrial robotics all utilize these magnets. (A servomotor is a specialized motor that precisely regulates the position and velocity of robotic arms.) Defense contractors manufacturing guided munitions and radar systems also use rare earth magnets and specialized alloys.

If Announcement No. 61 is revived, exports by South Korean companies will fall directly within its reach. Even for motors or components manufactured in domestic Korean factories, if they contain 0.1% or more of Chinese rare earths, they will require export approval from China. This holds true even if the destination is the United States or Europe. Defense components risk outright denials of approval under the rationale of military end-use.

U.S. regulations squeeze South Korean firms from the opposite direction. Effective in 2027, the requirement is to eliminate Chinese magnets from the U.S. defense supply chain. This clause applies not only to Tier 1 prime contractors, but across all levels of subcontracting. South Korean suppliers providing components to U.S. defense contractors must certify the provenance of raw materials all the way back to the mine.

The United States demands the elimination of Chinese raw materials, while China mandates that selling any product containing Chinese materials requires its license. South Korean companies supplying components to the U.S. defense market are caught directly between these two regulatory regimes. For defense firms seeking to expand in the U.S. market, such as Hanwha Aerospace and LIG Nex1, this dilemma will grow even heavier in the days ahead.

The Sino-Japanese flare-up in January 2026 served as another warning to South Korean industry. When China restricted rare earth shipments to Japan, South Korean industry grew tense. South Korea imports permanent magnets primarily from China and Japan. While the battery materials sector significantly diversified its sourcing following Japan's 2019 export curbs, permanent magnets remain locked in a structure heavily dependent on these two nations.

The battery industry must be viewed separately. Cathode materials made of nickel, cobalt, and manganese use virtually no rare earths. In batteries, supply risk stems less from rare earths than from graphite and battery manufacturing technology. On October 9, 2025, China restricted exports related to lithium-ion batteries and graphite anode materials under Announcement No. 58. This decree was also among the announcements suspended under the Busan truce. The anode material procurement of LG Energy Solution, Samsung SDI, and SK On ticks on the exact same suspension clock.

On February 5, 2026, the South Korean government unveiled its "Comprehensive Plan for Rare Earth Supply Chains." It was the inaugural policy rolled out by the Industrial Resources Security Office of the Ministry of Trade, Industry and Energy (MOTIE). The plan expanded the designation of rare earths as critical minerals from 7 elements to all 17. To monitor rare earth import and export data with high precision, new commodity classification codes were established and subdivided. The budget for overseas resource development loans was increased to 67.5 billion won, up 28.5 billion won from the previous year.

The South Korea–China supply chain hotline helps expedite Chinese export licenses. A rare earth supply chain information system is also slated for completion by 2027. The government set a target to raise the recycling rate of ten strategic critical minerals to 20% by 2030. (Recycling, or "re-resourcing," involves recovering and reusing minerals from discarded end-of-life products.) A 40.8 billion won project to extract rare earths from discarded household appliances and decommissioned hydrogen fuel-cell vehicles is also being pursued.

Technological development is also moving along two tracks. One path involves substituting materials. A prominent example is a novel material magnet combining iron and nitrogen at the atomic level, which can theoretically generate magnetic strength rivaling neodymium magnets. The other path involves redesigning motor architectures. Electrically excited synchronous motors (EESMs) create magnetic fields by running electricity through copper coils instead of using permanent magnets. BMW and Renault have already installed these motors in their flagship electric vehicles.

There are also technologies that reduce the volume of heavy rare earths inside magnets. The grain boundary diffusion (GBD) process avoids blending heavy rare earths throughout the entire body of the magnet, instead allowing minute amounts to permeate only the magnet's surface and crystalline

boundaries. This maintains equivalent heat-resistance performance while drastically slashing the use of dysprosium and terbium.

Corporations are also taking action. LS Cable & System ventured into the rare earth magnet business, but has faced hurdles right from the site-selection stage for its domestic manufacturing facility; it reportedly failed to bridge differences over subsidy terms with certain local municipal governments. POSCO and Korea Zinc have yet to flesh out concrete plans for their rare earth ventures. Meanwhile, the Korea Rare Earth Industry Association is pushing for the enactment of a Special Act on Rare Earths in the second half of 2026. The objective is to foster a complete domestic ecosystem spanning refining, materials, magnets, and recycling, moving beyond mere mineral stockpiling.

Nevertheless, there is no way to replace the price competitiveness and volumes of Chinese magnets in the short term. Lee Jun, director of the Strategic Industry Research Center at the Korea Institute for Industrial Economics and Trade (KIET), believes that a complete break from China is impossible. He argues that policy focus should be placed on maintaining existing supply chains stably while prioritizing how quickly the system can recover when a shock occurs. Recommendations that corporate inventories and government stockpiles must be expanded in tandem to buffer against short-term shocks stem from the same reasoning.

If the U.S.–China truce continues, South Korea avoids immediate asphyxiation. Instead, the nature of the burden shifts. When U.S. pressure on China eases, the substitute demand enjoyed by South Korean firms declines. Yet the recurring threat of grace-period expiration dates every few months and Washington's supply chain requirements remain fully intact. This is why the Korea National Diplomatic Academy (KNDA) and numerous research institutes describe South Korea's challenge not as a matter of making a choice, but of "dual management."

Dual management means navigating both relationships simultaneously without picking one side: taking care of critical mineral cooperation and defense supply chain certification with the United States, while preserving communication channels with China to secure prompt export licensing. In the interim, South Korea must accumulate actual physical volumes through stockpiling, alternative suppliers, and recycling. This is the testing ground for the Lee Jae-myung administration's pragmatism-driven diplomacy centered on national interest.

The Washington summit failed to resolve the rare earth conundrum. It merely pushed the deadline back by two months. The United States has only just embarked on a path toward self-reliance that will take five to ten years. Throughout that span, China holds firm to the valve handle. For South Korean companies, the remaining time is short. The stockpiles amassed, contracts secured, and factories built during this interim will determine how long South Korean industry can hold out when the next suspension expires.

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PART 2

The 2026 Iran War (Operation Epic Fury) and the Hormuz Shock

Chapter 7. Launch of Operation 'Epic Fury' and the Surge of Oil and Gasoline to $118

> The U.S.–Israeli Airstrikes on Iran, the Blockade of the Strait of Hormuz, and $6-a-Gallon Gasoline in California

On the morning of Thursday, September 24, 2026, a state arrival ceremony was held for President Xi Jinping on the South Lawn of the White House. On that very same day, the national average price of regular gasoline at U.S. gas stations stood at $4.49 per gallon. That was more than $1.50 higher than on the day before the war began.

President Trump entered the summit venue saddled with this price tag. The origin of that price tag traced back seven months to the skies over Iran. This chapter traces how the airstrikes codenamed "Epic Fury" spiraled into a global energy crisis, and examines how that crisis eroded Washington's negotiating leverage at the Washington summit.

7.1 Dawn, February 28: The Launch of Operation Epic Fury

On Saturday, February 28, 2026, the United States and Israel launched joint military strikes against Iran. The United States codenamed the campaign "Operation Epic Fury." Israel's operational codename was "Roaring Lion."

According to Pentagon records, the operation commenced at 1:15 AM Eastern Time. In local Tehran time, it was Saturday morning. President Trump posted an eight-minute video to Truth Social announcing that the attacks were underway.

The timing of the strikes was jarringly out of step with the diplomatic trajectory. Just two days earlier, on February 26, the Foreign Minister of Oman, who had been mediating the Geneva negotiations, stated that both sides had made substantial progress. U.S. media outlet Axios reported that the operation was launched the very moment the ten-day deadline Trump had handed Iran expired.

The scale of the airstrikes was massive. The Encyclopaedia Britannica recorded that approximately 900 strikes were conducted within the first twelve hours alone. Records released by the Pentagon in early March indicated that more than 1,700 targets were struck during the first 72 hours. By the tenth day, that figure had exceeded 5,000. Fifty Iranian naval vessels were damaged or sunk. B-1, B-2, and B-52 strategic bombers were all committed to the fight.

President Trump outlined four military objectives. As summarized by the Center for Strategic and International Studies (CSIS), they were: prevent Iran from acquiring nuclear weapons; destroy its

missile forces and manufacturing facilities; degrade its proxy networks across the Middle East; and annihilate the Iranian Navy. Underlying these four goals was a broader political objective: regime change from within Iran.

This campaign differed fundamentally from Operation "Midnight Hammer" in June 2025. That earlier operation had been a limited strike targeting a handful of nuclear sites. This time, leadership compounds, military facilities, and missile production plants were targeted simultaneously. CSIS viewed this air campaign as the opening gambit in a prolonged war intended to systematically dismantle the Iranian government.

In the initial barrage of strikes, Supreme Leader Ayatollah Ali Khamenei was killed. Dozens of senior officials perished alongside him. The position of Supreme Leader was assumed by his son, Mojtaba Khamenei. The figurehead at the top of the regime had changed, but the regime itself did not collapse.

Washington anticipated a short war. Reuters reported that Trump initially stated the conflict would conclude within a matter of weeks. Within the White House orbit, projections circulated that it would last around six weeks at most. The expectation was that decapitating the leadership with overwhelming airpower would trigger widespread anti-regime unrest across Iran.

There was also a calculation directed at China. The vast majority of Iranian crude oil exports flow to China. Disrupting that maritime transport route would exploit Beijing's energy vulnerability, securing yet another piece of leverage for U.S.–China negotiations.

In the war's opening phase, the U.S. leadership made no effort to conceal its confidence. During a briefing on March 5, Secretary of Defense Pete Hegseth (the department has also used the name "Department of War" since September 2025) declared that ammunition stockpiles were full and American resolve was like steel, adding that the United States would dictate the timetable of the war.

Iran's counteroffensive began only hours after the initial strikes. Declaring Operation "True Promise IV," Tehran launched missile and drone barrages targeting Israel as well as Gulf nations hosting U.S. military personnel. The U.S. Fifth Fleet headquarters in Bahrain, Al Dhafra Air Base in the United Arab Emirates, and Al Udeid Air Base in Qatar all came under fire. Kuwait International Airport was struck as well.

American casualties followed shortly thereafter. U.S. Central Command (CENTCOM) announced that four U.S. service members had been killed in action by the morning of March 2. Around the same time, three U.S. Air Force F-15E Strike Eagle fighters were downed by friendly fire from Kuwaiti air defense batteries; all six crew members successfully ejected.

Yet the primary retaliatory weapon chosen by the Islamic Revolutionary Guard Corps (IRGC) was not missiles. Instead, they choked off the narrow maritime artery through which the world's crude

oil flows. The war's center of gravity shifted decisively from the Iranian mainland to the Strait of Hormuz.

The official name of the operation and the reality on the ground moved in completely different directions. Britannica notes that the United States formally concluded Operation Epic Fury on May 5. Secretary Hegseth termed what followed a "new phase." The core of this new phase was a maritime blockade aimed at stopping vessels entering and departing Iranian ports. Although the named military operation was officially ended, the war raged on through September.

7.2 The Strait Closes

The Strait of Hormuz is the waterway connecting the Persian Gulf to the Gulf of Oman, formed by the territorial waters of Iran and Oman. At its narrowest constriction, it spans approximately 39 kilometers (21 nautical miles).

The volume of oil transiting this narrow corridor is colossal. According to the International Energy Agency (IEA), an average of roughly 20 million barrels per day (bpd) of crude oil and petroleum products passed through the strait in 2025. That accounted for roughly 25% of total global seaborne oil trade. Looking strictly at crude oil, the flow was about 15 million bpd, representing 34% of global seaborne crude trade.

Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Iraq, Bahrain, and Iran all ship their oil out through this passageway. Qatar's liquefied natural gas (LNG) likewise transits the strait on its way to global markets. Furthermore, the vast majority of these volumes head directly to Asia—to nations including South Korea, China, Japan, and India.

Immediately following the outbreak of hostilities, traffic through the strait ground to a virtual halt. Specialized energy outlet OilPrice.com reported that over the two-day period of March 2 and 3, not a single crude oil tanker or LNG carrier transited the strait. Dozens of fully laden vessels dropped anchor across the Persian Gulf. Although U.S. Central Command announced that the strait was not closed, commercial vessels on the water refused to move.

In a March 11 statement, the IEA disclosed that export volumes of crude and refined products moving through the strait had plummeted to less than 10% of pre-war levels.

Iran's blockade tactics were inexpensive yet diverse. Fast attack craft outfitted with anti-ship missiles patrolled the entrance of the strait. Kamikaze drones targeted commercial and naval vessels indiscriminately. Reports also surged that sea mines had been sown extensively across shipping lanes.

Analyses emerged indicating that Chinese-manufactured CM-302 anti-ship cruise missiles were among the munitions intercepted by the U.S. Navy. The CM-302 is the export variant of China's YJ-

12 supersonic anti-ship missile, which Beijing has marketed specifically as an aircraft carrier killer. The U.S. defense journal National Security Journal underscored another troubling angle: each time the U.S. Navy intercepted a CM-302, Beijing was effectively receiving a free operational blueprint on American tactical responses.

Iran's primary aim was not necessarily sinking an aircraft carrier. It was driving maritime insurance premiums so high that merchant vessels would stop operating of their own accord. War risk insurance is specialized coverage required for vessels transiting active conflict zones. When these premiums skyrocket or insurers refuse to underwrite policies altogether, shipowners cannot dispatch their vessels. Iran's calculation hit the mark. Shipowners kept their vessels anchored securely outside the strait.

Beginning in mid-March, Iran moved beyond merely obstructing the strait and sought to actively manage it. On March 18, Iran published its own unilaterally designated "safe passage corridors." In late March, it initiated a transit permit system. Tehran publicly announced that it had intercepted three container ships attempting to transit without authorization. The shipbroking industry estimated that transit tolls through the waters near Iran's Larak Island averaged roughly $2 million per vessel.

The IEA characterized this crisis as the largest supply disruption in the history of global crude oil markets. By mid-May, approximately 10 million bpd of exports from the Persian Gulf had vanished —a loss equivalent to roughly 10% of total world consumption.

Alternative bypass routes existed, but their capacity was severely limited. Saudi Arabia operates the East-West Pipeline, running from Abqaiq in the east to the port of Yanbu on the Red Sea coast. Immediately after the war began, Saudi Aramco notified buyers that all crude loadings would temporarily be shifted exclusively to Yanbu. The United Arab Emirates also operates a bypass pipeline avoiding the strait. However, the combined bypass capacity estimated by the IEA for both nations stood at only 3.5 to 5.5 million bpd—roughly a quarter of the blocked volume. For Kuwait, Qatar, Iraq, and Bahrain, there were virtually no export alternatives whatsoever beyond the strait.

The strait was not closed uniformly to all vessels. Iran selectively permitted passage for ships belonging to certain countries, most notably China. This "selective transit" and the strategic dividends China secured as a result are explored separately in Chapter 8.

7.3 Up to $118: Seven Months of Oil Prices

Oil prices mirrored every development in the strait. First, consider the baseline before the war.

In early 2026, Brent crude hovered in the $60-per-barrel range. Brent crude, sourced from the North Sea, serves as the benchmark for global oil pricing. As geopolitical tensions around Iran

mounted, prices crept steadily upward. The closing price at the end of January was $70.69, and on February 19, it closed at $71.66. On the eve of war, Brent hovered in the low $70s.

On March 2, two days after the assault began, Brent jumped 10 to 13%, breaching $80. During the first week of March, it surged 28% in a single week to finish at $92.69—marking the steepest weekly increase since April 2020.

The U.S. Energy Information Administration (EIA) hurriedly revised its forecasts. On March 9, Brent closed at $94, roughly 50% above its level at the start of the year. The EIA raised its 2026 average price forecast—which it had pegged at $58 just a month prior—to $79. Even so, the agency cautioned that this projection rested on the assumption that the conflict would prove brief. That assumption collapsed almost immediately.

On March 18, Iran attacked the Ras Laffan LNG complex in Qatar. Ras Laffan is the largest LNG production complex in the world. The strike knocked offline roughly 17% of Qatar's LNG production capacity. Asian spot LNG prices spiked by more than 140%.

On March 20, Brent surpassed $110, setting a new high since mid-2022. Over that weekend, President Trump dispatched an ultimatum to Iran, warning that if Tehran did not reopen the strait by Monday, the U.S. would completely destroy Iran's major power plants. On Monday, March 23, Brent spiked intraday to $115.

Toward the end of March, Yemen's Houthi rebels entered the fray. The Houthis fired missiles toward Israel, while reports circulated that the United States was preparing ground combat operations. On March 31, Brent closed at $118.35 per barrel, marking its first major peak.

Conditions in physical markets were even more severe than in futures trading. In early April, the spot price for actual crude delivered—known as "Dated Brent"—soared past $140 per barrel, its highest level since 2008. Refiners in desperate need of immediate physical barrels were paying unprecedented premiums to secure supplies.

On April 8, the United States and Iran announced a ceasefire. Oil prices posted their largest single-day drop since April 2020. Yet vessel transit volumes through the strait remained far below pre-war norms. Subsequent negotiations held in Pakistan collapsed without reaching an agreement. The United States countered by instituting a naval blockade to halt ships traveling to and from Iranian ports.

On April 17, when Iran's foreign minister declared that the strait would reopen, Brent plunged 9% in a single day to $90.38. However, the strait never actually opened in practice. On April 29, Trump announced that the naval blockade would remain in place until a comprehensive deal was finalized. That day, Brent leapt 6% to close at $118.03.

The following day, April 30, Brent touched an intraday high of $126.41 per barrel—a four-year peak. The catalyst was an Axios report revealing that CENTCOM was presenting options for additional military strikes to the president. Prices eventually receded, closing at $114.01.

This is precisely why this book centers on the "$118" figure. On a closing-price basis, Brent crude vaulted into the $118 territory twice: on March 31 and on April 29. Intraday trading touched $126, while physical spot barrels hit $140. The number $118 best encapsulates the pricing plateau forged by this war.

During the summer, oil prices experienced violent swings. On June 17, the two nations signed a memorandum of understanding on commercial vessel transit. The accord was short-lived. Iran insisted that commercial ships navigate through its territorial waters, while the U.S. escorted tankers through coastal lanes off the coast of Oman. The agreement disintegrated when Iran attacked tankers operating under U.S. escort.

Amid hopes for ceasefires and negotiations, Brent dropped back into the $71 range on July 1, returning to pre-war levels. But on July 12, the IRGC once again declared a total blockade of the strait. The United States resumed its maritime blockade in response. On July 17, an Iranian ballistic missile struck a U.S. air base in Jordan, killing three American service members—the first U.S. combat fatalities since the April truce. By late July, Brent climbed back over $100, fluctuating between $87 and $97 throughout August.

In September, military clashes grew even fiercer. U.S. forces and the IRGC traded strikes on each other's tankers. On September 8, the U.S. military destroyed five Iranian crude tankers in retaliation for an attempted attack on an American warship. The following day, Brent closed at $101.21, its highest close since May 22. On September 10, it touched $108 intraday and finished at $107.63.

On September 11, the primary bypass route was severed as well. Drones launched from Iraq struck a pumping station along the Saudi East-West Pipeline. Capable of transporting up to 7 million bpd, this pipeline served as the critical detour around Hormuz. Saudi Arabia shut the pipeline down. Back in July, the Houthis had already declared a naval blockade against Saudi Arabia, jeopardizing the Bab el-Mandeb Strait at the southern entrance to the Red Sea. On September 14, Brent rose to $107.82.

Saudi Arabia restarted the pipeline on September 22, eleven days after the shutdown. Yet even in late September, Brent continued to hover around $100 per barrel. Market research firm S&P Global announced that it no longer assumed the war would conclude by the end of 2027, projecting that oil prices would remain pinned between $80 and $100 throughout the following year. The EIA assessed that Middle Eastern oil production would not approach pre-war levels until early 2027.

Table 7-1 Key Brent Crude Oil Prices Before and After the Outbreak of the Iran War (Futures closing price per barrel; intraday highs noted separately)

February 19	$71.66	Rising pre-war tensions
First week of March	$92.69	28% weekly surge
March 9	$94.00	Up roughly 50% year-to-date
March 31	$118.35	First peak
April 17	$90.38	Iranian Foreign Minister announces reopening of the strait
April 29	$118.03	U.S. policy to maintain blockade
April 30	Intraday $126.41 4-year high	
July 1	$71 range	Ceasefire and negotiation expectations
September 10	$107.63	U.S.–Iranian tanker skirmishes
September 14	$107.82	Following shutdown of Saudi East-West Pipeline

Source: Compiled based on U.S. Energy Information Administration, CNBC, Trading Economics, and Kim Kyoung-jin, Comprehensive Report on the 2026 U.S.–China Washington Summit.

7.4 What Even 400 Million Barrels of Strategic Reserves Could Not Prevent

The first card governments played was emergency stockpiles. On March 11, the 32 member nations of the IEA voted unanimously to release 400 million barrels from their emergency oil reserves. This marked the sixth collective release since the IEA was established in 1974, and by far the largest in history. It was more than double the 183 million barrels released following Russia's invasion of Ukraine in 2022. IEA Executive Director Fatih Birol stated that an unprecedented market crisis had been met with an unprecedented response.

The United States shouldered 172 million barrels of this total, accounting for 43%. Energy Secretary Chris Wright noted that the release was undertaken at the direct request of President Trump. It was the single largest emergency drawdown ever executed by an individual nation.

The market did not respond. In the three days following the announcement, oil prices actually climbed by more than 17%. The reason lay in the underlying mathematics.

The U.S. allocation was to be discharged over 120 days, equating to roughly 1.4 million bpd. CNBC calculated that this volume offset merely 15% of the supply knocked out by the blockade of the strait. From presidential authorization to physical delivery to market required 13 days.

Furthermore, the entire 400-million-barrel global release represented just four days of worldwide oil consumption. Strategic reserves were simply incapable of substituting for a blocked waterway.

The U.S. chose an "exchange" mechanism for its drawdown. Under this system, crude is loaned to refiners with an agreement that it will be returned later with an added physical premium. The initial tender offered 86 million barrels, with scheduled return dates stretching from November 2026 through September 2028. The Department of Energy explained that this structure would actually augment strategic reserves over time at zero net cost to taxpayers.

The glaring issue, however, was the immediate inventory. When the war began, the U.S. Strategic Petroleum Reserve (SPR) held roughly 415 million barrels—barely over half of its authorized capacity of approximately 720 million barrels. It had already been severely depleted by massive releases during the Biden administration. As drawdowns continued, inventory by June fell to its lowest point since 1983. As of September 4, SPR crude stockpiles stood at 285.4 million barrels.

Strategic reserves are designed to buy time. They work only if the waterways reopen before that time runs out. This time, the waterways did not reopen. Every barrel drawn from the reserve simply depleted Washington's capacity to absorb the next shock. Facing peak winter heating demand in September, America's strategic oil vaults were at their emptiest in more than four decades.

7.5 Six Dollars a Gallon in California

The sound of artillery in the Middle East registered almost instantaneously on the price boards of American gas stations. Data from the American Automobile Association (AAA) illustrates this steep trajectory.

On February 27, the day before the war began, the national average for regular gasoline was $2.98 per gallon. (A gallon is approximately 3.8 liters.) Diesel hovered around $3.76. By March 4, regular gas reached $3.20, climbing to $3.48 by March 9. On March 18, it hit $3.84—the highest price recorded since September 2023. On that same day, diesel surged to $5.07, its highest level since 2022.

California was the most expensive from the very outset. On March 18, California's state average was $5.56. By late March, gas prices in certain locales exceeded $6. On April 22, the statewide average reached $5.83.

On April 30, California's statewide average hit $6.01 per gallon. This marked the first time the entire state average had crossed the $6 threshold since October 2023—a 30% jump since the war began. On that same day, California diesel averaged around $7.50, up 47%. At a Chevron station in Los Angeles, price boards listed regular unleaded at over $8 a gallon. In Mono County, the most expensive county in the state, the average stood at $6.97.

National averages climbed in tandem. On April 30, the national average reached $4.30, a four-year high. By May 7, it rose to $4.55, jumping 25 cents in two consecutive weeks. On May 21, right before the Memorial Day holiday weekend, the national average stood at $4.56—$1.38 higher than a year earlier. At that point, California was at $6.14, followed closely by Washington State, Hawaii, Oregon, Alaska, and Nevada.

There are structural reasons why California is exceptionally expensive. Data from the California Energy Commission reveals that the state imports roughly three-quarters of its crude oil from overseas and Alaska. Furthermore, state law mandates that only California-specific boutique fuel blends (CARB gasoline) can be sold. Fuel deficits cannot be easily bridged by bringing in supplies from other states. Some refined fuel imports from Asia were also cut off due to the war. A Reuters analysis found that California gasoline inventories had plunged to their lowest levels since 2005.

Professor Severin Borenstein of the University of California, Berkeley, explained that California had essentially constructed an "energy island." He noted that soaring pump prices could not be blamed solely on the war; the state's high gas taxes and cap-and-trade carbon pricing regimes keep baseline prices elevated under normal conditions as well.

Yet an interesting nuance lies elsewhere. Measuring the rate of increase from the eve of war through August 20, California posted an increase of 21.8%—the lowest in the nation—because its baseline was already so high. Oklahoma, which enjoyed the cheapest baseline prices, saw pump prices skyrocket by roughly 69% over the same period. While the eye-catching $6 figure emerged from California, the psychological and financial shock hit hardest across the Midwest and the South, where drivers were accustomed to cheap gas. These regions happen to be the heartland of the Republican political base.

Prices, which had briefly stabilized over the summer, spiked again in September. On Labor Day, September 7, the national average was $4.15 per gallon—an all-time record for Labor Day. It climbed to $4.44 on September 17 and hit $4.49 on September 24.

Diesel set unprecedented records. Diesel powers the freight trucks, freight trains, and agricultural machinery that keep the American economy moving. Approximately 90% of U.S. freight tonnage is hauled using diesel, and more than two-thirds of farm equipment runs on it. On September 10, the national average diesel price reached $5.98 according to AAA—an all-time high. In JPMorgan's tracking data, diesel hit $6.23 on September 14. It marked the first time in history that the national average price of diesel crossed the $6 threshold.

Table 7-2 U.S. Gasoline and Diesel Prices Before and After the Outbreak of the Iran War (Per gallon)

February 27	National regular gas $2.98, national diesel approx. $3.76
March 18	National regular gas $3.84, California $5.56, national diesel $5.07

April 30	National regular gas $4.30, California $6.01, California diesel approx. $7.50
May 21	National regular gas $4.56, California $6.14
September 7	National regular gas $4.15 (All-time high for Labor Day)
September 10	National diesel $5.98 (All-time high per AAA)
September 24	National regular gas $4.49

Source: Compiled based on reports from the American Automobile Association (AAA), CNBC, Fortune, Finder, and JPMorgan tracking data.

Fuel prices rattled the entire inflationary landscape. The U.S. Consumer Price Index (CPI) year-over-year inflation rate spiked into the low 4% range in April, with some measures pegging the April peak at 4.2%. Although it gradually eased to 3.4% by August, what was propelling inflation remained unmistakably clear.

Looking at the August CPI data from the U.S. Bureau of Labor Statistics, gasoline prices surged 3.9% in a single month. This single increase accounted for more than one-third of the headline inflation rise. Compared to a year earlier, gasoline had jumped 27.4% and the overall energy index rose 16.3%. By contrast, core CPI—which excludes food and energy—rose by just 2.4%. Fuel costs sat squarely at the epicenter of the inflation problem.

The Federal Reserve was visibly rattled. Federal Reserve Governor Christopher Waller signaled that even a slight reacceleration in inflation could push the central bank toward resuming interest rate hikes. Trump's relentless pressure to cut interest rates collided head-on with inflation reignited by gasoline prices. This institutional confrontation is examined in detail in Chapters 34 and 35.

7.6 The Gas Station Price Tag Shakes the White House

Upon returning to the White House in January 2025, President Trump made two core pledges: he would tame inflation and end foreign wars. The Iran War shattered both promises at once.

Public sentiment turned hostile from the earliest days of the conflict. In a Reuters/Ipsos poll conducted March 17–19, 59% of respondents opposed the airstrikes. In a survey conducted March 20–23, Trump's overall job approval rating fell to 36%—his lowest since returning to the presidency. His approval rating on handling the economy tumbled to 29%, marking the lowest level across his two presidential terms. By late March, opposition to the war rose to 61%—18 percentage points higher than when the strikes began.

Ron Elving, senior editor and political analyst at NPR, drew comparisons to the 2003 Iraq War. Immediately following the invasion of Iraq, public support for the war stood in the 70% range. In

contrast, this war was unpopular from its inception, and public opinion failed to improve even after a month had elapsed.

By September, the polling numbers had deteriorated further. In a Reuters/Ipsos poll conducted September 17–20, Trump's approval rating sank to 32%. Reuters noted this as the lowest mark of his entire political career—15 percentage points below the 47% recorded upon his inauguration in January 2025.

Crucially, fractures erupted within his own political base. Among registered Republicans, Trump's approval rating plunged from 82% to 73% in just one week. Only 17% approved of his handling of the cost of living. Even among Republicans, disapproval of his approach to the cost of living (51%) outnumbered approval (44%). This was the first time such an inversion had occurred within the party.

Public expectations regarding the war were equally bleak. Fully 82% of respondents believed the conflict would become protracted—a view shared by 90% of Democrats and three-quarters of Republicans. Only 34% of respondents supported the airstrikes.

These were devastating figures for a Republican Party heading into the November 3 midterm elections. In the same poll, registered voters favored Democratic congressional candidates over Republicans by 43% to 35%. That eight-point margin was the widest Democratic advantage registered in any Reuters/Ipsos poll all year. When Americans decided how to cast their ballots, their primary concern was the cost of living. And at the absolute forefront of the cost of living stood the price boards at local gas stations.

Trump attempted to jawbone oil prices down. Throughout the war, he repeatedly claimed that the conflict was nearly over. On March 9, he publicly stated that he was reviewing plans to seize control of the Strait of Hormuz. In late March, he threatened to completely demolish Iranian power stations if the strait was not opened. Each time he spoke, oil prices swung wildly. Yet so long as the strait remained choked off, the effect of his rhetoric never lasted more than a few days.

Pressure on allies intensified as well. Trump demanded that NATO allies—including the United Kingdom, Germany, France, and Italy—join operations to reopen the strait by military force. When the allies repeatedly demurred, he lambasted them on March 16 as "cowards." South Korea and Japan faced identical pressure. The fissures within the alliance network are examined in Chapter 9, while the choices made by Seoul and Tokyo are analyzed in Chapters 10 and 11.

The president's public statements also triggered darker suspicions. Allegations emerged that massive sell orders had flooded the crude oil futures market immediately before official announcements concerning ceasefires or strike suspensions. On April 20, Representative Ritchie Torres formally demanded an investigation by the U.S. Commodity Futures Trading Commission (CFTC). The target of the inquiry was a $760 million crude futures trade executed minutes prior to

a major Hormuz-related announcement. Senator Elizabeth Warren and others also initiated investigations. The full scope of this scandal is traced in Chapter 12.

7.7 "Annihilate" at the UN General Assembly, and the Road to Beijing

On September 22, President Trump delivered his keynote address to the 81st session of the United Nations General Assembly in New York. The Iran War was entering its eighth month. Iranian President Masoud Pezeshkian was also in New York attending the assembly.

The central focus of Trump's approximately 35-minute speech was Iran. Trump declared that he faced a "big decision": whether to reach a deal that would allow Iran to rebuild and become one of the premier nations of the Middle East, or to quickly "annihilate" the Islamic Republic. He added that he could plunge Iran into absolute hell.

In that very same address, however, Trump flashed contradictory signals. He expressed confidence that a deal would be struck with Iran immediately following the November elections, arguing that Tehran was deliberately dragging its feet on negotiations to see how the midterm elections played out. He took care to add that he was not on the ballot this cycle. Thus, aggressive military threats and optimistic diplomatic overtures were crammed into a single speech. Axios evaluated these remarks as merely the latest iteration of the "it will end soon" prediction Trump had peddled throughout the war. Immediately following the speech, Iranian leaders warned that the United States would pay a heavy price if it initiated fresh attacks.

The report card after seven months looked completely different from Washington's original projections. The Iranian regime had not fallen. While the Supreme Leader had changed, the security apparatus directed by the IRGC remained intact. The Strait of Hormuz remained closed. Tracking firms estimated that during the week leading up to September 22, crude oil flowing through the strait averaged between 3.7 and 8 million bpd—less than half of pre-war volumes.

In the meantime, the United States had burned through roughly one-third of its Strategic Petroleum Reserve. Gasoline prices had surged by more than 50%, and diesel had crossed the historic $6 mark for the first time. The president's approval rating had plummeted to the lowest point of his political life. A war predicted to wrap up in weeks dragged on into the final stretch—just six weeks before the midterm elections.

A strategy designed around a short war held few viable cards in the face of an enduring energy crisis. Military might could not force the strait open. Allies refused to send troops. Strategic petroleum reserves were scraping bottom. The only viable path forward was to work through a country that actually possessed leverage with Tehran: China.

China is the preeminent buyer of Iranian crude. Even with the strait largely blockaded, Chinese state-owned tankers continued to navigate the waterway in coordination with Iranian authorities.

Immediately following the Beijing summit in May, Trump stated that President Xi had offered to assist in brokering peace with Iran. In contrast, Secretary of State Marco Rubio drew a hard line, asserting that the United States had never requested assistance from China. These two conflicting statements from within the same administration laid bare Washington's uncomfortable dilemma: it desperately needed Beijing's help, but loathed admitting it.

The strategic calculation that striking Iran would exploit China's energy vulnerabilities had backfired completely. The country closest to holding the key to the strait turned out to be Beijing. The parties panicking over unavailable oil were Washington and its allies. In the joint statement released after the Washington summit in September, the White House emphasized that the two sides had agreed that the strait must remain open. In the official communique from China's Ministry of Foreign Affairs, neither Iran nor Hormuz was even mentioned. What this asymmetry signified is explored in detail in Chapter 8.

South Korea could not escape this bill either. South Korea relies on the Middle East for 69.1% of its crude oil imports, and more than 90% of that Middle Eastern oil must pass through the Strait of Hormuz. The South Korean government extended temporary cuts to the domestic fuel tax through September 30. It also implemented a maximum wholesale oil price cap system to limit prices charged by refiners to gas stations. In early June, the won-dollar exchange rate briefly breached 1,560 won per dollar. Petrochemical complexes in Ulsan and Yeosu slashed factory utilization rates. The heavy toll exacted on the Korean economy and the structural challenges of "dual energy dependence" are examined in Chapter 50.

Operation Epic Fury had been conceived as a brief, weeks-long aerial bombardment. Yet its aftershocks reverberated across the global economy for more than seven months. Washington started the war, but it lacked the power to end it. When President Trump welcomed President Xi Jinping to the negotiating table, the agenda was not limited to Taiwan, tariffs, and technology. Hovering over every discussion were gasoline at $4.49 a gallon and crude oil oscillating around $100 a barrel.

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Chapter 8. 'Selective Transit' in the Strait of Hormuz and Beijing's Pragmatic Gains from Yuan Settlement

8.1 The Standby Fleet in the Gulf of Oman and the Yuan Hua Hu

On May 13, 2026, President Trump arrived in Beijing. On that very same day, an oil tanker navigated south through the Strait of Hormuz. It was the Yuan Hua Hu, a very large crude carrier (VLCC) belonging to China's state-owned shipping line COSCO.

The "Yuan Hua" in this chapter's title refers to this very ship. Rendered accurately, it is the Yuan Hua Hu, which is how it is identified throughout the text. Although its pronunciation resembles the Chinese currency "yuan," the vessel's name has no connection to the currency. Nevertheless, the scene of this ship slipping through the strait was every bit as symbolic as its name.

The Yuan Hua Hu had loaded crude oil at Iraq's Basra terminal in early March—approximately 2 million barrels of Basrah Medium crude. Subsequently, as the war spread, it remained trapped inside the Persian Gulf for more than two months. Data from vessel-tracking firms LSEG and Kpler document this progression.

The vessel had been chartered by Unipec, the trading subsidiary of Sinopec. The ship followed the northern route hugging close to Iran's Larak Island. Lloyd's List Intelligence regards this route as a checkpoint where the Islamic Revolutionary Guard Corps (IRGC) controls transit. Its destination was Zhoushan, an island city in China's Zhejiang Province.

Throughout the voyage, the vessel continuously broadcast information identifying its Chinese registry and Chinese crew. The device carrying this information is the Automatic Identification System (AIS)—a radio transponder that automatically broadcasts a ship's name, position, and nationality to surrounding vessels. Other ships that traversed the strait after the war broke out also sought safe passage through the same method.

At that same time, the scene in the Gulf of Oman outside the strait was entirely different. Dozens of tankers laden with crude oil had dropped anchor, waiting for navigation to resume. As war risk insurance premiums soared, shipowners refused to move their vessels. On March 18, Iran announced its designated "safe corridor," and beginning in late March, it instituted a transit permit system. The shipbroking industry estimated the transit toll for the Larak Island route at an average of $2 million per vessel.

The transit of the Yuan Hua Hu was known to be the third passage by a Chinese tanker since the outbreak of the war. Earlier, on April 11, two Chinese tankers had exited the strait: the Cospearl Lake and the He Rong Hai. Maritime publication Lloyd's List recorded this as the first passage by

Chinese state-owned tankers. That same weekend, negotiations between the United States and Iran held in Pakistan broke down.

Before arriving in Beijing, President Trump had made one notable remark: that the United States did not need China's help to end the Iran war and reopen the strait. On the very day that remark was delivered, a Chinese ship was slipping through the strait in coordination with Iran. In effect, the bottleneck that Washington had failed to unblock through force of arms was being pried open little by little by Beijing through negotiation.

8.2 How Did 'Selective Transit' Work?

Diplomatic circles refer to Iran's method of managing the strait as "Selective Transit." Rather than imposing a blanket blockade across the entire strait, this approach selectively lets ships through. Vessels connected to the United States and Israel are blocked, while ships from friendly nations are permitted to pass following negotiations.

This framework did not emerge all at once. On March 13, a senior Iranian official disclosed an outline of the concept to CNN: transit could be granted to select oil tankers if crude oil was transacted in yuan. To this day, the vast majority of global oil transactions are conducted in U.S. dollars. Iran had brandished that very settlement currency as a condition for passage.

Concrete examples surfaced in late March. Lloyd's List reported that while not every vessel paid a toll, at least two ships had paid their transit fees in yuan. The Secretary-General of the Gulf Cooperation Council (GCC) publicly condemned Iran for taking money in exchange for safe passage. Citing industry experts, U.S. network NBC News dubbed this arrangement the "Tehran toll booth."

A Bloomberg report in early April depicted this system in greater detail. Shipowners first had to contact intermediaries connected to the Revolutionary Guard. They submitted their ownership structures, crew manifests, and AIS tracking records for security vetting. The vetting examined whether there were any links to the United States or Israel. The vessel's flag state was then classified into one of five tiers to determine the applicable fee.

Oil tankers reportedly paid around $1 per barrel of crude oil. For a VLCC carrying 2 million barrels, passing through once cost about $2 million. This is how the industry's figure of "$2 million per ship" came about. Payments were accepted in yuan or stablecoins—digital currencies whose values are pegged to fiat currencies such as the dollar.

China was not the only country to benefit from selective transit. In early April, Iran exempted Iraq from transit restrictions, hailing it as a "brotherly nation." Tehran also concluded agreements with Pakistan on the transport of crude oil and LNG. Iran had transformed the strait into an instrument of diplomacy, unlocking different doors for different nations.

Nor did the gates swing open automatically simply because a ship was Chinese. On March 27, two ultra-large container ships operated by COSCO attempted to transit the strait. Even though both vessels broadcast signals indicating Chinese registry and Chinese crews, they ultimately turned back. For Chinese vessels to pass, high-level diplomatic intervention—such as formal requests from the Foreign Minister or the Chinese Ambassador to Iran—was necessary.

Iranian state media reported that approximately 30 Chinese vessels had passed through the strait in coordination with the Revolutionary Guard. An IRGC official hailed this as the opening of a new chapter in the management of Hormuz. However, this figure was an Iranian announcement; it has not been fully verified by independent vessel-tracking data.

The title of this chapter notes that Beijing-linked tankers "monopolized" crude oil. In terms of the factual record, however, this requires a degree of caution. Transits by Chinese tankers remained rare enough to be counted on one's fingers over the course of several months. Beginning in April, the U.S. Navy mounted a maritime blockade intercepting vessels entering and leaving Iranian ports. U.S. public radio NPR estimated that this blockade severed roughly 12% of China's crude oil imports.

This meant that China, too, suffered harm in this crisis. Even so, Beijing held something others did not. While ships from other nations idled indefinitely in the Gulf of Oman, China possessed a diplomatic channel and a place in the transit queue. What China gained was not a monopoly on crude oil, but priority amid crisis. And at the foundation of that priority lay capital and payment networks.

8.3 The Lifeline of Iranian Oil: Shandong Teapots and the Shadow Fleet

China purchases 80% to 90% of Iran's crude oil exports. Industry estimates place this volume at 1.3 million to 1.6 million barrels per day. An analysis published in The Washington Times presented the 2025 figures as follows: more than 80% of Iranian crude oil exports flowed to China, earning the Iranian regime approximately $31 billion from this trade.

The primary buyers of this crude are independent private refiners located in Shandong Province. The industry calls them "teapots"—a nickname derived from their relatively small, tea-kettle scale. Unlike major state-owned refiners, they will readily purchase sanctioned crude as long as the price is right. Iranian crude trades at a steep discount compared to prevailing international benchmark prices.

The vessels that transport this crude are also a breed apart. Aging, dilapidated tankers conduct ship-to-ship transfers of crude on the open sea. In this process, the origin of the oil is obscured. It is also common practice to disable AIS signals or transmit fraudulent location data. The industry refers to this armada of clandestine tankers as the "shadow fleet."

The channels through which money moves are even more critical. Iran and China conduct transactions primarily in yuan through multi-layered networks of intermediaries. Barter arrangements—swapping crude oil for goods—are also woven into the mix. Because these transactions bypass dollar clearing systems, they remain largely beyond the reach of U.S. sanctions. Iranian banks are cut off from the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Consequently, Iran leans heavily on China's Cross-Border Interbank Payment System (CIPS).

The U.S. naval blockade severely disrupted this flow. Yet the channel was never completely shut. During a one-month pause in the blockade between mid-June and mid-July, Iran dispatched more than 60 tankers to China. The crude cargo was estimated at approximately $6 billion. The moment an opening appeared, the lifeline sprang back to life.

The United States intervened repeatedly in an effort to sever this link. In March 2025, the U.S. Department of the Treasury sanctioned Shandong-based Luqing Petrochemical for the first time—the first punitive measure targeted directly at a teapot refiner. The Treasury Department stated that the company had procured approximately $500 million worth of Iranian crude. Treasury Secretary Bessent characterized teapot purchases of Iranian crude as the single most critical economic lifeline sustaining the Iranian regime.

During the war, the scope of pressure broadened. In April, the U.S. government issued warnings to Chinese banks, cautioning that facilitating transactions for small refiners buying Iranian crude could trigger sanctions. When the United States sanctioned five Chinese refiners that had purchased Iranian crude, China's Ministry of Commerce pushed back. In May, the Ministry issued blocking orders instructing the refiners not to comply with U.S. sanctions. It had erected a legal shield in front of its domestic enterprises.

8.4 CIPS: The Expanding Payment Network and Remaining Limitations

CIPS is a payment system launched by the People's Bank of China (PBOC) on October 8, 2015. Its official English name is the Cross-Border Interbank Payment System. It is responsible for the clearing and settlement of cross-border yuan transactions. Clearing (清算) refers to calculating and reconciling funds to be exchanged between banks, while settlement refers to the actual transfer of money.

SWIFT and CIPS perform different functions. SWIFT is a messaging network that transmits payment instructions between banks; it does not move money directly. CIPS handles both the clearing and settlement of yuan funds. Before CIPS came into being, cross-border yuan transactions also exchanged instructions via SWIFT. Even today, a substantial portion of CIPS transactions utilizes SWIFT messaging.

The scale of CIPS has expanded rapidly. In 2024, its transaction volume reached 175.49 trillion yuan, up 43% from a year earlier. In dollars, that was approximately $24.45 trillion. In 2025, transaction volume reached 180.15 trillion yuan across 8.44 million transactions. Although the growth rate slowed considerably, the overall volume established yet another all-time high.

The number of participating banks has also grown. At the end of 2025, CIPS included 193 direct participants and 1,573 indirect participants, spanning 124 countries and regions. At its inception, there were 19 direct participants and 176 indirect participants. According to Chinese data, by the end of June 2026, direct participating banks stood at 210, while indirect participating banks had increased to 1,619.

One can also estimate daily transaction volume. Dividing the 2025 annual volume by approximately 250 business days yields roughly 700 billion yuan per day, or around $100 billion. This calculation is an estimate made by the author based on official annual statistics. The figure of "$180 billion per day" cited in some quarters is not corroborated by official statistics.

Even though the numbers appear large, the limitations remain stark. According to SWIFT statistics from June 2025, the yuan's share of international payments stood at approximately 3%. During the same period, the dollar accounted for 48% and the euro 24%. Moreover, CIPS transaction volume includes a substantial amount of transfers between domestic Chinese banks. Rather than a network that has dismantled the dollar system, CIPS functions closer to an emergency corridor for circumventing dollar sanctions.

Yet the value of that emergency corridor was elevated by the war. As the United States broadened the scope of its sanctions, parties trading with sanctioned entities sought pathways outside the dollar orbit. Song Ke, Dean of the Shenzhen Institute of Financial Studies at Renmin University of China, explained the significance of CIPS's expansion: it reflects a broader trend in which multiple nations seek secure, alternative, and independent payment networks.

Alongside CIPS, there is also a payment network that utilizes central bank digital currencies (CBDCs): Project mBridge. It was jointly established by the PBOC, the Hong Kong Monetary Authority, the Bank of Thailand, and the Central Bank of the United Arab Emirates (UAE). The Saudi Central Bank became a full participant in June 2024. Across this network, participating central banks transfer funds directly in their respective national digital currencies, eliminating any need to route transactions through the U.S. dollar.

In January of this year, the U.S. think tank Atlantic Council compiled the performance metrics of this network. Cumulative transactions exceeded 4,000, totaling approximately $55.5 billion—a scale roughly 2,500 times larger than during its initial trial in 2022. Of this total, China's digital yuan (e-CNY) accounted for about 95%. Although conceived as a multilateral platform, in practice it has functioned as a conduit for the yuan.

However, fractures have emerged in this network as well. On September 20, the Financial Times (FT) reported the Saudi Central Bank's departure from mBridge. The Saudi Central Bank confirmed to the FT that it was no longer a participating member, explaining that its planned proof-of-concept had concluded on May 13, 2025. The Bank for International Settlements (BIS) had stepped away from the project even earlier, in 2024.

Interpretations of Saudi Arabia's departure diverge. A source who spoke with the FT noted that Saudi participation had been limited from the beginning, suggesting it would be inaccurate to read too much significance into the decision. Another source reported that Saudi Arabia continues to maintain quiet contact with the project. There is also the view that U.S. pressure played a role. Which explanation is correct remains uncertain.

One thing is clear: claims that the "petrodollar system" has ended because Saudi Arabia settles its crude oil sales to China in yuan are far from the facts. The petrodollar system originated from an agreement between the United States and Saudi Arabia in the 1970s—a framework in which crude oil is priced and sold exclusively in dollars, and those petrodollars are recycled into U.S. Treasuries and other dollar assets. While the yuan's share is growing, the primary currency of global oil trading remains the dollar.

What the Hormuz crisis revealed was not the collapse of the dollar system, but the emergence of a dual structure. Crude oil heading to the West relies on the dollar, insurance, and naval escorts. Sanctioned crude oil relies on the yuan, shadow fleets, and negotiation. The very same commodity has begun flowing through two distinct paths.

8.5 'Operation Economic Outcast' and Beijing's Legal Shield

On August 24, Treasury Secretary Scott Bessent announced a new sanctions plan named "Operation Economic Outcast." Secretary Bessent stated that the United States would sever every revenue source upon which Iran relies, warning that nations continuing to trade with Iran must be prepared to share in its isolation.

This operation targeted Iran's five lifelines: digital assets, technology, gold, aviation, and maritime shipping. It also expanded the scope of secondary sanctions. Secondary sanctions (二次制裁) penalize third-country companies or banks that engage in transactions with targeted nations. The following day, approximately 60 entities, individuals, and vessels were placed on the sanctions list. Alongside firms from China and Hong Kong, companies from the UAE, Singapore, Malaysia, France, and the United Kingdom were also included.

The notable aspect was who was left out: major Chinese banks were not on the list. Secretary Bessent did not mention China by name in his announcement. Instead, he spoke of "quiet

diplomacy." Previously, he had disclosed that warnings had been sent to two unnamed Chinese banks over transactions related to Iran.

U.S. foreign affairs journal Foreign Policy highlighted the dilemma behind this choice. Sanctioning only small and medium-sized firms does little to sever ties between China and Iran. Yet targeting major Chinese banks would reignite the trade war and rattle the global economy. Furthermore, China holds rare earths as a potent lever. Secretary Bessent rebutted assertions that the United States was reluctant to confront China, calling them "completely false."

Beijing pushed back immediately. On August 25, China's Ministry of Foreign Affairs declared that economic warfare and maximum pressure could not provide a solution. It also demanded an end to interference with China-Iran cooperation, adding a warning that Beijing would take all necessary measures to protect its legitimate rights and interests. It reiterated its criticism that these were unilateral sanctions lacking authorization from the United Nations Security Council.

Secretary Bessent estimated that approximately 30 million barrels of crude oil remained outside the U.S. blockade lines that Iran could sell to China. Washington appeared to believe that time was on its side. However, there was already the precedent where, as soon as the blockade paused for a month, more than 60 tankers sailed for China. As long as payment networks, shipping fleets, and refiners remain intact, the lifeline revives whenever an opening emerges.

8.6 The 1.4-Billion-Barrel Buffer and the Satellite Imagery Controversy

China had built up the stamina to withstand a prolonged blockade well in advance. The U.S. Energy Information Administration (EIA) estimated China's strategic petroleum reserves and state-owned enterprise inventories at approximately 1.4 billion barrels at the end of 2025—the largest in the world. In January and February 2026, China imported crude oil at a rate of 11.99 million barrels per day, a 15.8% increase compared to a year earlier. Analysts viewed this as the result of stockpiling ahead of Middle East risks.

When the crisis arrived, Beijing moved in an orderly sequence. In early March, it instructed major refiners to halt new export contracts for gasoline and diesel. This kept petroleum that would otherwise leave the country within its borders. Without touching official strategic petroleum reserves, Beijing drew down commercial enterprise inventories first. Through late June, China's official strategic petroleum reserves barely declined.

There were other pathways as well. Crude oil delivered via pipeline from Russia flowed regardless of the strait's blockade. The rapid proliferation of electric vehicles also dampened gasoline demand. The structure was such that even if a single maritime transport route were severed, China's economy as a whole would not come to a halt.

The situation in the United States was different. The U.S. tapped its Strategic Petroleum Reserve to soothe markets. In May, E.J. Antoni, chief economist at the Heritage Foundation, remarked that the United States was drawing down its Strategic Petroleum Reserve at a record pace, with most of it being shipped to Asia. He added that while this approach might work for a few weeks, it was not a long-term solution.

Suspicions also arose that the ties between China and Iran extended beyond crude oil. Chinese satellite imagery provider MizarVision had publicly released imagery analyzing U.S. military bases in the Middle East. U.S. intelligence agencies suspected that Iran used these images for target selection. The United States sanctioned Chinese satellite firms, including MizarVision.

On September 11, The Wall Street Journal published a new report revealing that around the time of the July attack on a U.S. base in Jordan, a Chinese company had provided high-resolution satellite imagery to Iran. Three U.S. service members were killed in that attack. U.S. officials stopped short of asserting that the Chinese government was directly involved. China denied the allegations, demanding evidence. Regarding this report, President Trump remarked that President Xi had acted "pretty reasonably."

President Xi Jinping thus sat down at the negotiating table holding two key assets: influence over Iran, and petroleum reserves capable of enduring a prolonged standoff. However, this influence should not be overstated. In the early phase of the war, China pressured Iran to halt attacks on crude oil and LNG vessels. Yet Iran continued attacking ships in the strait thereafter. Iran is not a proxy of China; it is a nation that acts according to its own calculations.

8.7 Two Summits, Two Communiqués

When the Beijing summit concluded on May 14, both nations issued separate statements. The way the two documents handled the Iran issue differed significantly.

The White House statement noted that both sides agreed on keeping the Strait of Hormuz open, using the phrase "must remain open." The rationale provided was to ensure the free flow of energy. A sentence was also included stating that President Xi expressed opposition to the militarization of the strait and the imposition of transit tolls. It further recorded that both leaders shared the view that Iran must never be allowed to acquire nuclear weapons.

President Trump went a step further in a Fox News interview. He stated that President Xi had offered to gladly help resolve the Iran issue. He also claimed China had promised not to supply military equipment to Iran. Secretary of State Marco Rubio offered an explanation of a different tone in an NBC interview: while stating that both countries held the same position on the strait issue, he drew a clear line, asserting that the United States had not asked China for assistance.

The Chinese statement did not mention Iran directly. Instead, it dealt at length with the Taiwan issue, which was absent from the White House statement. One side placed Iran at the forefront, while the other prioritized Taiwan. The bargaining surrounding Taiwan is covered in detail in Chapter 4 of this book.

This asymmetry reveals that China incurred virtually no cost. Opposing Iranian nuclear armament has long been China's established position. Reopening the strait is most beneficial to China, the world's largest importer of crude oil. Opposing transit tolls also aligned with the interests of Chinese shipping. China had merely reaffirmed in writing what it had wanted all along. This is why diplomatic circles coined the term "Costless Concession."

China's purchases of U.S. crude oil can be interpreted similarly. Chinese refiners had halted imports of U.S. crude in June 2025 due to the trade war. Once the war broke out, they began considering resuming imports as early as March. In April, shipping data showed that approximately 600,000 barrels per day of U.S. crude were slated to be loaded onto tankers bound for China. That was higher than the previous monthly record of roughly 470,000 barrels per day set in January 2018.

The White House statement effectively captured a trend that was already well underway before the summit as though it were a new agreement. For China, filling the Middle Eastern shortfall was urgent. Purchasing U.S. crude oil was both a gift offered to the United States and China's own energy safeguard. On May 14, Brent crude closed slightly above $100 per barrel.

Four months later, the Washington summit stood on the very same framework. On the eve of the summit, the Center for Strategic and International Studies (CSIS) presented the following outlook: President Xi would sidestep demands to pressure Iran directly while urging a swift end to the war; he would demand restraint regarding sanctions targeting Chinese banks and enterprises; and he would argue that if sanctions escalated, China would be forced to buy more crude on the international market, thereby driving oil prices higher.

On September 24, the two leaders held talks at the White House for approximately three hours. According to China's Xinhua News Agency, President Xi stated that the United States and Iran should return to dialogue. He also expressed support for returning to the Islamabad Memorandum of Understanding signed by the two countries on June 17. That memorandum called for pausing the war and opening the strait for 60 days—an agreement that had effectively collapsed in July when the Revolutionary Guard declared a renewed total blockade.

President Xi expressed hope for reaching a comprehensive agreement that included the nuclear issue. He also reiterated China's principle that the sovereignty and security of all nations must be respected. Al Jazeera reported that no breakthrough on the Iran issue emerged from the meeting that day. Among Middle Eastern allies, only questions remained as to how much sway China could truly exercise over Tehran.

The following day, President Trump took questions from reporters at the National Archives. Asked whether he had discussed the Iran war with President Xi, he answered, "Yes." When asked whether there was progress on the strait issue, he merely said that things would work out well. He offered no concrete commitments or timetables.

Across both summits, there was virtually nothing new that China conceded on the Iran issue. China repeated its longstanding positions, and the United States announced them as though they were achievements. Meanwhile, China kept tariffs, technology, and Taiwan at the forefront of the negotiations. While the White House sought tangible help from China, it also wished to avoid giving the impression that China held the leverage over the strait. In that gap, Beijing remained sparing with its words and secured practical gains.

8.8 The Cost Sheet Handed to South Korea

Events unfolding in the Strait of Hormuz transfer within weeks to the cost sheets of plants in Ulsan and Yeosu. South Korea imports almost all the crude oil it consumes. According to the National Assembly Research Service, Middle Eastern crude accounted for 69.1% of South Korea's crude oil imports in 2025. More than 90% of that Middle Eastern crude passes through the Strait of Hormuz.

Reliance on the Middle East had declined at one point, falling from 82.3% in 2015 to 59.8% in 2021. However, following the Russia-Ukraine war, it climbed back to around 70%. Even if import sources are diversified, as long as they pass through the same strait, the risk remains tied together as one.

The shock arrived via multiple channels. In March, an Iranian attack caused Qatar's Ras Laffan LNG complex to lose 17% of its production capacity, with projections indicating repairs would take 3 to 5 years. Energy analytics firm Vortexa identified South Korea as a country vulnerable to disruptions in Qatari LNG, alongside Taiwan and Singapore. The petrochemical industry was forced to lower plant operating rates as naphtha prices soared.

Forecasts by domestic research institutions were also grim. The Korea Institute for Industrial Economics and Trade (KIET) examined a scenario where the blockade persisted for more than three months. It estimated that average production costs for South Korean manufacturing would rise by 11.8%, and the all-industry average by 9.4%.

The government and industry were not sitting idle. In March, the government decided to bring in an additional 24 million barrels of UAE crude. It broadened supply sources to the United States, Australia, and Algeria. As a result, the share of Middle Eastern crude from January to May dropped by 6.3 percentage points to 62.8%. The government announced plans to reduce this share below

50% over the medium to long term. Strategic petroleum reserves also remained at over 100 million barrels.

In September, the situation deteriorated once more. Saudi Arabia's East-West pipeline temporarily halted operations after suffering a drone attack. This pipeline connects oil fields in eastern Saudi Arabia to the Red Sea port of Yanbu over a distance of roughly 1,200 kilometers. A key detour bypassing Hormuz was disrupted. According to Korea National Oil Corporation data, the average oil price through September 18 stood at $100.40 per barrel based on Brent crude.

Refiners are procuring crude oil even if it means taking the long way around. SK Energy purchased 4 million barrels of U.S. WTI set to arrive in December. GS Caltex also secured 2 million barrels. HD Hyundai Oilbank imported Argentine crude on a trial basis for the first time. Because U.S. crude requires long transport distances, its freight rates are roughly double those from the Middle East.

There are also limits to altering supply lines. Domestic refining facilities are designed to handle Middle Eastern heavy crude with high sulfur content. Introducing large quantities of light crude, such as U.S. shale oil, degrades process efficiency. Reconfiguring the facilities requires substantial capital. It is a structure where diversification that is technically feasible becomes economically disadvantageous.

In the same crisis, the report cards handed to China and South Korea differed sharply. Japan's NHK reported that South Korea and Japan took direct hits without the kind of buffers China possessed. China mitigated the shock with ample strategic reserves and its relationship with Iran. South Korea had no negotiating channel with which to knock on the doors of the strait. Only in mid-July did an HMM VLCC trapped in the strait manage to emerge and arrive at Ulsan—the first South Korean vessel to exit the strait since the start of the war.

The vulnerability exposed by this crisis is energy's "Double Dependency." Crude oil relies on the Middle East. The safety of the sea lanes carrying that crude relies on the relationship between the United States and China. The military power of the U.S. Navy might open the strait, or the diplomacy of China, with its influence over Iran, might open the door. In either case, it is not a card held by South Korea.

U.S. pressure for troop deployment struck this vulnerability all the more painfully. On September 18, President Lee Jae-myung announced that South Korea would not dispatch troops to the Middle East war. (The full story of this decision is covered in Chapter 10 of this book.) Refusing deployment incurred the ally's displeasure; deploying troops risked turning South Korean tankers into Iranian targets. For a nation doubly reliant on others for its energy, the choices available in diplomacy are correspondingly narrow.

8.9 Questions Left by the Strait

Selective transit in the Strait of Hormuz demonstrates three things.

First, a nation holding a narrow waterway does not lose its negotiating leverage even in wartime. Even while sustaining airstrikes from the United States and Israel, Iran shook global energy markets through the strait. By granting transit permissions, it opened different doors for different countries, even brandishing settlement currencies as conditions for passage.

Second, payment networks remain invisible in normal times, only to demonstrate their power during crises. In terms of scale, CIPS cannot rival the dollar system. The yuan's share of international payments is still around 3%, and Saudi Arabia pulled out of mBridge. Even so, this network opens an avenue outside the dollar for sanctioned transactions. That pathway served as the lifeline connecting Iran and China.

Third, pragmatic gains in a crisis stem from stamina built up beforehand. China had 1.4 billion barrels of petroleum reserves, pipelines, electric vehicles, and a negotiating channel with Iran. As a result, it endured even when imports fell due to the blockade, and at the summit, it was able to present its existing positions as concessions. The Trump administration failed to open the strait by force, nor could it touch major Chinese banks with sanctions.

The Washington summit failed to change this structure. President Xi merely reiterated the principle of returning to the Islamabad agreement. When and how to reopen the strait still depends on Tehran, Washington, and Beijing in between. Until the calculations of these three align, South Korean refiners will continue receiving a new cost sheet every month—and will once again have to look out toward the distant seas.

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Chapter 9. NATO Allies' Refusal to Deploy Troops and Trump's 'COWARDS' Outburst

> Italian Prime Minister Meloni, Germany, Britain, Spain, and Major Allies' Chain of Refusals and the Fracturing of the Transatlantic Alliance

On the morning of March 20, 2026, President Trump posted a message on Truth Social. Truth Social is the social media platform owned by Trump. The final line of the post was an invective directed at America's allies: "COWARDS, and we will REMEMBER."

It is difficult to find any precedent for a United States president publicly branding allies as cowards. This single line encapsulated the acrimony that had accumulated between the United States and Europe throughout the three weeks of the Iran war. The friction had erupted over the Strait of Hormuz, quickly metastasizing into disputes over base access, trade relations, and troop deployments. This chapter traces that trajectory country by country, examining the nature of the fractures that emerged across the transatlantic alliance.

9.1 The Demand for Troop Deployment to Hormuz and the Full Story Behind the 'COWARDS' Outburst

The war began on February 28, 2026. The United States and Israel launched joint airstrikes against Iran under the operational codename "Epic Fury." On March 2, Iran declared that it would close the Strait of Hormuz. The Strait of Hormuz is a narrow waterway connecting the Persian Gulf to the open sea. Under normal circumstances, approximately one-fifth of the world's crude oil and liquefied natural gas (LNG) passes through this corridor. When the strait was blocked, global crude oil prices surged to $118 per barrel, as examined in Chapter 7.

As oil prices soared, Trump turned to his allies for help. On March 15, he posted that nations receiving crude oil shipped through the strait should protect the passage themselves. The following day, he warned that if allies did not step forward, NATO's future would be "very bad." NATO is the North Atlantic Treaty Organization, a military alliance comprising the United States, Canada, and 30 European nations. What Trump wanted was for them to dispatch warships to reopen the blocked strait by force.

Europe's response came on March 16, almost in unison. German Defense Minister Boris Pistorius stated, "This is not our war." British Prime Minister Keir Starmer declared that Britain would not be dragged into a "wider war." That same day, an EU Foreign Ministers' meeting convened in Brussels. Kaja Kallas, the EU High Representative for Foreign Affairs and Security Policy, succinctly relayed the outcome of the meeting: There was no intention to expand the mandate of the EU naval

operation active in the Red Sea into the Strait of Hormuz. Italian Deputy Prime Minister Matteo Salvini was even more blunt. He asserted that dispatching warships to a war zone was tantamount to entering the war itself.

On March 17, Trump's response took a temporary pivot. He wrote that the United States needed neither NATO's help nor anyone else's help. In the same post, he singled out Japan, Australia, and South Korea as well. Yet three days later, on March 20, the intensity of his rhetoric escalated once again.

The message posted on March 20 read as follows: The fight against Iran had already been won militarily, and the risk to allies was virtually non-existent. Yet the allies were doing nothing to help open the strait while complaining only about high oil prices. Reopening the strait was a "simple military maneuver"—easy, with minimal risk. The post concluded with: "COWARDS, and we will REMEMBER." On that same day, Trump also branded NATO a "paper tiger." A paper tiger denotes an entity that appears formidable on the outside but possesses no actual strength.

This post contained two claims that were fundamentally irreconcilable: The claim that the fight was already won, versus the reality that the strait remained blocked. If reopening the strait were truly so easy, there was no reason why the U.S. Navy could not accomplish it on its own. Pistorius seized upon precisely this contradiction. He asked how a few European frigates were supposed to achieve what even the mighty U.S. Navy could not pull off alone.

Europe had not turned a blind eye to the safety of the strait altogether. On March 19, the leaders of Britain, France, Germany, Italy, the Netherlands, Canada, and Japan issued a joint statement. The statement condemned Iran's attacks on commercial shipping. It also stated that they were prepared to contribute to "appropriate efforts" to ensure safe passage through the strait. However, this came with the conditions that a ceasefire must first be achieved and a multinational naval coalition formed. What Europe flatly rejected was joining an ongoing U.S. combat operation in the middle of an active war. Trump's March 20 post appeared the very day after this joint statement was released. He drew no distinction between a willingness for conditional cooperation and a refusal to enter the war.

The rationale put forward by Europe was unmistakable. Stefan Cornelius, spokesperson for German Chancellor Friedrich Merz, recalled two critical points: First, the United States and Israel had not consulted Germany prior to the war. Second, Washington had stated early in the conflict that European assistance was neither needed nor wanted. The United States had launched the war without prior notification, only to demand burden-sharing once things hit an impasse. This was why European nations found this sequence impossible to accept.

This outburst marked the second major shock the transatlantic alliance suffered that year. The first was the Greenland crisis in January. Trump had slapped retaliatory tariffs on eight European countries, demanding they hand over Greenland, a Danish territory. This episode is examined in

Chapters 17 and 18. While Greenland had been a dispute over sovereign territory, Hormuz was a question of entering a war. Through both ordeals, Europe came to view the United States as an unpredictable ally.

9.2 The Spanish Sánchez Government's "No to War" and the Threat of Total Trade Severance

The country that came under Trump's attack first and hardest was Spain. In Andalusia, southern Spain, there are two military installations utilized by U.S. forces: Naval Station Rota near Cádiz and Morón Air Base near Seville. Although both bases are operated jointly by the United States and Spain, sovereign jurisdiction resides with Spain. The U.S. military had used these bases as staging hubs during operations in Iraq, Afghanistan, and Libya.

On March 2, Spanish Foreign Minister José Manuel Albares announced Spain's decision: It was a decision not to allow Rota and Morón to be used for attacks on Iran. Defense Minister Margarita Robles reaffirmed the same stance, declaring that no single country should act as the guardian of the world. The U.S. military promptly relocated 15 aircraft, including aerial refueling tankers, from the two bases to other locations.

The following day, March 3, Trump reacted in the Oval Office, coincidentally during a visit by German Chancellor Friedrich Merz. Trump remarked that Spain had been "terrible" and threatened to cut off all trade with Spain. He added that he had instructed Treasury Secretary Scott Bessent to halt all transactions with Spain. He also dredged up once again Spain's refusal of NATO's defense spending target of 5% of gross domestic product (GDP).

On March 4, Prime Minister Pedro Sánchez delivered a televised national address from the prime ministerial residence. Calling this war a "disaster," he summarized the government's stance in a single phrase: Four words in Spanish: "No to war" (No a la guerra). Recalling the 2003 Iraq War, Sánchez urged that past mistakes not be repeated. He argued that the Spanish government's support for the Iraq War back then had only amplified instability across Europe. He stated that opposing a hateful regime and opposing an unjust military intervention can go hand in hand. He then demanded that the United States, Israel, and Iran all end the war through diplomacy. In his speech, he made no direct mention of Trump's trade threats.

The threat to cut off trade was a card practically impossible to carry out in reality. Trade negotiations for the 27 member states of the European Union are conducted collectively. A Spanish government official remarked that Spain's trade policy is the EU's trade policy. Chancellor Merz also drew a firm line with Trump, stating that one could not conclude a separate trade agreement with Germany or Europe while excluding Spain. António Costa, President of the European Council, spoke by phone with Sánchez to convey the EU's "full solidarity."

The numbers were not on Trump's side either. According to U.S. Census Bureau data, U.S. exports to Spain in 2025 totaled $26.1 billion, while imports from Spain that same year amounted to $21.3 billion. This meant the United States ran a $4.8 billion trade surplus, continuing a streak of four consecutive years of surplus. Conversely, the United States accounted for only around 5% of Spain's total trade. Severing trade was structured such that profitable American exporters would be the first to suffer losses.

Spanish domestic politics also supported Sánchez's choice. In a survey by the Spanish Center for Sociological Research (CIS), 77% of citizens viewed Trump unfavorably. Sánchez's Socialist Party had a history of winning the 2004 general election by campaigning against the Iraq War. For Sánchez, whose coalition government had a fragile political foundation, a clash with Trump was both a peril and a potent opportunity.

Spain did not back down. In late March, it went further by barring U.S. military aircraft involved in the Iran strikes from overflying Spanish airspace. Addressing parliament, Defense Minister Robles stated that this measure did not signify a rupture in transatlantic relations. She added pointedly: "Two countries embarked on a war and expected us to follow along." Spain likewise declined to participate in the Hormuz multinational mission proposed by President Emmanuel Macron.

American pressure persisted. In April, Reuters reported on the existence of an internal Department of Defense email. It was a document compiling potential options to penalize allies that had failed to cooperate in the Iran war. Reuters reported that among the options discussed was the suspension of Spain's NATO membership. The NATO Treaty contains no provision for suspending a member state's credentials. Consequently, this proposal was read more as a coercive signal than a viable policy option. On May 1, Trump remarked that Spain had been "terrible" and threatened to withdraw stationed U.S. troops. Approximately 4,000 U.S. service members are stationed in Spain. At the NATO summit in Ankara in July, Trump once again brought up the severance of trade with Spain.

9.3 Germany's Merz Government and Pistorius: "This Is Not Our War"

Germany did not publicly block base access as Spain had done. However, when it came to the demand for troop deployment, Berlin drew the line just as unequivocally as Spain. Chancellor Friedrich Merz, a Christian Democrat who assumed office in May 2025, was regarded as a leader who had made deliberate efforts to manage relations with Trump.

On March 16, Defense Minister Boris Pistorius stood before reporters and declared: "This is not our war. We did not start it either." He made it clear that what Germany sought was a diplomatic resolution and a swift end to hostilities. As seen earlier, it was also during this appearance that he posed the rhetorical question of what anyone could realistically expect from a few European

frigates. That same day, government spokesperson Cornelius explained Berlin's position in more detail: As long as the war continued, Germany would not participate even in the option of reopening the strait by military means. When Chancellor Merz was asked about the prospect of German naval participation in escort operations, his reply was brief: This war was not NATO's war.

Trump's retaliation arrived in May. On May 1, Pentagon spokesperson Sean Parnell issued a statement announcing that approximately 5,000 U.S. troops would be withdrawn from Germany over a period of 6 to 12 months. The Department of Defense framed the drawdown as the result of a review of European force posture. However, CNN reported that the decision came immediately after Trump lashed out at Merz for criticizing the Iran war. The following day, Trump stated that the reduction would go "a lot further than 5,000." When questioned about the rationale, he declined to answer. Even after the withdrawal, more than 30,000 U.S. troops would remain in Germany.

An issue carrying even greater strategic weight than troop numbers was missiles. In 2024, the Biden administration had promised to station a long-range fires unit in Germany. This was a unit equipped with Typhon launchers capable of firing Tomahawk cruise missiles and SM-6 multi-purpose missiles. The plan was designed to bridge the deterrence gap against Russia until Europe could field its own indigenous strike capabilities. The Republican chairs of the congressional armed services committees announced that this deployment had been cancelled. On May 4, the German Defense Ministry pushed back, stating that no "definitive cancellation" had yet been confirmed. Germany moved swiftly to respond. On May 11, the Financial Times reported that Berlin was expediting direct procurement negotiations: A package exceeding €1 billion to purchase three Typhon launchers and up to 400 Tomahawk missiles.

Criticism of the decision erupted within the United States as well. Senate Armed Services Committee Chairman Roger Wicker and House Armed Services Committee Chairman Mike Rogers issued a joint statement. Both are Republicans. They argued that rather than withdrawing troops from Europe, repositioning them to Eastern Europe would better serve American interests. They further emphasized that strategic shifts of this magnitude required full consultation with Congress and allies. Liana Fix, senior fellow at the Council on Foreign Relations (CFR), scrutinized the motive behind the measure: She assessed that it had stronger characteristics of punitive retribution than of a strategic calculation of allied burden-sharing.

Pistorius accepted the withdrawal announcement calmly. He remarked that it was an expected move given that Trump had brandished such threats for years. He added that Europe must assume greater responsibility for its own defense. Germany's move to directly purchase the very weapon systems it had previously relied on the United States to deploy was aligned with those words. A measure intended as punishment was ironically accelerating Europe's self-reliance.

9.4 Britain's Limited Cooperation and the "No Winston Churchill" Remark

Britain is a country that has long taken pride in its "Special Relationship" with the United States. Yet even Britain acted with profound caution in this war. In the early days of the war, Prime Minister Keir Starmer initially did not permit U.S. forces to use British military bases for airstrikes. The prime example was the naval and air support facility at Diego Garcia in the Indian Ocean. Later, he authorized base usage strictly for "defensive operations."

Starmer explained his position to Parliament on March 2: Britain had not participated in the initial airstrikes against Iran and would not join offensive operations. He stressed, however, that Britain would act to protect its citizens in the region against Iranian missile and drone attacks. That very day, RAF Akrotiri, a British Royal Air Force base in Cyprus, came under drone attack. Cypriot authorities considered it highly likely that the drone had been launched by the Lebanese militant group Hezbollah. British public opinion was overwhelmingly opposed to the war as well.

On March 3, Trump criticized Starmer in the Oval Office: "This is not Winston Churchill we are dealing with." Churchill was the prime minister who led Britain through World War II. Trump complained that it had taken three to four days just to determine where U.S. military aircraft could land. In an interview with The Daily Telegraph the previous day, Trump had remarked that Starmer appeared overly preoccupied with the legality of the strikes. Reuters reported that this marked Trump's third public broadside against Starmer in that week alone. Starmer countered that he had simply acted in accordance with Britain's national interests. He was, after all, a prime minister who had spent his career as a lawyer and prosecutor.

On March 16, Starmer addressed the Hormuz crisis during a press conference. He stated that Britain was working with allies and European partners on a plan to reopen the strait. However, he made it abundantly clear that this would not be a NATO mission. His vision called for a broader framework encompassing both the United States and Gulf nations.

Britain gradually widened the scope of its cooperation. On March 20, the British government granted additional authorization for U.S. forces to use British bases, restricted specifically to strikes against Iranian missile sites that were targeting commercial shipping in the strait. Yet Trump's "COWARDS" post went up on that very same day. Partial cooperation could not shield London from Trump's vitriol.

A Reuters report on April 24 delivered an even sharper shock to Britain. A U.S. official disclosed to Reuters the contents of an internal Department of Defense email outlining options to penalize allies that had failed to cooperate sufficiently in the Iran war. Among the options listed was a reconsideration of the United States' longstanding stance on European nations' "imperial-era territories." A prominent target singled out was the British territory of the Falkland Islands. The Falklands are an archipelago situated off the coast of Argentina, over which Britain and Argentina

fought a war in 1982. Since then, the United States had recognized British jurisdiction and administration over the islands. 10 Downing Street immediately issued a firm rebuttal: "The Falklands are British." Conservative Party leader Kemi Badenoch similarly declared that whatever Trump might say, sovereignty belonged indisputably to Britain. The explanation offered by Pentagon spokesperson Kingsley Wilson struck a different chord: He stated that the Department of Defense was preparing clear options for the President so that allies would not remain paper tigers.

This document did not become official policy. Nonetheless, Argentine President Javier Milei, who enjoyed close ties with Trump, sharply amplified Argentina's sovereign claims over the Falklands around this time. The very notion of leveraging an ally's territorial integrity as bargaining chips in exchange for wartime cooperation came as a profound shock to Europe. Following Greenland, this marked the second instance in which an ally's territory was treated as leverage in Trump's transactional diplomacy.

9.5 From Honeymoon to Rupture: Meloni's Denial of Sigonella Air Base and the Pope Criticism Controversy

The most dramatic scene in the transatlantic rupture emerged from Italy. Prime Minister Giorgia Meloni was regarded as the European leader closest to Trump. In January 2025, she visited Trump's Mar-a-Lago estate. That same month, she was the sole EU head of government invited to Trump's second inauguration. Her overarching vision had been to serve as an indispensable "bridge" linking Washington and Brussels.

Yet even Meloni kept her distance from the Iran war. Having received no advance notice of the airstrike plans, she was placed in an awkward and politically vulnerable position domestically. On March 11, Meloni delivered an address to the Italian Parliament regarding the Iran war. She characterized the conflict as part of a perilous trend of expanding interventions that fell "outside the bounds of international law." She also linked it to the trend of global destabilization unleashed following Russia's invasion of Ukraine. At the same time, she reiterated that Iran must never be permitted to acquire nuclear weapons. Italy had already dispatched air defense assets to Gulf nations that had come under Iranian fire. Her approach was a delicate compromise: provide meaningful contributions to allied and regional stability while steadfastly refusing direct participation in offensive warfare.

The flashpoint erupted over Naval Air Station Sigonella in Sicily. Sigonella is a U.S. naval air installation situated in the middle of the Mediterranean, a vital strategic hub for NATO operations. Following the outbreak of war, drone and aircraft flights from the base surged dramatically. Until then, however, operations were limited to support activities such as aerial refueling, transport, and reconnaissance.

Between March 27 and 28, a critical incident occurred. Flight plans for certain U.S. military aircraft listed Sigonella as an intermediate stopover. These aircraft were scheduled to touch down at Sigonella before proceeding onward to the Middle East. The Italian Air Force reported this development to Chief of the Defense Staff Admiral Luciano Portolano. The crux of the problem was that the United States had failed to obtain prior authorization. The request for approval was transmitted only after the aircraft were already airborne. Defense Minister Guido Crosetto ordered that landing permission be denied. The Italian daily Corriere della Sera first reported this development on March 31.

The legal bedrock for Italy's refusal was the bilateral base agreement between the United States and Italy, in place since 1954. While this agreement broadly permits routine logistical support, it explicitly requires Italy's prior consent for any flights connected to active combat operations. Article 11 of the Italian Constitution was also in the background. Article 11 stipulates that Italy repudiates war as an instrument of offense against the freedom of other peoples. The Meloni government had already stated that if such a wartime request were made, it would seek parliamentary approval.

Crosetto sought to explain this decision as a matter of technical procedure. He wrote on social media that the incident did not signify any cooling of relations or political tension with the United States. He noted that Washington understood the rules in place since 1954 just as well as Rome did. The Prime Minister's Office similarly stated that the action had been taken in strict accordance with existing agreements and parliamentary directives. Conversely, the center-left opposition welcomed the decision and demanded a total ban on base use. Right-wing media outlets in the United States fiercely denounced Meloni for what they branded a "betrayal." However, a fact-check report by Euronews concluded that the incident was essentially a regulatory enforcement action in response to a procedural violation, meaning it was closer to law enforcement than a political revolt.

The decisive blow that shook relations between the two leaders was the controversy surrounding Trump's attacks on the Pope in April. Pope Leo XIV is the first American pontiff in history, born Robert Francis Prevost. In early April, Trump threatened Iran that "an entire civilization will die tonight." The Pope characterized this threat as "truly unacceptable." Trump retaliated with a scathing barrage on Truth Social. He attacked the Pope as being soft on crime and disastrous on foreign policy. He went so far as to write that had he not won the election, Prevost would never have become Pope Leo. He also posted an AI-generated image mocking the Pope, which was deleted later.

As prime minister of the nation that cradles the Vatican within its borders, Meloni could not remain silent. In mid-April, she declared that Trump's remarks about the Pope were "unacceptable." It was the most direct and forceful public criticism she had ever leveled against Trump. Trump responded in an interview with Corriere della Sera, countering that it was Meloni who was unacceptable. He claimed that Meloni did not care whether Iran acquired nuclear weapons or not. When asked if they had spoken recently, Trump replied bluntly, "Not for a long time."

On May 1, Trump threatened to withdraw U.S. troops stationed in Italy and Spain. "Italy has been of no help to us," he declared. In another venue, he remarked, "Italy was not there for us." The implication was clear: the United States would no longer be there for Italy. Approximately 13,000 U.S. troops are stationed in Italy. Crosetto vigorously refuted Trump's logic, pointing out that Italy did not import crude oil through Hormuz and had, in fact, offered to take part in vessel protection missions.

In early May, speaking at the European Political Community summit held in Armenia, Meloni articulated her government's stance: Italy had consistently honored its commitments within NATO. She declared that she could not support any reduction in U.S. forces, explaining that it was rejected for the very same reason she could not support the decision to plunge into a Middle Eastern war. Euronews assessed that this friction would not immediately culminate in a total collapse of the alliance, as mutual dependence between the two countries, intertwined through U.S. bases and defense contracts, runs deep. In July, Breaking Defense reported that Meloni was staunchly maintaining her hardline refusal to participate in offensive operations.

The Italian episode illustrates the definitive boundaries of ideological affinity. Even the European right-wing leader closest to Trump chose national interest and constitutional duty when confronted with entering the war. The "loyalty" Trump demanded and the "alliance" his allies understood were fundamentally incompatible concepts.

9.6 French President Macron's Multilateralism and the Legal Limits of NATO Article 5

France was the country that spoke most clearly on principle throughout this crisis. Right after the war began, President Emmanuel Macron condemned the joint U.S.–Israeli airstrikes as unlawful. On March 16 and 17, he made France's stance on the Hormuz crisis unequivocal: "We are not a party to this conflict." Accordingly, he affirmed that under the current circumstances, France would never take part in military operations to open or liberate the strait.

Macron simultaneously tabled a diplomatic alternative. He indicated that once major bombing operations ceased and the situation calmed down, France stood ready to establish an escort mechanism in concert with other nations. A French military official elaborated on the requisite preconditions: A mission to protect the strait required a credible ceasefire, a demonstrable reduction in hostilities, and prior negotiations with Iran. France engaged in consultations on this concept with European partners, Asian nations including India, and Gulf states.

Trump's initial reaction was comparatively restrained. Rating Macron's response an "8 out of 10," Trump remarked, "It's France, so I don't expect perfection." By late March, however, the mood soured. Trump castigated France for refusing to allow aircraft carrying military supplies to Israel to transit French airspace, blasting France as "very uncooperative."

On September 22, the divergent worldviews of the two leaders were laid bare once more at the United Nations General Assembly in New York. Trump delivered a speech centered on justifying the war on Iran. Stepping onto the same rostrum a few hours later, Macron did not utter Trump's name once. Instead, he posed a fundamental choice to the international community: Will the world return to a state of nature—the "law of the jungle"—or will it choose to live within a civilized international order? He urged sovereign nations to "stand firm." He warned against the "abuse of power by empires" that threatened the sovereignty of independent states, and denounced attacks targeting civilians and essential infrastructure as "acts of barbarism." It was the final UN General Assembly address for Macron, whose presidential term ends in 2027.

The legal bedrock enabling European nations to reject Trump's demands lay anchored in the North Atlantic Treaty itself. The centerpiece of the founding treaty signed in Washington in 1949 is Article 5. Article 5 establishes that an armed attack against one member state in Europe or North America shall be considered an attack against them all. This principle is known as collective defense. Article 6 defines the geographic scope within which such an attack must occur: namely, the territory of member states and the North Atlantic area.

The Iran war fell squarely outside this collective defense architecture. This is because it was not a war initiated by an armed attack against an allied member state. The United States and Israel had launched the initial strikes, and the battlefield was located in the Middle East. It was, by definition, an "out-of-area conflict" beyond NATO's treaty jurisdiction. The treaty imposes no legal obligation whatsoever on member states to take part in such conflicts or to open their military facilities for them. NATO Secretary General Mark Rutte acknowledged this legal boundary during his press conference in Ankara in July, stating plainly that Iran lay outside NATO territory and that NATO was merely stating a political position.

Historical context renders this contrast even sharper. In the 77-year history of the alliance, Article 5 has been invoked only once: immediately following the September 11 terrorist attacks in 2001. The nation attacked back then was the United States, and European allies invoked the treaty for America. Meloni had invoked this historical record in January, pushing back when Trump alleged that NATO forces in Afghanistan had stayed behind the front lines. Italy, she reminded him, had sent thousands of troops back then and lost dozens of soldiers. From Europe's perspective, the pledges of the alliance had been faithfully honored in the past; this war lay entirely beyond the boundaries of that compact.

Yet Europe's stance cannot be explained solely through adherence to legal principle. Europe also derives immense benefit from reopening the Strait of Hormuz. Preventing Iran from obtaining nuclear weapons is also an objective Europe shares. Rutte noted that broad support existed across Europe for curtailing Iran's nuclear and ballistic missile capabilities. In April, Sophia Besch of the Carnegie Endowment for International Peace wrote that Europe could not sit out this war. Inside Europe, voices were not entirely unified either. Israeli Foreign Minister Gideon Sa'ar mentioned

that there were countries like the Czech Republic that strongly supported the military campaign. Rutte himself had voiced support for the Iran strikes in March, drawing criticism from some member states. Ultimately, Europe's refusal is most accurately understood as the composite result of legal foundations, domestic public opinion, and distrust in how the war was conducted.

9.7 After 'COWARDS': What Did the Alliance Lose?

On April 7, the United States and Iran agreed to a two-week temporary ceasefire. The next day, April 8, Secretary General Rutte visited the White House. Ahead of the meeting, White House Press Secretary Karoline Leavitt declared that NATO had been "tested and failed." She charged that over the preceding six weeks, NATO had turned its back on the American people. Regarding a potential U.S. withdrawal from NATO, she acknowledged that it was an option the President had actively discussed. Following the two-hour meeting, Trump posted a message on Truth Social, lamenting that NATO had not been there when the United States needed it, and would not be there if needed again. During the same appearance, he once again resurrected the Greenland dispute.

For the United States to formally withdraw from NATO, however, is legally challenging. In December 2023, the U.S. Congress incorporated a binding provision into the National Defense Authorization Act (NDAA). The statute stipulates that no president may suspend, terminate, or withdraw U.S. membership in NATO without the consent of two-thirds of the Senate or an authorizing act of Congress. In an interview with the German newspaper Die Welt, Rutte stated that he did not foresee the United States leaving NATO. He explained this development as a process in which Europe was shifting away from an "unhealthy dependence" toward a mature partnership.

The ceasefire did not last long. In June, mediated by Pakistan, the United States and Iran signed a memorandum of understanding aimed at ending the war. Even thereafter, however, Iran continued to threaten and attack ships transiting the strait. On July 8, the interim ceasefire collapsed entirely when Iran attacked several merchant vessels. That very day, attending the NATO summit in Ankara, Trump declared that the ceasefire was "over."

The Ankara NATO Summit took place on July 7 and 8. The primary objective of European allies was to avert public confrontation with the United States and project unity. Yet the moment he arrived, Trump reignited his attacks on allies for their lack of cooperation in the Iran war. He threatened trade cutoff against Spain and dredged up Greenland once more. The official summit declaration reaffirmed an "ironclad commitment" to Article 5. Regarding Iran, it included merely a few generic lines on freedom of navigation in the strait and opposing a nuclear-armed Iran. The International Centre for Defence and Security (ICDS) in Estonia pointed out that Trump conspicuously dodged questions regarding Article 5. At the same time, the think tank observed that European leaders had gained a newfound confidence in letting Trump's provocations roll off their

backs. Rutte announced that the next summit would be held in Albania, though the timing remained unset.

Defense spending numbers illustrate the tangible shifts taking place across Europe. Core defense spending among NATO's European member states and Canada averaged 2.3% of GDP in 2025. In 2026, that figure climbed to 2.53%. However, only 5 of NATO's 32 member nations were projected to already exceed in 2026 the 3.5% core defense spending target set for 2035.

The crisis in the strait remained unresolved into late September. In August, Britain and France spearheaded efforts to organize a multinational naval coalition for "freedom of navigation." A working-level meeting with over 30 participating countries was also held. However, citing the instability of the ceasefire, European governments postponed the actual dispatch of forces. Military analysts projected that Europe's mission would be narrowly confined to commercial ship escort. By late September, the strait remained in a state where commercial vessels could virtually not pass. According to vessel-tracking data from the International Monetary Fund (IMF) via PortWatch, only 1 ship transited on September 20. Prior to the war, roughly 85 ships had passed through daily. On the sidelines of the UN General Assembly in New York, the United States and Iran engaged in negotiations to explore a phased reopening of the waterway.

The trajectory traced throughout this chapter reveals a consistent and recurring sequence: The United States initiated the war without consulting its allies. When the war dragged on and the strait was blocked, it demanded warships from its allies. When the allies refused, it insulted them with slurs like "cowards" and "paper tiger." Retaliation followed swiftly: Threats of trade cutoff, troop withdrawals, the cancellation of advanced missile deployments, and the reexamination of allies' territorial issues. This sequence—running from demands to insults to retaliation—closely mirrored the trajectory seen during the Greenland crisis.

The underlying rationale advanced by the Trump administration also merits separate examination. For decades, the United States shouldered a major portion of European security costs. Europe benefited from Hormuz crude while sharing none of the risks. Europe also concurred with the strategic objective of deterring an Iranian nuclear breakout. Both inside and outside the United States, observers noted that this argument possessed a degree of intrinsic logic. Yet an alliance is not merely a relationship of sharing burdens; it is a relationship of making decisions together. A demand to make decisions unilaterally while sharing only the costs fell outside the very definition of an alliance.

The ultimate fallout from this rift is steeped in paradox. Trump sought to intimidate Europe into obedience. Instead, Europe began rapidly accelerating its search for ways to endure without the United States. Germany moved to purchase directly the very missiles the U.S. military had promised to deploy. France and Britain designed a European-led naval mission that excluded the United States. The EU treated trade coercion against a single member, Spain, as an issue affecting all 27

member states. The weakening of the U.S. alliance system also created space for China's "selective transit" diplomacy, as seen in Chapter 8. While the West fractured, China secured practical gains by ensuring that only its own commercial tankers transited the strait.

The "COWARDS" remark did not end with Europe. In his March 17 post, Trump had already explicitly mentioned Japan, Australia, and South Korea. The Australian Transport Minister made it clear that Canberra would not send ships to the strait. The same coercive pressure subsequently shifted to Asian allies. The profound strategic dilemma confronting Japanese Prime Minister Sanae Takaichi is examined in Chapter 11. The process by which South Korean President Lee Jae-myung formally declared his refusal to deploy troops to the Middle East on September 18 is examined in the next chapter, Chapter 10. Europe's defiant stand established an unmistakable precedent for South Korea: An ally has both the sovereign right and legal justification to refuse participation in a foreign war based on treaty limitations and constitutional mandates. And how far the coercive pressure extracted as the price for that refusal can go was also demonstrated by the European case.

Key Timeline

February 28, 2026	The United States and Israel launch airstrikes against Iran (Operation "Epic Fury").
March 2	Iran declares the blockade of the Strait of Hormuz. Spain denies the use of Rota and Morón bases for attacks on Iran.
March 2	British Prime Minister Starmer explains to Parliament Britain's non-participation in offensive operations and base usage strictly restricted to defensive purposes.
March 3	Trump threatens a "total trade cutoff" with Spain. Remark regarding Starmer: "This is not Winston Churchill we are dealing with."
March 4	Spanish Prime Minister Sánchez declares "No to war" (No a la guerra) in a televised national address.
March 11	Italian Prime Minister Meloni characterizes the Iran war in Parliament as part of a perilous trend of interventions "outside the bounds of international law."
March 16	German Defense Minister Pistorius: "This is not our war"; Starmer: Britain will not be dragged into a "wider war"; EU Foreign Ministers' meeting rejects expanding naval mission into Hormuz.
March 16–17	Macron declares non-participation in operations to force open the strait under current conditions.
March 17	Trump posts: "The U.S. needs no help from NATO, nor does it need help from anyone."
March 19	Leaders of the UK, France, Germany, Italy, the Netherlands, Canada, and Japan issue a joint statement pledging contribution to strait safety post-ceasefire.
March 20	Trump assails NATO allies as "COWARDS" and a "paper tiger." The UK grants additional authorization for base use to strike Iranian missile sites targeting shipping.
March 27–28	Italy denies landing clearance at Sigonella to U.S. military aircraft lacking prior authorization (reported March 31).
Late March	Spain closes its airspace to U.S. military aircraft involved in Iran strikes.
April 7	The United States and Iran agree to a two-week ceasefire.
April 8	NATO Secretary General Rutte meets Trump at the White House. White House: "NATO was tested and failed."
Mid-April	Trump attacks Pope Leo XIV; Meloni pushes back, calling the remarks "unacceptable."

April 24	Reuters reports leaked Pentagon internal email detailing punitive options for non-cooperative allies (including reconsidering the U.S. stance on the Falkland Islands).
May 1	Pentagon announces the withdrawal of approximately 5,000 U.S. troops from Germany. Trump threatens troop withdrawals from Italy and Spain.
May 11	Financial Times reports Germany's fast-tracked direct procurement negotiations for Typhon launchers and Tomahawk missiles.
June	The United States and Iran sign a memorandum of understanding to end the war, mediated by Pakistan.
July 7–8	NATO Ankara Summit. Trump declares the Iran ceasefire "over."
August	Working-level meeting of the UK- and France-led Hormuz multinational mission convened (over 30 nations).
September 18	President Lee Jae-myung declares South Korea's refusal of troop deployment to the Middle East (Chapter 10).
September 22	Macron warns against a return to the "law of the jungle" in his final address to the UN General Assembly.

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Chapter 10. President Lee Jae-myung's Historic "NO": Refusal of Middle East Troop Deployment and Declaration of Peace

On the morning of Friday, September 18, 2026, a press conference was held at the Cheong Wa Dae State Guest House. It was the seventh press conference held by President Lee Jae-myung since his inauguration. Questions moved through real estate, constitutional amendment, prosecution reform, and investment in the United States. Yet the answer that domestic and international media awaited most eagerly was a different matter entirely. It was the question of whether South Korean troops would head to the Strait of Hormuz. President Lee answered as follows: "Let me be unequivocally clear. There will be no troop deployment that engages or intervenes in war."

This single sentence was a public answer to demands the United States had pressed for more than half a year. The New York Times reported it as a rejection of President Trump's request. The following day, Cheong Wa Dae clarified that it was not a rejection. Over the exact same statement, two opposing interpretations clashed: a resolute "NO" versus a "conditional contribution." This chapter traces the course leading up to that single sentence and the reverberations that followed in its wake.

10.1 Trump's Demand for Troop Deployment and Half a Year of Pressure

The war began on February 28, 2026. The United States and Israel launched airstrikes on Iran, and Iran closed the Strait of Hormuz. International crude oil prices surged to $118 per barrel (see Chapter 7). The U.S. Navy could not reopen the strait on its own.

On Saturday, March 14, President Trump took to Truth Social. He posted that he expected countries including China, France, Japan, South Korea, and the United Kingdom to send warships. A few hours later, he broadened the scope. He asserted that all countries receiving crude oil transiting Hormuz had to share the burden.

The South Korean government's initial reaction was cautious. The Ministry of Foreign Affairs stated that it would coordinate closely with the United States while conducting a thorough review. Cheong Wa Dae likewise took the stance that a decision would be made only after thorough deliberation. It was a strategy designed to buy time by deferring a decision.

European allies drew the line far more clearly. The German defense minister declared, "This is not our war." The United Kingdom, Spain, and Italy also refused to comply with requests for military intervention (see Chapter 9). On March 17, Trump complained that he had been rejected by most allies.

Around the same time, a different development was unfolding on the Korean Peninsula. In early March, heavy U.S. military transport aircraft flew repeatedly into and out of Osan and Pyeongtaek. Analyses emerged indicating that U.S. Forces Korea (USFK) Patriot missile batteries had been transferred to the Middle East. On March 10, President Lee publicly acknowledged the out-of-theater transfer of certain USFK military assets. He added the explanation that while South Korea had voiced objections, it was unable to prevail. At the same time, he remarked that the nation must always be prepared for times when external assistance is absent. This meant that South Korea had to build its own self-reliant defense capabilities to protect itself.

It was a moment in which the "strategic flexibility" of USFK materialized as concrete reality. Strategic flexibility is the concept that USFK forces can be deployed to conflicts beyond the Korean Peninsula. The U.S. Department of Defense articulated this posture clearly in its new National Defense Strategy released in January. Its premise was that allies must bear primary responsibility for their own defense. In effect, the United States was withdrawing South Korea's air defense assets while simultaneously demanding South Korean warships.

Domestic public opinion was negative toward troop deployment from the very beginning. In a March Gallup Korea survey, 55% opposed sending warships, while only 30% favored it. People's Solidarity for Participatory Democracy (PSPD) argued that the U.S. attack on Iran constituted aggression under international law. The civic group stated that participating in it would violate the Constitution, which renounces wars of aggression. Conversely, some lawmakers from the People Power Party argued that dispatching troops was necessary.

The pressure intensified once again in the summer. August 16 was the day before the start of the Ulchi Freedom Shield (UFS) exercise. UFS is the annual South Korea–U.S. combined military exercise held every August. The 2026 exercise had been scheduled to run for 11 days, from August 17 to 27. Trump wrote on Truth Social that he had ordered the exercise to be "drastically scaled back."

He cited three reasons. The first was the cost of the exercise. The second was his "very good relationship" with Chairman Kim Jong Un. The third was South Korea's refusal to join the war in Iran. Trump wrote that he had asked the South Korean president whether he would join the effort to denuclearize Iran. He noted that the answer that came back was "No thanks." Although he called this detail "somewhat unrelated," he went out of his way to insert it anyway.

The exercise began as scheduled, but it could not run its full course. South Korean and U.S. military authorities confirmed a schedule change on August 19. The exercise concluded on August 21. It wrapped up six days ahead of the original plan. The U.S. Department of Defense announced that certain live field-training maneuvers had been canceled or replaced with simulation exercises.

Cheong Wa Dae lowered the tone of its response. It explained that the South Korean government had been actively participating in international discussions aimed at securing a ceasefire in Iran and

restoring navigation through the strait. It stated that Seoul was also consulting closely with Washington. Cheong Wa Dae further expressed hope that the relationship between Trump and Chairman Kim would lead to renewed U.S.–DPRK dialogue. Rather than disputing the curtailment of the exercise, the administration chose to interpret it as an opportunity for U.S.–North Korea talks.

Two weeks later, Trump reiterated the same narrative on television. It was during an interview with Trey Gowdy on Fox News on Sunday, August 30. He said that the United States spends billions of dollars helping other nations. Yet he complained that America receives virtually no help in return. The country he singled out as an example was South Korea.

Trump claimed that there were 40,000 U.S. troops stationed in South Korea. The actual size of USFK is approximately 28,500 personnel. He said he had asked whether South Korea could "help us out a little bit" on the Iran issue. He recounted that South Korea replied, "We'd rather not." He then insisted repeatedly that such things must be remembered. He also remarked that it is foolish to help a country that refuses to help you.

Trump's remarks were an amalgamation of requests, grievances, and warnings. They were conveyed not through formal diplomatic documents, but via broadcasts and social media networks. The South Korean government chose to maintain ongoing consultations rather than issue an open rebuttal.

10.2 The Weighing of Options in Early September: Reviewing Contributions and Tehran's Warnings

As September began, the atmosphere in Seoul underwent a shift. On September 4, Cheong Wa Dae announced that it was reviewing potential military contributions regarding the Strait of Hormuz. A caveat was attached. It stipulated that any contribution must not disrupt the readiness posture of the South Korean military. Officials accompanied this with the clarification that nothing had yet been finalized.

In early September, the Ministry of National Defense dispatched an on-site assessment team to the United Arab Emirates (UAE). The assessment team returned after surveying the overall security situation across the Middle East. The media interpreted this move as a signal that practical preparations for a deployment were underway.

Tehran responded without delay. On September 7, Iranian Foreign Ministry spokesperson Esmaeil Baghaei posted a message on X. The message was written in Korean. He wrote that the two countries had maintained relations grounded in mutual respect for over 64 years. He also noted that Iran places great value on its friendship with South Korea.

Yet the warning was unmistakable. He emphasized that the Iranian people were currently defending themselves against American aggression. Under such conditions, any military presence maintained by another country in the Persian Gulf or the Strait of Hormuz would pose a problem. He wrote that such participation could only be viewed as directly aiding the aggressor. And he asserted unequivocally that "serious consequences" would follow.

Rhetoric from Iranian academics was even harsher. Professor Mohammad Marandi of the University of Tehran questioned what South Korea could possibly achieve with just one or two ships. He warned that Iran could strike not only South Korean military assets but also South Korean economic assets throughout the Gulf region. On September 11, Iranian Foreign Minister Abbas Araghchi placed a telephone call to Foreign Minister Cho Hyun. The very same message was thus delivered directly at the ministerial level.

South Korea was subjected to pressure from two directions simultaneously. The United States demanded contributions, while Iran warned that it would retaliate if contributions were made. South Korean expatriates, businesses, and commercial vessels are located throughout the Middle East. Roughly 70% of South Korea's crude oil imports come from the Middle East, with the vast majority transiting the Strait of Hormuz. Whichever path Seoul chose, it was a dilemma guaranteed to extract a heavy toll.

Opinion polls published around this time further narrowed the government's options. Gallup Korea surveyed 1,000 adults from September 8 to 10. Fifty-five percent of respondents said troops should not be dispatched. Thirty-two percent answered that troops should be deployed. The 23-percentage-point difference well exceeded the margin of error.

Responses diverged along partisan lines. Among supporters of the Democratic Party of Korea, 69% were opposed. Among supporters of the People Power Party, 50% were in favor. Sixty-seven percent of respondents indicated that they supported neither side in the war. A mere 25% supported the United States and Israel.

The National Barometer Survey (NBS) conducted during the same week showed a similar trend. Regarding the dispatch of maritime patrol aircraft or logistics support ships, 45% were opposed and 36% were in favor. Even when framed as non-combat support assets rather than combat warships, opposition remained the majority sentiment.

Voices on the streets grew louder as well. On September 17, a press conference was held in front of the Cheong Wa Dae fountain calling for a resolute decision against troop deployment. The event was organized by the "Emergency Action to Halt U.S. Aggressive War and Oppose ROK Troop Deployment." Peace and reunification groups, university students, women farmers, and progressive political parties participated together. On the same day, the Korean Confederation of Trade Unions (KCTU) also held a denunciation rally near the U.S. Embassy in Seoul.

Around this time, President Lee's approval rating had dropped into the mid-30% range. This was the cumulative result of soaring housing prices combined with various political controversies. Under these circumstances, mishandling a single foreign policy issue risked further destabilizing his administration's governing momentum. It was against this backdrop that the September 18 press conference took place.

10.3 The September 18 State Guest House Press Conference: "Let Me Be Unequivocally Clear"

The press conference was broadcast live nationwide. When the Hormuz question was raised, President Lee stated his baseline principle first: "Let me be unequivocally clear. There will be no troop deployment that engages or intervenes in war." He went on to say that this principle had been maintained thus far and would continue to be upheld moving forward.

Yet his answer did not end there. President Lee also made it clear that essential, baseline activities must be carried out. He maintained that, like other nations, South Korea had to protect commercial merchant vessels and crude oil shipping routes. Protecting the lives and safety of citizens, he explained, was also part of this.

He explicitly mentioned the Cheonghae Unit: "The Cheonghae Unit is already deployed and responding to threats against our citizens' safety, such as piracy." "It is true that we are reviewing and carefully deliberating ways to strengthen this role."

The Cheonghae Unit is a naval contingent first dispatched to the Gulf of Aden in 2009 to counter Somali pirates. It operates with a 4,400-ton class destroyer accompanied by Lynx helicopters and special warfare personnel. The crew numbers approximately 260 personnel. In January 2020, the Moon Jae-in administration expanded this unit's operational theater to the Strait of Hormuz. At that time, South Korea did not join the U.S.-led maritime security coalition. Instead, it chose to operate independently under South Korean command.

Conscious of potential misunderstanding, President Lee emphasized the point once again. He noted that some people were concerned about troop deployments aimed at taking part in or supporting the war. He added that there were also anxieties over whether combat troops might be sent. He then reiterated that there would be no troop deployment for war.

The Red Sea issue was also addressed. President Lee explained that during the early stages of the war, South Korean merchant vessels did not enter the Red Sea. Because of that, substantial disruptions occurred in crude oil supplies. He judged that abandoning crude oil transport due to low-level risks inflicted too severe a blow on the economy. Therefore, he instructed officials to review transit through the Red Sea, stating that he would take personal responsibility for the

decision. It was interpreted as drawing a clear line against combat while taking proactive ownership of clearing maritime routes for commerce.

At the same press conference, President Lee also discussed U.S.–North Korea dialogue. He remarked that while resuming dialogue between Chairman Kim and President Trump would be difficult, the possibility could not be ruled out. He stated that President Trump wanted dialogue, and that he himself was continuing to play a preliminary coordinating role. Regarding the "Flagship Project No. 1" for investment in the United States, he revealed that Seoul and Washington were engaged in a "fierce debate." He reaffirmed that serving consecutive terms through constitutional amendment is constitutionally impossible and that he had no intention of doing so.

A few hours after the press conference, there was movement in Washington as well. Foreign Minister Cho Hyun met with U.S. Secretary of State Marco Rubio on September 18, local time. It was the first formal bilateral meeting between the two ministers in seven months. Minister Cho explained that South Korea was willing to make a "substantive contribution" toward restoring freedom of navigation in the strait. The Foreign Ministry's announcement did not specify what that contribution would be. The two agreed to continue close consultations on the matter.

Seoul's "non-intervention in war" and Washington's "substantive contribution" were unveiled on the very same day. Far from being contradictory, the two were a synchronized message designed as a single package. The structure was to refrain from entering the combat, while fulfilling South Korea's share of responsibility for maritime safety.

10.4 "NO" or Conditional Contribution: Divergent Interpretations

Depending on the recipient, the message was interpreted differently. The New York Times reported that President Lee had rejected Trump's request. This was because what the United States wanted was warships, and the answer South Korea gave was "non-intervention in war."

Cheong Wa Dae stepped forward with a clarification the following day, on September 19. An anonymous senior official stated that the president had not rejected Trump's request for cooperation. The official stated that the government had been reviewing ways to make substantive contributions for the protection of citizens and the national interest. The official added that Seoul was communicating closely with the international community, including the United States. It was explained that concrete options would be formulated within the principle of non-involvement in war or combat.

This clarification targeted two audiences at once. To Washington, it sent the signal that South Korea had not ignored an ally's request. Domestically, it reaffirmed the principle that there would be no combat troop deployment. In diplomatic language, it widened the space between "rejection" and "acceptance."

Domestic reactions, however, were sharp from the opposite direction. The KCTU issued a statement on the day of the press conference. It asserted that strengthening the activities of the Cheonghae Unit in an area where war was ongoing was itself military intervention. The union claimed that, even if not called that in name, it was a "deceptive backdoor deployment." It viewed intelligence sharing, reconnaissance, and mine-clearing support as indistinguishable from participating in the war. The logic was that even without carrying rifles, supporting U.S. military operations made South Korea a belligerent in the conflict.

The KCTU staged an emergency action from the afternoon of September 19 through the morning of September 20. Following a march through downtown Seoul, it held an all-night sit-in protest at Gwanghwamun. KCTU President Yang Kyoung-soo demanded that President Lee stop wavering and looking both ways. On September 23, ahead of the Chuseok holiday, emergency action groups gathered at Seoul Station. They distributed leaflets to holiday travelers and appealed for signatures on a National Assembly public petition. Their core contention was that even an "indirect troop deployment" had to be prevented.

Legal issues also remained. The deployment of the Cheonghae Unit is conducted within the mission parameters established through the consent of the National Assembly. Some civic groups argued that strengthening activities toward Hormuz could exceed those boundaries. When the operational theater was expanded in 2020, debate similarly arose over whether parliamentary approval was required. Depending on the specifics of the enhancement plan, the same controversy could reignite.

Experts took a somewhat different view. Multiple analysts pointed to expanding the Cheonghae Unit's mission, maritime surveillance, and logistical support as viable options. There was broad agreement that, in any case, the command structure and operational scope would be critical. Shin Jong-woo, senior researcher and secretary-general of the Korea Defense and Security Forum (KODEF), acknowledged the feasibility with certain conditions. He assessed that an expansion was feasible provided its objective remained the protection of merchant shipping without directly engaging Iranian forces in combat. Opinions were also voiced that the Cheonghae Unit should remain under independent South Korean command.

In summary, the September 18 remarks consisted of three layers: The first layer was the principle of not deploying troops to engage or intervene in war. The second layer was the practical realism of carrying out minimal activities to protect South Korean vessels and citizens. The third layer was the diplomatic framework of undertaking those activities alongside the international community. The "NO" was an answer regarding the first layer, leaving the second and third layers open.

10.5 Historical Troop Deployment Decisions and the Coordinates of September 18

The history of South Korea's overseas military deployments has largely unfolded alongside U.S. requests. From 1964 to 1973, more than 300,000 cumulative troops were dispatched to the Vietnam War. In the 1991 Gulf War, South Korea sent military medical support units and Air Force transport wings. During the 2001 War in Afghanistan, naval and air transport support units were deployed first. Subsequently, the Dongui Medical Unit and the Dasan Construction Engineering Unit were dispatched.

The Iraq War generated the greatest controversy. The Seohee and Jema units dispatched that spring were non-combat engineering and medical personnel. When the United States requested combat troops in September 2003, a majority of the public (76% in one poll) opposed it. The Roh Moo-hyun administration dispatched the Seohee Engineering Unit and the Jema Medical Unit that year. In 2004, the Zaytun Division, under the banner of peace and reconstruction, was sent to Erbil. Even an administration that had campaigned on being "a country that can say 'No'" ultimately opted for troop deployment.

The 2020 decision was a case that deviated slightly from this pattern. At that time, the United States requested participation in a maritime security coalition in the Strait of Hormuz. The Moon Jae-in administration merely expanded the Cheonghae Unit's operational theater without joining the coalition. It was a compromise that partially accommodated the U.S. request while preserving relations with Iran.

The September 18 remarks stand as an extension of that 2020 approach. Three differences, however, set it apart: First, while there was no active combat in 2020, in 2026 the United States was actually at war. Second, the statement came after the U.S. president had publicly taken issue with South Korea's non-participation. Third, the president declared the principle first in a live, televised press conference, deferring the detailed plan for later.

This is precisely why this book refers to this moment as a "historic NO." Faced with repeated requests from an ally engaged in war, the president publicly ruled out combat involvement. Such a scene is rare in South Korean diplomatic history. However, it is difficult to conclude definitively that this was "the first outright refusal since the founding of the republic." In the past as well, South Korea calibrated the level of its response by sending non-combat units instead of combat troops. Cheong Wa Dae itself explained that this statement was not a rejection. Therefore, September 18 is closer to a decision to publicly draw a line rather than a total refusal. What was new was that the president directly, proactively, and before the public declared where that line stood.

Behind this decision were several calculations: The first was public opinion. In Gallup polls, opposition to troop deployment stood at 55% in both March and September. Opposition among

ruling party supporters reached 69%.

The second was the risk of Iranian retaliation. South Korean oil tankers and expatriates traveling in the Middle East are within Iran's striking range. In May, a vessel belonging to HMM had already been attacked. Participating in combat would mean South Korea directly assuming that risk.

The third was the Constitution and international law. Article 5 of the Constitution renounces wars of aggression. The U.S. strikes on Iran are dogged by controversy over violations of international law. Participating in combat would be a choice to plunge into the very middle of this controversy.

The fourth was alliance management. While declaring non-participation in combat, Seoul kept hold of the alliance tether by promising a "substantive contribution." South Korea had already paid a price through the removal of USFK air defense assets and the scaling down of combined exercises. Factored in was a calculation to avoid worsening relations any further.

10.6 Distance Confirmed in New York, and the Remaining Challenges

President Lee departed for New York on September 21 to attend the United Nations General Assembly. Even before his departure, whether a summit with Trump would take place was a matter of intense interest. Negotiations on investment in the United States were deadlocked, and the Hormuz issue also hung in the balance.

In his keynote address to the UN General Assembly on September 22, President Lee addressed Hormuz directly. As one pillar of the "K-Initiative," he put forward a global energy supply chain solidarity framework. Its name was the "Coalition of Constructive Contributor Nations." The concept was to broaden participating countries using supply chains as the link, rather than confining it to military and defense affairs. President Lee stated that nations could not simply sit back and wait until everyone agreed on a single solution. It was a proposal that gave concrete shape to the contribution pledge he had made in April at the International Summit for Freedom of Navigation in Hormuz.

On the evening of the same day, the South Korea–U.S. summit was held. During a reception hosted by Trump, the two leaders moved to a separate private room in the hotel. The meeting lasted for about 30 minutes, starting at 7:20 p.m. The summit, which had remained uncertain until the very last moment, materialized as negotiations on U.S. investment made rapid progress. It was the third South Korea–U.S. summit since President Lee took office.

The agenda was wide-ranging. The two leaders welcomed the significant progress achieved in discussions on strategic investment projects. They addressed nuclear-powered submarine fuel, uranium enrichment, and spent nuclear fuel reprocessing. They also discussed shipbuilding cooperation and the transfer of wartime operational control (OPCON). It was the first time that OPCON transfer had been discussed at the head-of-state level. Trump said he maintained a good

relationship with Chairman Kim. President Lee wished him success in the U.S.–China summit scheduled for the following day.

The Strait of Hormuz was not brought to the negotiating table. A senior Cheong Wa Dae official stated that there was no discussion regarding Hormuz. The official explained that rather than being omitted due to an overcrowded agenda, neither side had specifically raised it. At the start of the meeting, Trump asked after the First Lady and suggested a round of golf. As the meeting concluded, President Lee responded by suggesting they play golf at the G20 summit in Miami that December.

Trump, who had warned in late August that "we should remember," did not bring up Hormuz on September 22. It was confirmed that the September 18 principle had not blocked head-of-state diplomacy with the United States. However, this did not mean the problem had been resolved. It was highly likely that the U.S. demand had not been withdrawn, but merely pushed back temporarily. Trump had frequently used the tactic of stockpiling grievances only to bring them up in different negotiations.

The remaining challenges can be summarized in four areas:

First, the specific details of the "substantive contribution" must be determined. The scope of strengthening the Cheonghae Unit, its chain of command, and rules of engagement are paramount. South Korea must decide whether to stop at protecting its own vessels or to what extent it will connect with multinational activities. Both the United States and Iran are watching that choice.

Second, the government must go through consent procedures with the National Assembly and the public. Modifying the Cheonghae Unit's mission parameters could reignite the issue of parliamentary approval. In a situation where public opposition to troop deployment constitutes a majority, pushing ahead without explanation is difficult. Having declared the principles, the president must now publicly explain the detailed plan.

Third, dual energy dependence must be reduced. South Korea relies on the Middle East for crude oil, and relies on U.S.–China relations for the security of those sea lanes. In 2025, Middle Eastern crude accounted for 69.1% of South Korea's crude oil imports. By diversifying import sources, the government lowered this share to 62.8% in January–May of this year. The medium- to long-term target is below 50%. As this figure decreases, South Korea's diplomatic leeway surrounding Hormuz will expand.

Fourth, the consultative framework for the redeployment of USFK assets must be refined. In March of this year, South Korea objected to the removal of air defense assets but could not prevent it. Should a crisis escalate in the Taiwan Strait, the same thing could happen on an even larger scale. This is why OPCON transfer and securing independent air defense capabilities are being discussed together.

The September 18 statement is a line that South Korean diplomacy drew for itself. That line blocked participation in combat, but it did not erase responsibility for maritime safety. Caught between American demands, Iranian warnings, and domestic public opinion, the space South Korea can navigate is narrow. The work of filling that narrow space with principles and concrete measures has now begun. The November U.S. midterm elections and the deadline for the U.S.–China trade truce will serve as its first test. The tensions in East Asia heading into 2027 will be addressed again in Chapter 51.

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Chapter 11. Japanese Prime Minister Takaichi's Dilemma and the Legal Quandary of East Asian Allies

> Trump, Pressuring for Support in the Strait of Hormuz While Even Invoking Pearl Harbor at the U.S.–Japan Summit, and the Beleaguered Plight of Japan and East Asian Allies Hemmed In by Constitutional and Statutory Constraints

In the spring of 2026, America's Asian allies stood before the exact same question: Must we dispatch our troops to a war initiated by the United States?

Before anything else, this question was snagged on legal constraints. Japan had to operate within the strict boundaries of its Peace Constitution and security-related legislation. South Korea required the consent of the National Assembly for overseas troop deployments. Australia drew a firm line, asserting that it had never received an official request.

This chapter traces this dilemma, focusing on Japanese Prime Minister Sanae Takaichi (高市早苗). It is a six-month chronicle spanning from the Washington summit in March to the New York bilateral meeting in September. The phrase "legal quandary" in the chapter title does not denote judicial court rulings; rather, it refers to the predicament in which nations find it difficult to meet an ally's demands due to the explicit limits inscribed in their constitutions and laws.

11.1 The Shadow of Pearl Harbor: A Remark in the Oval Office

On Thursday, March 19, 2026, Prime Minister Takaichi sat in the Oval Office of the White House. It was her first visit to the White House since taking office as prime minister.

Takaichi had become Japan's first female prime minister in October 2025. In the February 2026 general election for the House of Representatives, she secured a landslide victory. She had already met President Trump once before, in Tokyo in October 2025. On that occasion, Takaichi won Trump's favor by offering to nominate him for the Nobel Peace Prize.

This visit took place in the very midst of war. On February 28, the United States and Israel launched airstrikes on Iran under the American operation codename "Epic Fury." The Islamic Revolutionary Guard Corps (IRGC) effectively blockaded the Strait of Hormuz. Takaichi was the first leader of a major allied nation to visit Washington following the outbreak of the war.

Originally, the summit's center of gravity lay elsewhere. Trump's visit to Beijing was fast approaching. Tokyo sought confirmation that Trump would not overlook Japanese interests while in Beijing. Japan was also prepared to unveil the second tranche of its promised $550 billion investment package in the United States.

The war upended this timetable. A few days before the summit, Trump demanded that allies dispatch warships. Alongside the United Kingdom, France, Japan, and South Korea, he even invoked China's name. It was a demand to jointly defend the Strait of Hormuz.

Yet on March 17, Trump reversed course. He wrote on social media that he neither needed nor ever wanted help from NATO nations anymore, adding that the same applied to Japan, Australia, and South Korea. This came immediately after European allies had refused troop deployments one after another—a sequence of events detailed in Chapter 9.

Tokyo did not take this statement at face value. On the morning of the summit, Treasury Secretary Scott Bessent remarked that Japan needed to take care of its own energy supply security. Widespread speculation held that Trump would bring up troop deployment again during the summit.

Before departing Japan, Prime Minister Takaichi revealed her underlying thinking in the Diet. Legally speaking, she noted, it was an extraordinarily difficult matter. She explained that Tokyo was weighing what Japan could do independently and what remained feasible within legal boundaries. She signaled her intention to clearly explain to Trump what Japan could and could not do under Japanese law.

The meeting lasted approximately 90 minutes. In her opening remarks, Takaichi stated that the war was dealing a severe blow to the global economy. She also condemned Iran's blockade of the strait and its attacks on neighboring countries. Turning toward Trump, she then declared:

"I firmly believe that the only person who can bring peace to the world is you, Donald."

This followed the grammar of Japanese diplomacy toward Trump established during the tenure of former Prime Minister Shinzo Abe: safeguarding bilateral relations by showering the other party with praise.

The atmosphere shifted abruptly due to a single question from a reporter. A Japanese journalist asked Trump why he had not informed allies such as Japan before launching attacks on Iran. Trump replied:

"We went in very hard. We didn't tell anybody because we wanted the element of surprise. And who knows more about surprise than Japan? Why didn't you tell me about Pearl Harbor? You seem to believe in surprises much more than we do."

Trump laughed as he spoke. In the room, gasps, murmurs, and laughter erupted simultaneously. Takaichi leaned back in her chair with wide eyes. Yet she uttered no response. As the press conference drew to a close, cameras caught her glancing at her wristwatch twice.

The attack on Pearl Harbor occurred on December 7, 1941. The Imperial Japanese Navy launched a surprise attack on the U.S. Pacific Fleet in Hawaii. Approximately 2,400 Americans were killed,

propelling the United States into World War II. Trump was born five years later, in June 1946. The Japan Times made a point of noting this fact in its report.

In effect, Trump had turned an 85-year-old surprise attack into fodder for a joke right before the leader of an allied nation. Furthermore, this remark was itself an admission that the United States had embarked on war without consulting its allies.

At the same meeting, Trump praised Japan. Observing statements made by Japan over recent days, he remarked that Japan was "stepping up to the plate"—a baseball idiom meaning taking responsibility. Trump also told Takaichi that he was proud of her.

Yet praise and pressure were two sides of the same coin. Trump repeatedly underscored that Japan imported the vast majority of its crude oil from the Middle East. He insisted several times that Japan needed to do more in Hormuz. Later, the Japanese Prime Minister's Office posted a brief note on X (formerly Twitter) stating that the United States had made no specific request for Japan to dispatch naval vessels.

Reactions within Japan were mixed. Expressions of embarrassment surfaced first. Former diplomat Hitoshi Tanaka wrote on X that he felt ashamed seeing the prime minister flatter Trump. Junya Ogawa, leader of the primary opposition Centrist Reform Coalition, acknowledged the closeness between the two leaders, but pointed out that the claim that only Trump could bring peace ran counter to what many Japanese believed. Ogawa added that Takaichi would have to explain that remark upon her return. Online, voices even emerged blaming the Japanese reporter who posed the question.

During her remarks at the dinner that evening, Takaichi made no mention of Pearl Harbor. Instead, she emphasized the warm regard Trump had shown toward Japan. Trump expressed gratitude for the 250 cherry blossom trees gifted by Japan.

The summit documents were replete with financial commitments. The two governments announced the second tranche of their $550 billion strategic investment package. At its core were small modular reactors (SMRs) to be constructed by a joint venture between GE Vernova and Hitachi. SMRs are nuclear reactors built on a smaller scale than conventional nuclear plants, assembled from factory-fabricated components. The projected scale of this project, spanning Tennessee and Alabama, reached up to $40 billion.

To this were added up to $17 billion for gas-fired power plants in Pennsylvania and up to $16 billion for gas-fired power plants in Texas. The second tranche alone totaled approximately $73 billion. The two nations also unveiled an action plan for critical mineral supply chains. Takaichi proposed pursuing a joint project to store U.S. crude oil in Japan. Trump promised that he would speak highly of Japan when he met Xi Jinping.

The Japanese government breathed a sigh of relief. The assessment that the worst had been averted spread throughout Tokyo. Experts at the Foreign Policy Research Institute (FPRI) viewed it this way: if the absence of immediate disaster qualifies as the best possible outcome, the bar was set low, but that low bar was cleared. Securing no concrete commitments on Hormuz while avoiding Trump's public rebuke represented a political victory for Takaichi.

Yet this victory came at a price. Japan proffered cash instead of warships. And it swallowed whole the humiliation left behind by the Pearl Harbor remark.

11.2 Article 9 of the Constitution and the Wall of "Survival-Threatening Situations"

There was a phrase Takaichi repeated before Trump: that there were things Japan could do and things it could not do within the framework of Japanese law. To understand this statement, one must first examine Japan's security legal framework.

The starting point is Article 9 of the Constitution. Paragraph 1 stipulates that Japan forever renounces war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes. Paragraph 2 prescribes that land, sea, and air forces, as well as other war potential, will never be maintained, and that the right of belligerency of the state will not be recognized. Drafted under the U.S. military occupation following Japan's defeat in World War II, not a single word of this article has been altered to this day.

For decades, the Japanese government interpreted this article as follows: Japan may exercise only the right of individual self-defense to protect itself when directly attacked; it cannot exercise the right of collective self-defense to defend an ally.

The leader who changed this interpretation was former Prime Minister Shinzo Abe. In 2014, the Abe Cabinet altered the constitutional interpretation via a cabinet decision. In 2015, it steered the supporting security-related legislation through the Diet. The concept established at this juncture was the "Survival-Threatening Situation" (存立危機事態, sonritsu kiki jitai).

To be designated as a Survival-Threatening Situation, three requirements must all be satisfied:

First, an armed attack must occur against a foreign country that has a close relationship with Japan; that attack must threaten Japan's survival; and there must be a clear danger that the Japanese people's right to life, liberty, and the pursuit of happiness would be fundamentally overturned.

Second, there must be no other appropriate means available to repel the attack and ensure Japan's survival and protect its people.

Third, the use of force must be limited to the minimum necessary extent.

In addition, prior approval by the Diet is required in principle. The government cannot make this determination alone.

The Iran war falters at the very first requirement. This war began when the United States and Israel launched the first attacks. It was not a scenario where the United States came under armed attack and Japan stepped in to assist; rather, it was a scenario where Japan would be plunging into a war the United States had started. Legally, this distinction is decisive.

This was precisely why Prime Minister Takaichi evaded making a determination in her Diet testimony on whether the U.S. airstrikes conformed to international law. Declaring the strikes justified would ignite fierce backlash from legal scholars and opposition parties; declaring them unjustifiable would amount to openly criticizing an ally. Whichever side she took, the legal foundation for troop deployment would be undermined.

There was room to argue that the situation in the Strait of Hormuz threatened Japan's survival. Japan imports more than 90% of its crude oil from the Middle East. If the strait were sealed off, the economy could collapse. Indeed, during the Diet deliberations over the 2015 security legislation, the Abe administration cited minesweeping in Hormuz as a prime example of a Survival-Threatening Situation. Even back then, however, critics fiercely attacked this scenario as an overly expansive interpretation. Moreover, it is difficult to classify a situation as an existential survival crisis when the country can endure for several months by releasing strategic petroleum reserves.

Aside from a Survival-Threatening Situation, other avenues existed. The Japanese government examined three main pathways:

The first was minesweeping under the Self-Defense Forces (SDF) Act. Following the end of the 1991 Gulf War, Japan dispatched minesweepers to the Persian Gulf under this provision. Minesweepers are vessels that locate and clear sea mines laid in water bodies. However, a strict condition applies: under the Japanese government's interpretation, clearing mines laid by a belligerent party while hostilities are ongoing can be regarded as the use of force. This provision can be invoked only to clear abandoned mines after a ceasefire is in place.

The second was the "research and study" (調査·研究) clause of the Act for Establishment of the Ministry of Defense. In 2020, Japan dispatched a destroyer and patrol aircraft to the Middle East under this provision, citing intelligence gathering as the justification. Yet invoking this same rationale in a strait amid active, full-scale armed conflict was legally untenable.

The final option was maritime police action (海上警備行動). This is a constabulary mission intended to protect Japanese vessels. However, it cannot be used to protect foreign vessels, and the scope of authorized weapons use is narrowly restricted.

On May 1, UPI cited Japanese media reports indicating that the Japanese government had considered two options prior to the summit: dispatching minesweepers under the SDF Act, and

deploying destroyers and patrol aircraft under the rubric of "research and study." Both options were shelved over concerns that they could violate the Peace Constitution.

Those with firsthand operational experience issued even more direct warnings. Kyoji Yanagisawa (柳澤協二), former Assistant Chief Cabinet Secretary, was one of them. He had handled operational security matters during the Koizumi Cabinet's 2004 SDF deployment to Iraq. In media interviews, he argued to the following effect:

The SDF had relied on various workarounds over the years—such as the post-Gulf War minesweeping in 1991, the Iraq deployment in 2004, and the deployment to the Gulf of Oman in 2020. The foundational premise of all those deployments was the strict principle that troops would remain exclusively within "non-combat areas." For that reason, the SDF never fired a single shot in Iraq and suffered zero combat casualties. Today's Hormuz, by contrast, is an active theater of combat traversed by missiles and drones. If an SDF vessel were to suffer casualties there or engage in combat with Iranian forces, it would be unprecedented in the history of the SDF. Japan could find itself in a state of war with Iran.

Professor Stephen Nagy of the International Christian University in Tokyo offered a similar assessment. Japan would seek ways to assist the United States through legally viable channels—such as minesweeping, refueling, or maritime surveillance support roles. His conclusion, however, was that no one should expect Japanese warships to engage Iranian-aligned forces in combat.

The Japanese government's actions closely tracked this analysis. On March 22, Foreign Minister Toshimitsu Motegi stated that minesweeping units could be dispatched once a ceasefire was established. On March 25, Prime Minister Takaichi stated before the House of Councillors Budget Committee that the government would consider dispatching minesweeping units in the future, attaching the condition that decisions would depend on the prevailing circumstances and legal boundaries at the time.

In late April, Takayuki Kobayashi, Chairman of the Policy Research Council of the ruling Liberal Democratic Party (LDP), submitted a proposal calling on the government to consider dispatching minesweepers once combat between the United States and Iran concluded. He framed this as one of the ways to protect national interests within constitutional and legal constraints.

In mid-June, as the United States and Iran appeared to close in on an agreement, Japan took another step forward. It added its signature to a joint statement issued by European nations, expressing readiness to undertake a defensive, independent mission to protect commercial shipping and conduct minesweeping. On June 16, however, Defense Minister Shinjiro Koizumi stated that no decision had yet been made regarding an SDF deployment. The Maritime Self-Defense Force (MSDF) possessed 16 vessels capable of conducting minesweeping operations.

On July 12, the IRGC renewed its declaration of a total blockade of the strait. The ceasefire that served as the prerequisite for dispatching minesweepers was called into question. Through late September, when this manuscript was finalized, no official announcement has been confirmed regarding the entry of MSDF minesweeping units into Hormuz.

Japan's legal framework functioned as a shield against Trump's demands. At the same time, it acted as shackles binding Japan hand and foot. This duality constitutes the core of the Takaichi dilemma.

11.3 Public Opposition and 80 Million Barrels: Between Public Sentiment and Energy

Washington was not the only source of pressure bearing down on Takaichi. Domestic public opinion was decisively opposed to troop deployment.

Two opinion polls released over the weekend immediately following the summit captured this sentiment. In a Yomiuri Shimbun poll, 67% opposed dispatching the Self-Defense Forces to the Middle East. An ANN poll recorded 52% opposition. A survey conducted from March 27 to 29 by Nikkei and TV Tokyo painted an even starker picture: only 18% responded that the SDF should be sent to Hormuz in response to Trump's demand, while 74% were opposed.

What was intriguing was the cabinet approval rating. In the Yomiuri poll, approval stood high at 71%, and in the ANN poll, it remained robust at 65.2%. Furthermore, 69% of respondents in the Yomiuri survey evaluated the summit outcome favorably. Even as the public opposed overseas deployment, they rewarded the prime minister for navigating the summit without committing troops.

Experimental survey research from the Stanford Japan Barometer (SJB) revealed the same underlying current. In March, researchers surveyed respondents on their support for troop deployment. When asked without any framing, the average support score was 2.00 on a 4-point scale, where 1 represented strong opposition and 4 represented strong support. For the group primed with the energy security argument—that failing to deploy forces would cause the economy and daily livelihood to collapse—support edged up by approximately 0.12 points. By contrast, the argument emphasizing the vital importance of the U.S.–Japan alliance failed to move public opinion in any meaningful way.

The implication of this finding is clear: if Japanese citizens were receptive to troop deployment at all, it was driven by energy security, not alliance obligations. The alliance card played by Trump held little sway over the Japanese public.

The energy reality was indeed precarious. Japan relies on the Middle East for approximately 95% of its crude oil imports, with most of it traversing the Strait of Hormuz. The situation regarding

liquefied natural gas (LNG) was somewhat better; as of 2025, LNG arriving via Hormuz accounted for 6.3% of total imports. On March 18, however, Iran struck Qatar's Ras Laffan LNG complex, sending Asian spot LNG prices soaring by over 140%.

The Takaichi administration acted swiftly. On March 11, the prime minister announced a release of strategic oil reserves: 15 days of private-sector reserves and one month of national strategic reserves, totaling 45 days. In volume, this amounted to approximately 80 million barrels—the largest release in Japanese history. It marked the seventh time Japan had tapped its strategic reserves.

The private-sector reserves began flowing on March 16, executed by lowering the statutory private-sector reserve requirement from 70 days to 55 days. Releases from the national reserves commenced on March 26 across 11 storage facilities nationwide. Joint stockpiles held by Saudi Arabia, the United Arab Emirates, and Kuwait within Japan were also tapped separately.

As of late 2025, Japan held approximately 470 million barrels of petroleum in reserve, equivalent to 254 days of consumption. The 80 million barrels represented 17% to 20% of that total. Immediately following Takaichi's announcement, International Energy Agency (IEA) member states agreed on a historic joint release of 400 million barrels.

Yet releasing reserves merely bought time. Even the day after the release announcement, international oil prices continued to climb. On March 31, Brent crude peaked at $118.35 per barrel. Roughly 45 Japan-related vessels remained stranded inside the strait. Reports emerged suggesting that Iran might allow Japan-related vessels to pass unilaterally, but Foreign Minister Motegi ruled out separate negotiations with Tehran.

Takaichi's predicament can be summarized as follows: A majority of the public opposed troop deployment. The law left the door to deployment only narrowly ajar. The nation's energy lifeline hung by a thread in the strait. And the president of its allied superpower demanded greater involvement.

The answer Takaichi crafted was money and commercial deals instead of warships: the announcement of a $73 billion U.S. investment package, a proposal for joint stockpiling of U.S. crude oil, and critical mineral cooperation. She also left open the possibility of a post-hostilities minesweeping mission. It was a strategy designed to avoid alienating domestic voters while preserving Trump's face.

This strategy worked in the spring. Yet elements of instability were present from the outset. AFP reported that pre-summit polling already showed signs of the political honeymoon waning, as surging gasoline and utility bills squeezed households and businesses. As the war dragged on into the summer, Takaichi's strategic calculus grew complicated once again.

11.4 Remarks on a Taiwan Contingency and China's Rare Earth Retaliation: Japan Caught Between Two Great Powers

Takaichi's dilemma was not confined to Hormuz. To the east, tensions with China continued to churn across the Taiwan Strait.

The genesis was her testimony before the Diet on November 7, 2025. In the House of Representatives Budget Committee, Prime Minister Takaichi addressed a Taiwan contingency, stating that if China deployed warships to blockade Taiwan or used armed force, it could constitute a Survival-Threatening Situation for Japan. As noted earlier, a Survival-Threatening Situation is the legal prerequisite enabling Japan to exercise collective self-defense.

Successive Japanese prime ministers had deliberately chosen their words with utmost restraint on this subject. Takaichi crossed the line. When opposition lawmakers demanded that she retract her statement, she refused, arguing that it did not diverge from the government's established position.

Beijing reacted with fury. The Chinese Ministry of Foreign Affairs summoned the Japanese ambassador to lodge a stern protest. It issued travel advisories warning Chinese citizens against traveling to Japan and reimposed a ban on imports of Japanese seafood. On November 20, a spokesperson for China's Ministry of Commerce stated that bilateral economic and trade exchanges had been severely impaired, warning that Japan would pay a price unless the remark was retracted.

Retaliation spilled over into supply chains as the calendar turned. In January 2026, China banned exports to Japan of dual-use items capable of military application. Chief Cabinet Secretary Minoru Kihara condemned the measures, stating that targeting Japan alone diverged sharply from international practice and was completely unacceptable.

Rare earth elements were Japan's most vulnerable point. Japan relies on China for approximately 60% of its rare earth imports. For heavy rare earths such as dysprosium and terbium—essential for permanent magnets in electric vehicle motors—Japan's dependence on China was virtually total. China choked off supply by tightening export licensing. By June, Chinese exports of gallium, dysprosium, terbium, and yttrium to Japan plummeted to zero.

The repercussions surfaced in corporate disclosures. According to Reuters, roughly 200 regulatory filings on the Tokyo Stock Exchange during May and June referenced rare earth elements. More than two-thirds warned that Chinese export controls were having, or could have, an adverse impact on business performance. Mitsubishi partnered with U.S. firms following reports that its rare earth stockpiles would last only through mid-2026. Shin-Etsu Chemical announced plans to build its first new rare earth refining facility since 2008. At the G7 summit, Takaichi proposed establishing a joint stockpile for critical minerals.

The overarching structure of the weaponization of rare earths is examined in detail in Chapter 6. What must be noted here is Japan's precarious position: while absorbing the full brunt of China's retaliation, the United States was rushing toward a transactional deal with Beijing.

The May summit in Beijing was the clear signal. President Xi Jinping elevated the Taiwan issue to the foremost priority in bilateral relations. On May 15, aboard Air Force One en route back to Washington, Trump stated that he was discussing arms sales to Taiwan with Xi. When asked about the "Six Assurances" given to Taiwan by the Reagan administration in 1982—which included a pledge not to consult China on arms sales to Taiwan—Trump dismissed the past, retorting that the 1980s were a long time ago. A $14 billion Taiwan arms sale package languished in a White House drawer awaiting approval. This sequence was examined in Chapter 4.

Tokyo's greatest fear was a so-called "Grand Bargain": a scenario where the United States secured commercial prizes such as Boeing aircraft and soybean purchases in exchange for turning a blind eye to China's position on Taiwan. For Japan, which had drawn Beijing's retaliatory wrath after pledging to defend Taiwan, this was the worst-case scenario. If Washington retreated, Japan would be left out on a limb all alone.

Takaichi moved urgently. On September 22, taking advantage of the United Nations General Assembly in New York, she met Trump at UN Headquarters—just two days before Xi was scheduled to arrive in Washington for a state visit. The meeting was held behind closed doors for approximately 35 minutes. It was their first official bilateral summit in six months since her March visit to Washington, and their first face-to-face encounter since the G7 Summit in Évian, France, three months earlier in June.

Before the meeting, Takaichi remarked: "The security environment surrounding Asia and beyond is growing increasingly severe by the day. Under such circumstances, the very fact that Donald and I are meeting at UN Headquarters demonstrates the strength of the Japan–U.S. alliance to the world." Once again, she addressed Trump by his first name. According to Kyodo News, U.S. officials explained that bilateral meetings were kept extremely limited during this General Assembly, signaling that holding the meeting at all reflected the deep personal trust between the two leaders.

According to the Japanese government's briefing, the two leaders discussed economic issues and North Korea. On China-related matters, they covered economic security, artificial intelligence (AI), semiconductors, and critical mineral cooperation. Keeping the upcoming U.S.–China summit in mind, they also exchanged views regarding China. Deputy Chief Cabinet Secretary Masanao Ozaki announced that the two leaders agreed to coordinate closely on China issues. Trump praised Takaichi as a strong leader.

Foreign Minister Motegi, who attended the meeting, appeared on NHK and stated: "I believe the U.S. position on Taiwan has not changed from that of the May summit." Yet this remark left room

for ambivalent interpretation, given that the "May position" was the very stance in which Trump declared he was discussing arms sales with Xi Jinping.

From publicly available disclosures alone, it remains impossible to verify whether Japan secured the guarantees it sought. Confirming that an alliance is robust is entirely different from pledging not to make concessions on Taiwan. Trump spoke of the strength of the alliance, but offered no concrete guarantee that Taiwan would be removed from the bargaining table.

Around the same time, the foreign ministers of South Korea, the United States, and Japan also convened in New York. Their joint statement included commitments to peace and stability across the Taiwan Strait and the complete denuclearization of North Korea. In essence, the allies were drawing their red lines in advance of the high-stakes showdown between Washington and Beijing.

South Korea and Japan took contrasting approaches. President Lee Jae-myung met Trump on the same day and wished him success in the following day's U.S.–China summit, adopting a stance of engaging both Washington and Beijing. Japan, by contrast, prioritized locking arms with the United States. Which path proved wiser would be revealed by the outcome of the Washington summit. Yet both nations shared the same fundamental predicament: leaving their national security hostage to a transaction between two superpowers.

11.5 The Shared Quandary of East Asian Allies and the Security Vacuum in the Pacific

The Hormuz crisis was not Japan's problem alone. America's Indo-Pacific allies—including South Korea, Australia, and the Philippines—found themselves grappling with identical dilemmas. That dilemma unfolded on two distinct levels.

The first level concerned law and institutional procedure.

Article 60, Paragraph 2 of the South Korean Constitution mandates that the deployment of the armed forces overseas requires the consent of the National Assembly. A president cannot decide unilaterally. South Korea's situation was every bit as urgent as Japan's. Roughly 70% of South Korea's crude oil imports transit the Strait of Hormuz. In mid-March, the government placed a ceiling on domestic fuel prices—the first such measure since the 1997 Asian financial crisis.

In an interview with Al Jazeera, retired Lieutenant General Chun In-bum highlighted two key considerations. First, it was unclear whether the ROK–U.S. Mutual Defense Treaty applied to the Strait of Hormuz, as the treaty was formulated predicated on armed attacks in the Pacific area. Second was the North Korean threat. South Korea already maintained Cheonghae Unit naval assets in the Middle East; siphoning off additional capabilities would degrade deterrence on the Korean Peninsula.

Meanwhile, the United States was drawing down military assets from the Korean Peninsula. In March, Patriot missile batteries stationed in South Korea were relocated to the Middle East. Reports soon followed that elements of the Terminal High Altitude Area Defense (THAAD) system were likewise dispatched to the Iranian front. Weapons deployed to deter North Korea were drained away to the Middle East.

On September 18, the South Korean government made its decision. President Lee Jae-myung officially declared that South Korean forces would not be deployed to the Middle East war—a declaration examined fully in Chapter 10. The following day, Cheong Wa Dae clarified that this statement was not a rejection of Trump's Hormuz request per se, drawing a conceptual line between direct intervention in war and cooperation on maritime navigational safety. Defense News, a U.S. defense publication, observed that South Korea faced no good choices.

Australia drew its line even earlier. On March 16, Infrastructure and Transport Minister Catherine King stated that Australia would not send naval vessels to the Strait of Hormuz, adding that no such request had even been received. Australia confined its contribution to deploying an E-7A Wedgetail airborne early warning aircraft at the request of the United Arab Emirates. Prime Minister Anthony Albanese made it clear that Australia had received no prior consultation regarding the war.

Trump made no attempt to conceal his displeasure. In a White House cabinet meeting, he remarked that Australia was "not great" and that he was "a little surprised" by Australia—coming just days after his March 17 social media post claiming he needed no help from Japan, Australia, or South Korea.

Here, the common structural pattern experienced by East Asian allies laid bare. The United States entered into war without consulting its allies. It then demanded warships from them. When allies hesitated, citing laws and procedures, Trump claimed he never wanted their help, only to turn around and vent his frustration. Under existing treaties, allies bore no legal obligation to take part in this war. Yet by refusing to join, they found themselves accused of neglecting the alliance.

The second level concerned the security vacuum in the Pacific.

To wage the war against Iran, the United States shifted military assets from Asia to the Middle East. In August, the USS George Washington, the last remaining U.S. aircraft carrier in Asia, departed Japan bound for the Middle East to relieve the USS Abraham Lincoln, which had been deployed there for over nine months. Reports had emerged detailing severe food shortages and hygiene issues aboard the Lincoln.

William Yang, Senior Northeast Asia Analyst at the International Crisis Group (ICG), assessed: "The carrier movement, the THAAD transfers, and the depletion of munitions stockpiles are part of a single continuum. This trajectory is degrading the efficacy of the U.S.-led system to deter China."

China did not let this opening slip by. Chinese aircraft carriers Liaoning and Shandong made frequent sorties into the Western Pacific beyond the First Island Chain—the Cold War defense perimeter stretching from the Japanese archipelago through Taiwan and northern Philippines to Borneo, designed to contain China. Beginning in June, Chinese Coast Guard activities surged in the waters east of Taiwan, an area overlapping with the exclusive economic zones (EEZs) of Japan and the Philippines. Yang observed that these maneuvers simultaneously targeted Taipei, Manila, and Tokyo, while testing Washington's resolve and crisis-response capabilities.

Greg Poling, a senior fellow at the Center for Strategic and International Studies (CSIS), offered a similar diagnosis in a September interview with SBS: while the Trump administration pays lip service to the Pacific's importance, its actual deeds move in the opposite direction. Diverting core naval assets to the Middle East created a critical void in the Western Pacific.

To be sure, counterarguments exist. Professor Ja Ian Chong of the National University of Singapore pointed out that the vast majority of U.S. forces remain stationed in Asia, noting that U.S. Indo-Pacific Command oversees roughly 375,000 military and civilian personnel. Associate Professor Kei Koga of Nanyang Technological University argued that while the moves are worrisome in the short term, they do not constitute evidence of an American withdrawal from Asia. Tristan Tang, a researcher at the National Bureau of Asian Research (NBR), concurred, noting that what matters most to Trump in the end is the economic dimension with China.

Yet even these counterarguments concede one fundamental reality: America under Trump expects Asian allies to become the primary guarantors of their own defense. The U.S. 2026 National Defense Strategy (NDS) explicitly mandated greater burden-sharing with allies, demanding that allies raise their defense spending to 3.5% of GDP by the 2030s, alongside an additional 1.5% for broader security-related expenditures.

East Asian allies moved along two parallel tracks: quiet refusal and self-strengthening. When pressed to send troops to Hormuz, they quietly drew boundaries citing laws and procedures. Simultaneously, they accelerated efforts to build their own defense capabilities.

Japan moved its target date for raising defense spending to 2% of GDP forward from fiscal year 2027 to fiscal year 2025. Taiwan announced an 18% increase in its 2027 defense budget. In July, Philippine Defense Secretary Gilberto Teodoro asserted that defense spending should rise to 4% of GDP. The Philippines expanded security cooperation with Japan and quietly forged closer ties with Taiwan. As Professor Ja Ian Chong noted, America's allies are cultivating resilience to endure diminished U.S. backing while actively seeking partnerships with one another.

South Korea is no exception. Efforts to bolster maritime defense capabilities and establish a multi-layered missile defense architecture are accelerating—compelled by the sobering lesson of this war that American assets can be pulled away at any moment.

11.6 Alliances as Objects of Transaction

The Pearl Harbor remark in the Oval Office in March was more than a momentary slip of the tongue. That scene encapsulated the defining hallmarks of the second Trump administration's worldview on alliances.

The United States initiated a war without consulting its allies. When an ally asked why, the president cited the element of surprise, invoking that ally's most painful historical trauma to justify it. When an energy crisis struck, he demanded warships from allies. When allies bound by constitutions and statutory laws hesitated, he declared he never needed their help, only to lash out in grievance later. Meanwhile, aircraft carriers and interceptor missiles in Asia were stripped away and redeployed to the Middle East.

Prime Minister Takaichi navigated this predicament in her own fashion. She catered to Trump's ego with praise. She plainly laid out Japan's legal constraints. Instead of warships, she presented an investment package totaling $73 billion. As a result, she averted Trump's public wrath and preserved her domestic approval ratings.

Yet the costs were unmistakable. Japan could not rebut the Pearl Harbor remark in a public setting. Having borne China's retaliation over her Taiwan remarks, she obtained no definitive pledge from Washington that Taiwan would not be traded away. A dynamic was cemented wherein the trust of the alliance had to be bought with money.

Japan's experience offers several crucial lessons for South Korea:

First, laws and constitutional procedures are not weaknesses; they can serve as negotiating assets. Japan sidestepped troop deployment by invoking Article 9 of its Constitution, while South Korea has the requirement of parliamentary consent. An alliance that respects democratic governance must accommodate these constitutional boundaries. If it refuses to do so, the very nature of that alliance must be questioned.

Second, time bought with money does not last. Pledges of investment serve as bargaining leverage, but they also become the baseline for the next round of demands. The $350 billion in U.S. investments pledged by South Korea carries the exact same burden.

Third, relying exclusively on one side between two great powers is inherently precarious. Japan opted for complete alignment with the United States, yet failed to secure firm guarantees on Taiwan. South Korea chose to engage both sides. Both approaches have their limitations. To mitigate those risks, mutual cooperation among East Asian allies is imperative.

The American security umbrella is no longer an unconditional shield. It expands or contracts depending on investment volumes, trade concessions, and electoral timetables. Allies confirmed this reality in the spring over Hormuz, and again in the autumn over Taiwan.

The year 2027 marks the centenary of the founding of the People's Liberation Army. In the autumn, the Chinese Communist Party Congress will convene to decide Xi Jinping's fourth term. Before that, the United States will hold its midterm elections in November. As tensions in the Taiwan Strait escalate, East Asian allies will confront the dilemma faced by Takaichi with ever greater frequency. East Asia, no longer able to gaze solely upon the United States, is entering an era where nations must carve out their own survival. Where this trajectory leads will be examined further in Chapters 50 and 51.

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Chapter 12. $500 Million-Plus Oil Futures Anomalies and Insider Trading Allegations at the Core of the White House

> The Mystery of Massive Hundreds-of-Millions-Dollar Short Positions Executed in the Oil Futures Market Just Prior to Trump's Iran Ceasefire and Halt-to-Airstrikes Announcement, and the Launch of Inquiries by the U.S. Congress (Lawmakers Raskin and Warren)

12.1 The 6:49 a.m. Sell Order

It was 6:49 a.m. New York time on Monday, March 23, 2026. Because regular trading hours had not yet opened, the crude oil futures market was quiet. In the span of just over a minute, roughly 6,200 crude oil futures contracts were dumped in an avalanche of selling. They were contracts for North Sea Brent crude and West Texas Intermediate (WTI).

A futures contract is an agreement to buy or sell an asset at a predetermined price on a specified future date. One crude oil futures contract represents 1,000 barrels of oil. Six thousand two hundred contracts equate to approximately 6 million barrels. The British Financial Times reported that at prevailing market prices, this amounted to roughly $580 million. Dow Jones Market Data tallied that $760 million worth of contracts had changed hands in under two minutes. Reuters estimated it at $500 million. The figures differ slightly depending on the time window and contract types analyzed. This book adopts the most widely cited figure of $580 million as its baseline.

American broadcaster CBS reported that trading volume during this window was approximately nine times higher than normal for that hour. At the exact same time, trading surged in S&P 500 index futures. The flow was clear: selling crude oil and buying equity index futures. In effect, someone was wagering that oil prices would plummet and equities would rise.

The reason this trade appeared bizarre was unmistakable. That morning, there were no economic data releases, nor were there any scheduled speeches by Federal Reserve officials. If anything, the market was gripped by fears that the war would escalate. President Trump had issued a stark warning just two days prior, on Saturday: if Iran did not reopen the Strait of Hormuz, he would blow up its power plants. In such a climate, dumping massive volumes of crude oil was a contrarian move that defied prevailing market momentum.

The enigma was solved approximately fifteen minutes later. At around 7:05 a.m., President Trump posted on Truth Social. He wrote that the United States and Iran had held "very good and productive conversations" aimed at de-escalation. He revealed that he had ordered a five-day delay on strikes against Iranian power plants and energy facilities.

The market reacted instantly. Crude oil futures prices plunged by more than 10% at one point. S&P 500 index futures rallied over 2.5% in pre-market trading. The Dow Jones Industrial Average surged more than 1,000 points that day. Whoever had sold crude oil fifteen minutes early pocketed windfall profits equivalent to the drop in price. According to calculations commissioned by France's Agence France-Presse (AFP) from market specialists, the profit amounted to tens of millions of dollars.

Here, it is worth clarifying the term "short position." Going short refers to a sell transaction designed to profit when the price of an asset declines. One contracts to sell at today's higher price, and after the price drops, buys back at a cheaper price to pocket the difference. In futures markets, traders can leverage small margin deposits to control immense nominal values. If the market moves in the anticipated direction, fortunes can be made in a matter of moments.

The reaction from Iran rendered the episode even more bizarre. Mohammad Bagher Ghalibaf, Speaker of the Iranian Parliament, denied having held any negotiations with the United States. He denounced Trump's announcement as fake news intended to manipulate financial and oil markets. Regardless of its veracity, the president's words moved the markets. What remained was the nagging suspicion that someone had learned of those words fifteen minutes ahead of the world.

Nobel laureate in economics Paul Krugman labeled this trade "treason." His point was that if wartime national security decisions were leaked and exploited for private enrichment, the gravity of the transgression was nothing short of that. White House spokesperson Kush Desai immediately pushed back. He declared that the White House does not tolerate public officials who improperly profit from insider information, adding that reports implicating officials without evidence were baseless and irresponsible. David Warrington, counsel to the president, stated that the president does not engage in business transactions entangled with his constitutional duties.

12.2 It Was Not a One-Off: A Repeated Selling Pattern

The trade on March 23 was not an isolated incident. Throughout the Iran War, similar scenes unfolded time and again. Massive volumes of crude oil futures were dumped anywhere from minutes to hours prior to major announcements. And once those announcements broke, oil prices plunged.

The first telltale sign appeared on March 9. It was the tenth day of the war, and oil prices had already breached $100 per barrel. That afternoon, President Trump gave a telephone interview to a CBS reporter. He claimed that the war was "substantially, pretty much completed." The interview became public only after the reporter posted about it on X at 3:16 p.m. Analyzing market trade data, the British BBC reported that crude oil selling had accelerated well before the post went public. The following day, oil prices tumbled nearly 10% intraday.

The second occurrence was the March 23 episode recounted above.

The third emerged on April 7. At approximately 3:45 p.m. U.S. Eastern Time, roughly 8,600 crude oil futures contracts were dumped in a single wave. This comprised approximately 6,200 Brent contracts and roughly 2,400 WTI contracts. According to Reuters and London Stock Exchange Group (LSEG) data, this represented a transaction volume of roughly $950 million. Approximately three hours later, around 6:30 p.m., President Trump announced a two-week ceasefire (the morning of April 8, Korea Standard Time). When trading resumed, WTI prices plummeted by more than 15%. American news outlet Bloomberg hypothesized an investor who established a $1 million short position that afternoon: by its calculation, that investor would have netted roughly $170,000 following the ceasefire announcement. That same evening, on the prediction market Polymarket, newly minted accounts aggressively placed bets on a ceasefire materializing. This issue is examined separately in Chapter 42.

The fourth instance occurred on April 17. This time, the announcement originated not from the United States, but from Iran. Iranian Foreign Minister Abbas Araghchi posted on X at 12:45 p.m. Greenwich Mean Time (GMT) that Iran would fully reopen the Strait of Hormuz to all commercial vessels for the duration of the ceasefire. Reuters reported that approximately twenty minutes prior to his post, a massive sell order totaling $760 million had been executed. Within minutes of the announcement, oil prices cratered by as much as 11%, finishing the day down nearly 9%.

The fifth instance took place on April 21. American network ABC News reported on trades executed roughly fifteen minutes before President Trump announced an extension of the ceasefire. Short bets wagering on falling crude prices amounted to approximately $430 million.

The sixth occurred in the early morning hours of May 6. American media outlet Axios published a report around 4:50 a.m. Eastern Time stating that the United States and Iran were closing in on a one-page memorandum of understanding to end the war. According to Dow Jones Market Data, roughly 17,300 WTI contracts changed hands in the hour preceding the report—an aggregate value exceeding $1.7 billion. The bulk of the trading was concentrated prior to 4:10 a.m., well ahead of the article's publication. Financial commentary outlet The Kobeissi Letter analyzed that around 3:40 a.m., a short position of roughly 10,000 contracts was established, representing approximately $920 million. The Kobeissi Letter estimated that this trade likely yielded profits of approximately $125 million. A congressional letter sent on May 27 by Senator Warnock and others cited this trade as exceeding $700 million.

The aftermath of the May 6 report left a distinctly bitter aftertaste. Iran brushed off the purported draft agreement as nothing more than an American wish list. President Trump also remarked that it was premature to prepare for peace. Oil prices promptly rebounded by 8%. An Iranian lawmaker claimed that the White House was weaponizing this media outlet for market manipulation. In the interim, however, vast fortunes had already changed hands.

On May 7, ABC News reported that the Department of Justice (DOJ) and the Commodity Futures Trading Commission (CFTC) were scrutinizing four specific episodes: the trades of March 23, April 7, April 17, and April 21. Taken together, the selling volume across these four episodes exceeded $2.6 billion. The "$500 million" cited in the title of this chapter refers to the scale of the initial March 23 trade that set off the controversy.

All six episodes shared striking common denominators: the trading direction was invariably bet on falling oil prices; the orders were executed in massive blocks during illiquid, off-peak trading hours; and every subsequent announcement signaled a de-escalation of the conflict. In almost every case, that signal was information tightly held within the White House.

Yet suspicion is not equivalent to crime. LSEG data does not reveal the identities of the trading entities. Nor does it indicate whether the trades were orchestrated by a single actor or multiple entities. They could theoretically have been professional traders who simply reacted faster to publicly available information. After market close on Friday, March 20, President Trump had posted that the war was "winding down." An astute investor reading such tea leaves might have preemptively positioned for a drop. Nor can one rule out the possibility that leaks originated from the Iranian side, as in the April 17 event. Ultimately, who traded and what they knew can only be uncovered through a formal investigation.

12.3 Why Insider Trading in Futures Markets Is So Hard to Catch

Regulation of insider trading in equity markets has a long history. If a corporate executive buys or sells shares based on nonpublic financial results, they face criminal and civil penalties. This principle stems from fiduciary duties owed to the corporation and its shareholders.

In futures markets, the reality is fundamentally different. Crude oil prices are dictated not by a single corporation, but by global supply and demand, geopolitical friction, and statecraft. For decades, it was not even considered problematic for an oil company employee to trade futures using proprietary knowledge of their own firm's production data. As late as 2009, the CFTC explicitly maintained that it lacked jurisdiction over insider trading.

The turning point arrived with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This legislation inserted an anti-fraud provision into the Commodity Exchange Act (CEA)—specifically, Section 6(c)(1) of the CEA and CFTC Rule 180.1. These provisions established legal grounds to prohibit trading based on wrongfully appropriated confidential information—a doctrine known as the "misappropriation theory." It was not until 2015 that the CFTC brought its very first insider trading case in commodities. In that action, a trader in gasoline and crude oil futures who misappropriated his employer's proprietary trading information was fined approximately $350,000 in penalties and restitution and barred permanently from the industry.

With respect to nonpublic government information, there is a dedicated statute: Section 4c(a)(4) of the Commodity Exchange Act, commonly dubbed the "Eddie Murphy Rule." The moniker derives from the 1983 comedy film *Trading Places*, in which characters corner the orange juice futures market using a stolen, nonpublic government crop report. This statute bars federal government employees from trading on nonpublic government information, and also prohibits tipping such information in a personal capacity, for personal gain, to assist another's trading, as well as knowingly trading on such tipped information. CFTC Enforcement Director David Miller referenced this very provision during a lecture at New York University School of Law on March 31, citing oil price volatility driven by the Iran War as a top enforcement priority.

The rationale advanced by Senators Warren and Whitehouse aligns with this identical doctrine: that someone had misappropriated and traded upon confidential government information leaked from inside the administration.

Yet the existence of a statute does not make prosecution easy. Peter Brandt, a veteran commodities trader with fifty years of experience, observed that while where there is smoke, there is usually fire, there was effectively no law in the United States that could easily stop this type of futures trading. Though somewhat hyperbolic, Brandt's comment strikes at the heart of the matter: absent a demonstrable link connecting the trade to a specific official who leaked the information, the legal foundation for prosecution crumbles. One cannot penalize an investor simply for making a remarkably fortunate directional bet.

Technically, tracing is feasible. Every order submitted to the Chicago Mercantile Exchange (CME) carries an electronic trader identifier known as "Tag 50." The CFTC demanded this identification data from both CME and the Intercontinental Exchange (ICE). CFTC Chairman Michael Selig testified to Congress that the agency possesses the technological tools to track down specific traders and their positions.

The true hurdle lies in the next phase. Even if investigators identify the entity behind the trade, they must prove from whom that entity obtained the information. This necessitates sifting through phone logs, encrypted messaging records, and even visitor logs of government facilities. Furthermore, Brent crude futures trade on ICE Futures Europe in London, a venue regulated by the UK Financial Conduct Authority (FCA). If orders were routed through overseas offshore accounts, cross-border cooperation across multiple regulatory jurisdictions becomes imperative. The CFTC's limited workforce presents another bottleneck; the CFTC operates with substantially fewer investigative personnel and a much smaller budget than the Securities and Exchange Commission (SEC).

12.4 The White House's Explanation and the "Refresher" Email

The White House's official stance was consistent from the outset. Spokesperson Davis Engle emphasized that all federal government employees are bound by ethics regulations prohibiting them from obtaining financial gains from nonpublic information. He stated that while President Trump champions a strong stock market, he firmly maintains that trading on nonpublic information by public officials must be prohibited, adding that the only interest guiding the president is the well-being of the American people.

Inside the White House, however, internal currents told a different story. The Wall Street Journal reported that the White House Office of Administration sent an email to all staff members on March 24—the very day after the March 23 incident. The email instructed personnel not to engage in financial transactions using nonpublic information. It also explicitly warned against placing bets on prediction markets regarding outcomes of the Iran War. A senior administration official characterized the email as a timely "refresher" on ethics rules. Crucially, the White House did not deny having sent the email.

Representative Sam Liccardo criticized the memo, remarking that it provided zero comfort, arguing that federal employees should never need to be "reminded" that profiting privately off classified government intelligence is illegal. The warning email lent itself to two interpretations: it could be viewed as standard precautionary protocol, or as a telltale sign that the administration itself sensed acute peril from within.

12.5 Congressional Scrutiny: From Warren to Warnock

Congressional scrutiny originated among Democrats before spreading to select Republicans.

Senator Chris Murphy moved first. In mid-March, he introduced legislation aimed at barring individuals from wagering on sensitive government military operations and policy decisions. The bill was known by its short title, the "BETS OFF Act."

On April 8, Representative Ritchie Torres dispatched letters to both the SEC and the CFTC. He wrote that the March 23 transaction could represent one of the largest instances of insider trading in history, demanding that regulators obtain beneficial ownership data for the accounts in question. A beneficial owner refers to the individual who ultimately enjoys the economic benefits of an account regardless of whose name appears on the legal registration. The following day, Torres expanded his demand, calling for an inquiry into the ceasefire wagers placed on Polymarket.

On April 9, Senators Elizabeth Warren and Sheldon Whitehouse stepped forward. Warren served as the ranking Democrat on the Senate Banking Committee. The two senators sent a formal inquiry to CFTC Chairman Selig, pinpointing the approximately $500 million trade on March 23 and the

roughly $950 million trade on April 7. They inquired whether the Division of Enforcement had launched investigations into both episodes. The two lawmakers argued that such behavior was part of a recurring pattern under the Trump administration, pointing to similar suspicious activities spanning crude oil futures, equity options, and prediction markets.

On April 15, as reports broke that the CFTC had initiated an investigation, Senator Warren issued a blistering statement. She condemned the Trump administration as having been a cesspool of corruption from day one, describing these oil trades as what appeared to be an egregious case of insiders manipulating the market. Warning that the opening of an investigation was merely the beginning, she demanded that regulators keep Congress and the American public apprised of their progress.

On April 16, Chairman Selig testified before the House Committee on Agriculture. He pledged that anyone engaging in fraud, manipulation, or insider trading in these markets would be hunted down, asserting they would feel the full force of the law. Notably, Republican Representative Don Bacon also questioned whether the CFTC possessed the capabilities to trace these trades—demonstrating that congressional unease transcended strictly partisan boundaries.

On April 17, Representative Liccardo addressed letters to SEC Chairman Paul Atkins and CFTC Chairman Selig. He cited potential violations of the Securities Exchange Act, the Commodity Exchange Act, and the Stop Trading on Congressional Knowledge Act (STOCK Act). The STOCK Act prohibits government officials from trading on nonpublic information gleaned in the course of their official duties.

On April 20, Representative Torres demanded that the scope of investigation be expanded to include the April 17 trade. Although that particular announcement had originated from Iran's foreign minister, Torres questioned whether American officials might have had advance knowledge of its contents. He subsequently pressed regulators to incorporate into the probe the suspicious trades executed right before the April 21 ceasefire extension announcement as well.

On May 27, Senator Raphael Warnock and a cohort of colleagues sent a letter to Chairman Selig, with co-signers including Senator Cory Booker. The letter demanded full disclosure on the progress of investigations, including scrutiny of the May 6 trade. It highlighted that crude prices had surged from $66 to nearly $120 per barrel following the outbreak of the war, pointing out that heightened volatility multiplies both the temptation and opportunities for market manipulation. The letter also cited media reports that the premier enforcement branch of the CFTC had been left without a single enforcement attorney on staff.

12.6 Inquiries by the CFTC and DOJ, and the Frozen Clock

The CFTC reportedly opened its formal inquiry around April 15. Bloomberg and Reuters first reported the probe, citing individuals familiar with the matter. The initial targets were the trades executed on March 23 and April 7. The CFTC requested comprehensive order records and trader identification details from both CME and ICE.

CME released a succinct statement affirming that it rigorously surveils its markets and collaborates closely with the CFTC. However, it pointedly added that prediction platforms like Polymarket and Kalshi ought to be scrutinized as well, arguing that prediction markets were peddling correlated contracts in an environment largely devoid of regulatory oversight.

On May 7, news emerged that the Department of Justice had joined the fray. ABC News and NBC News reported that federal prosecutors were conducting a joint investigation with the CFTC into four distinct episodes. Suspicious trades on prediction markets were reportedly being probed in parallel.

Since that time, virtually no public progress has been disclosed. According to a late-May report by CBS News Atlanta, no formal charges had been brought against any specific trader or trading firm. Regulatory and law enforcement agencies declined to disclose the identities of the trading entities. Up to the time of writing in late September 2026, no public reports have confirmed any indictments or regulatory enforcement actions.

Developments took a very different path on the prediction market front. Polymarket announced that it had identified a user trading on classified government intelligence and referred the case to law enforcement. In April, a U.S. military noncommissioned officer was indicted on charges of wagering on the platform using inside information regarding military operations in Venezuela—a case examined in detail in Chapter 43. In a smaller prediction market, account tracing was swift. Yet in the crude oil futures market, where hundreds of millions of dollars churned, the clock appeared to have completely stopped.

The gutting of law enforcement capabilities only fueled suspicions further. The Department of Justice's Public Integrity Section (PIN) was created in 1976 in the wake of the Watergate scandal as a specialized unit dedicated exclusively to prosecuting public corruption. Toward the end of the Biden administration, the section was staffed by roughly thirty prosecutors. By October 2025, Senator Dick Durbin revealed that its ranks had withered to a mere two prosecutors, decimated by a wave of resignations protesting the handling of the prosecution of former New York City Mayor Eric Adams. It was precisely into this vacuum—with the investigative machinery capable of taking on the White House inner circle profoundly compromised—that this scandal erupted.

12.7 Raskin's Investigation and the Issue of "Selling Access"

While the crude oil futures investigation stalled, the debate shifted to another domain: a commercial enterprise emerged that monetized access to the president's posts themselves.

On July 16, Trump Media & Technology Group (TMTG)—the parent company operating Truth Social—announced the launch of the "Truth API." An API (Application Programming Interface) is a dedicated software pipeline enabling automated data exchange between systems. This service feeds posts from high-impact accounts, such as the president and the White House, in ultra-low-latency real time. The monthly subscription fee ran up to $100,000. Its prime target clientele: high-frequency trading (HFT) firms and algorithmic trading desks. High-frequency trading refers to computerized trading strategies that execute legions of orders in fractions of a second. The service officially launched on August 1. Kevin McGann, interim CEO of Trump Media, remarked that the markets already moved on Truth Social posts. According to the complaint filed by the San Francisco City Attorney's Office, he touted a 50-millisecond competitive advantage (one millisecond is one-thousandth of a second). By late August, more than ten clients, predominantly HFT firms, had subscribed.

President Trump holds approximately a 41% equity stake in the company via a trust. Representative Jamie Raskin pointed out that nearly half of all subscription revenues would flow directly into the president's own pockets. Raskin, the ranking Democrat on the House Judiciary Committee, initiated an investigation via a letter dated July 30, which he made public on July 31. He demanded all records concerning the development, pricing, and sales of the Truth API, as well as communications with government officials. Raskin characterized the enterprise unequivocally: this interlocking cycle connecting the White House, Wall Street, and Trump's private business venture is the corrupt essence of insider trading.

Senator Warren was similarly proactive on this front. On July 28, Warren and Senator Adam Schiff called upon the SEC to investigate, stressing that ordinary retail investors could never receive the president's policy signals as quickly as Wall Street trading desks. On August 12, Warren sent a direct letter to President Trump demanding transparency regarding his own stock transactions.

Trump Media offered its own defense. Spokesperson Shannon Devine maintained that Truth API was simply the fastest pipeline for receiving public data, arguing that critics had fabricated an unprecedented theory of insider trading concerning publicly available information. Legal scholars are also divided. One view holds that receiving information that is about to become public mere fractions of a second early does not clearly constitute insider trading. Conversely, Renee Jones, a professor at Boston College Law School and former senior SEC official, took the opposing view: monetizing presidential announcements by piping them out early for a fee constitutes wrongful misappropriation of information.

It is essential to distinguish between the two controversies. The crude oil futures scandal turns on whether someone acquired advance knowledge minutes to hours before an official announcement. The Truth API controversy centers on commercializing an 0.05-second head start on posts slated for public release. The former, if proven true, clearly raises the possibility of illegality but is notoriously difficult to substantiate with direct evidence; the latter operates in broad daylight, yet sits in a gray area of statutory interpretation. Both controversies converge on a single profound question: when the president's words move financial markets, who owns the latency of those words?

Legal challenges mounted swiftly. In August, Freedom of the Press Foundation and investigative outlet The Intercept filed a lawsuit in New York, arguing that gating public presidential statements behind a paid tier violated the Constitution. On September 21, San Francisco City Attorney David Chiu filed a lawsuit in the San Francisco Superior Court, alleging violations of California's Unfair Competition Law and seeking an injunction against the service alongside civil penalties. At a press conference on September 22, Chiu stated that the service commodified public trust for private enrichment. The architectural structure of Truth API and the progression of this litigation are examined in Chapters 40 and 41.

The president's personal trading also came under intense scrutiny. In May, President Trump submitted a periodic transaction report to the Office of Government Ethics (OGE). The disclosure detailed more than 3,600 securities transactions between January and March 2026. A CBS News analysis tallied 2,346 purchases and 1,296 sales. A sitting U.S. president is not legally barred from trading stocks; however, they are mandated to disclose transactions. The filing did not indicate whether the president personally directed the trades. The president's business empire is managed by his two sons, and certain transactions were shown to have been handled by brokerage firms. There have been no reports indicating that crude oil futures contracts were included in this disclosure.

Structural statutory loopholes were laid bare as well. Title 18, Section 208 of the United States Code (the federal conflict-of-interest statute) prohibits executive branch employees from participating in government matters affecting their personal financial interests. However, Section 202(c) of the same title explicitly exempts the president and vice president from this restriction. Furthermore, in 2024, the U.S. Supreme Court recognized sweeping criminal immunity for official presidential acts. Because Truth Social posts serve as the administration's conduit for official presidential announcements, legal battles would inevitably erupt over whether conduct surrounding those posts constitutes official conduct. Consequently, pursuing criminal liability against the president himself has become extraordinarily arduous.

12.8 The Cost of Trust: Shaken Markets, Shaken Diplomacy

Whether the transactions examined in this chapter were illegal has yet to be formally determined. Neither the identities of the trading entities nor the origin of the leaks have been publicly disclosed. This book leaves that judgment to investigators and the courts. Nevertheless, the verified facts alone permit several clear conclusions.

First, during the Iran War, crude oil prices reacted more violently to the president's words than to anything else. A single line in a social media post moved prices faster than artillery shells or tanker blockades. Brent crude, which traded in the $60s per barrel prior to the war, soared to $118.35 on March 31. In the intervening weeks, single announcements sent prices plunging by 10% or 15% before rebounding sharply. So long as major foreign policy decisions are broadcast via social media posts, anyone who knows the precise timing of those posts stands to reap staggering fortunes.

Second, adversary nations actively exploited this vulnerability. Iranian Parliament Speaker Ghalibaf branded Trump's ceasefire announcements as market manipulation. Following the May 6 Axios report, Iranian lawmakers advanced identical accusations. Tehran systematically dismissed the U.S. president's statements not as bona fide diplomatic signals, but as theatrical stunts engineered for financial markets. So long as this cloud of suspicion remains unresolved, such accusations will continue to find fertile ground.

Third, the collateral costs rippled outward to distant nations. South Korea relies on the Middle East for roughly 70% of its crude oil imports. Whenever oil prices gyrated wildly on a single presidential proclamation, South Korean refineries, airlines, and ordinary households absorbed the brunt of the shockwaves. If someone was quietly positioned on the winning side of that volatility ahead of time, their windfalls were directly mirrored in the losses of everyone else.

Fourth, the gravity and credibility of official announcements degraded. Even at the September Washington U.S.–China summit, the White House trumpeted purchases of Boeing passenger jets, soybeans, and beef as signature achievements. Today, markets read such announcements through a heavy filter of skepticism. Traders scrutinize not only whether an announcement is true, but who might have known about it in advance. The credibility premium once commanded by presidential pronouncements is evaporating.

The November 3 midterm elections are fast approaching. Addressing the UN General Assembly on September 22, President Trump predicted that an agreement with Iran would be reached immediately following the midterms. When that agreement is finally announced, the crude oil futures market will once again fixate on the preceding few minutes. The trader who placed that fateful order at 6:49 a.m. on March 23 remains nameless. Until that name is brought to light, this saga will endure as the most expensive question mark left in the wake of Trump's second-term diplomacy.

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PART 3

The Tariff Storm and the Great Rupture of the North Atlantic Alliance

Chapter 13. The Supreme Court's Ruling Voiding the IEEPA Tariffs and Trump's Assault on the Judiciary

> The Day Tariffs Anchored in the International Emergency Economic Powers Act Crumbled, and the President's Wrath Directed at the Courts

13.1 Friday Morning, February 20: Six to Three

On the morning of Friday, February 20, 2026, the Supreme Court of the United States released its opinion. The case was Learning Resources, Inc. v. Trump. The bottom line was a single sentence: the International Emergency Economic Powers Act (IEEPA) does not confer upon the president the authority to impose tariffs.

The vote was 6 to 3. Chief Justice John Roberts authored the opinion of the Court. Five justices joined in the judgment: Neil Gorsuch, Amy Coney Barrett, Sonia Sotomayor, Elena Kagan, and Ketanji Brown Jackson. Justices Brett Kavanaugh, Clarence Thomas, and Samuel Alito dissented.

With this ruling, the pillar of the second Trump administration's trade policy was pulled out. This was because both the fentanyl tariffs of February 2025 and the "Liberation Day" reciprocal tariffs of April 2 were anchored in IEEPA. U.S. Customs halted the collection of IEEPA tariffs starting February 24.

Enacted in 1977, IEEPA authorizes the president to declare a national emergency in the face of an unusual and extraordinary threat originating abroad. Once declared, the president can block transactions with foreign entities or freeze foreign assets. Sanctions against Iran, North Korea, and Russia were all grounded in this statute. Prior to President Trump, no president had ever used this law to impose tariffs.

The Trump administration invoked two national emergencies. One was fentanyl entering the country via Canada, Mexico, and China. The other was America's long-accumulated trade deficit. Citing the former, the administration slapped tariffs on the three nations; citing the latter, it imposed reciprocal tariffs ranging from 10% to 50% on virtually all trading partners.

Lawsuits followed immediately. Educational toy company Learning Resources filed suit in the U.S. District Court for the District of Columbia. Five small and medium-sized businesses, including wine importer V.O.S. Selections, also took legal action, heading to the U.S. Court of International Trade (CIT) alongside twelve states. The CIT is a federal court dedicated exclusively to customs and trade disputes.

The lower court rulings went against the administration. In May 2025, the Court of International Trade ruled that the IEEPA tariffs exceeded statutory authority. In August of the same year, the U.S.

Court of Appeals for the Federal Circuit reached the same conclusion en banc. However, both courts stayed their decisions, permitting tariff collection to continue pending final appeal.

In September 2025, the Supreme Court agreed to consolidate the two cases for review. During oral arguments on November 5, several justices expressed skepticism toward the government's arguments. The ruling came later than anticipated. Running to some 170 pages when including separate opinions, seven justices penned opinions of their own.

The Supreme Court also resolved jurisdictional issues. It held that lawsuits challenging IEEPA tariffs fell within the exclusive jurisdiction of the Court of International Trade. Consequently, it vacated the district court judgment in the Learning Resources case for lack of jurisdiction, while affirming the CIT's judgment in the V.O.S. case.

13.2 The Logic of the Ruling: "Regulating Importation" Does Not Include Tariffs

Strictly in terms of form, this was a ruling on statutory interpretation. It weighed whether the statute known as IEEPA conferred tariff powers. Yet its departure point was the Constitution. This is why the South Korean media widely referred to the decision as an "unconstitutional ruling."

Chief Justice Roberts began with Article I, Section 8 of the U.S. Constitution. This clause grants Congress the power to lay and collect taxes, duties, imposts, and excises. Citing precedent dating back to 1824, the Supreme Court reaffirmed that imposing tariffs is an integral component of the taxing power. The Framers of the Constitution regarded the taxing power as the preeminent legislative prerogative.

The president possesses no inherent constitutional power to levy tariffs unilaterally. Therefore, the administration's entire case hung on a single statutory phrase in IEEPA: the provision authorizing the president to "regulate" importation. The government argued that "regulation" encompasses the imposition of tariffs.

The majority opinion rejected this interpretation. IEEPA enumerates nine specific measures the president is authorized to take, such as investigating, prohibiting, or freezing transactions. Nowhere in that catalogue appear the words "tariffs," "duties," or "revenue." The Court reasoned that had Congress intended to delegate a power as momentous as the taxing power, it would have stated so in unmistakable terms.

Chief Justice Roberts called out the sheer magnitude of the government's claim. The administration argued that the president could unilaterally levy tariffs without limitation as to amount, duration, or scope. The opinion characterized this as an extraordinary power. If such power could be conjured simply by declaring an emergency, Congress's constitutional taxing power would be rendered an empty vessel.

Justices Roberts, Gorsuch, and Barrett went one step further, applying the so-called Major Questions Doctrine. Under this doctrine, an agency or the executive branch cannot exercise power of vast economic and political significance unless Congress has granted clear congressional authorization. This was the same legal doctrine employed to strike down the Biden administration's student loan forgiveness program.

The three liberal justices concurred in the judgment, but took a different path. The concurring opinion authored by Justice Kagan, joined by Justices Sotomayor and Jackson, maintained that ordinary statutory interpretation was entirely sufficient, meaning there was no need to invoke the Major Questions Doctrine. In a separate concurrence, Justice Jackson examined the legislative history, concluding that Congress designed IEEPA primarily as a mechanism for asset freezing.

Justice Gorsuch's concurring opinion spanned 46 pages. He offered an extensive defense of the legislative process. While navigating Congress may be slow and frustrating, he wrote, that slowness was precisely by constitutional design. His message was clear: anyone desiring higher tariffs must persuade Congress.

Justice Gorsuch also debated fellow conservative colleagues. Justice Barrett views the Major Questions Doctrine as a common-sense textual interpretation, whereas Justice Gorsuch regards it as a principle rooted in constitutional structure. He criticized Justice Barrett's stance as ambiguous. Justice Barrett pushed back, asserting that he had mischaracterized her position.

Justice Gorsuch took aim at the liberal justices as well, pointing out that those who had previously criticized the Major Questions Doctrine were not objecting to its result here. Justice Kagan responded in a footnote, stating that she had not undergone any conversion to the doctrine. Some analysts observed that the exchange of pointed rebuttals among the justices contributed to the delay in handing down the decision.

The principal dissent was authored by Justice Kavanaugh, joined by Justices Thomas and Alito. Spanning 63 pages, it was the longest opinion in the case. Justice Kavanaugh maintained that the ordinary meaning of "regulating importation" encompasses tariffs. He cited President Richard Nixon's 1971 imposition of a 10% import surcharge and the judicial precedent that upheld it as authority.

Justice Kavanaugh further argued that foreign affairs should be treated as an exception, asserting that given the president's inherent authority in foreign policy and national security, the Major Questions Doctrine cannot be applied in identical fashion. The majority did not embrace this exception, leaving only the three dissenting justices to publicly endorse that rationale.

Justice Kavanaugh also warned of the ruling's fallout. Refunding tariffs already collected could trigger enormous chaos, he wrote, while pointing out that numerous trade agreements negotiated

using IEEPA tariffs as leverage could be destabilized. Nonetheless, even he acknowledged that the core dispute in the case was fundamentally a question of law.

Justice Thomas filed a separate dissent. In his view, importation is not a right but a privilege; therefore, broad congressional delegation of tariff powers to the president does not exceed constitutional limits on delegation.

In sum, the Supreme Court was fractured 3-3-3: three justices ruling via the Major Questions Doctrine, three ruling via conventional statutory interpretation, and three dissenting. While the rationales of the six justices in the majority diverged, their ultimate conclusion was unified: the president cannot usurp Congress's constitutional taxing power.

The question of refunds was absent from the Court's opinion. The only portion of the ruling directly addressing refunds was Justice Kavanaugh's dissent. The Supreme Court settled only the question of executive authority, leaving the mechanics of reimbursing the funds to the lower courts. This vacuum ignited a fierce battle in the days that followed.

13.3 Forty-Five Minutes in the Briefing Room: The President Attacks the Justices

When the ruling came down, President Trump was meeting with governors at the White House. An aide slipped him a note containing the outcome. Citing an attendee governor, NBC News reported that the president called the decision a "disgrace." Leaving behind the assurance that alternatives were already prepared, the president exited the room.

That afternoon, the president stepped into the White House briefing room. Flanked by Treasury Secretary Scott Bessent and Commerce Secretary Howard Lutnick, the press conference lasted 45 minutes. The president alternated between venting fury over the decision and belittling its legal significance.

The president declared that he was deeply disappointed by the ruling. He went on to say he was "absolutely ashamed" of certain justices, asserting they lacked the courage to do what was right for the country. Regarding the justices who formed the majority, he branded them a "disgrace to our nation."

The onslaught concentrated heavily on two justices he had appointed himself. Gorsuch and Barrett had been nominated by Trump during his first term. When asked whether he regretted appointing them, the president dodged a direct answer. Instead, he said, "Frankly, they are an embarrassment to their families." He also went so far as to label them fools and lapdogs.

The president leveled unbacked claims that foreign interests had swayed the Supreme Court. When reporters pressed him for evidence, he replied that it was his opinion. He claimed that those

representing foreign interests influence the Court through fear, deference, or personal relationships. He offered neither specific names nor tangible proof.

In contrast, he heaped praise on the three dissenting justices. The president expressed gratitude for the strength, wisdom, and patriotism of Justices Thomas, Alito, and Kavanaugh. He proclaimed that he was proud of Kavanaugh, whom he had appointed. Citing Kavanaugh's dissent, Trump asserted that he still retained ample tariff authorities to wield in the future.

Vice President JD Vance joined the chorus. He posted on the social media platform X, charging that the justices had acted lawlessly rather than following the law. In effect, the number one and two figures of the executive branch publicly rebuked the nation's highest court on the very same day.

With the State of the Union address imminent, questions arose regarding protocol. By tradition, several justices attend the State of the Union to symbolize harmony among the three branches of government. Asked whether he would invite the justices who ruled against him, the president retorted in a tone suggesting they hardly deserved an invitation.

The vitriol did not cease that day. On February 27, the president asked on social media whether a rehearing or reconsideration was possible. For decades, the Supreme Court had not granted a rehearing on a decided case. Given the 6–3 margin, the possibility was virtually nonexistent.

The attacks continued into March. In a lengthy post, the president wrote that the Supreme Court was utterly incompetent and had needlessly plundered the country. At a public event, he remarked that the two justices he had appointed made him sick, declaring they were detrimental to the nation.

These verbal assaults were not confined to the Supreme Court. Throughout 2026, the Trump administration clashed with numerous federal judges. Restrictions on White House press credentials and the freezing of federal grants to Harvard University were both blocked in court. Attempts to deport pro-Palestinian international students were likewise halted by federal judges. These episodes are examined separately in Chapters 25, 27, and 45.

Presidents venting discontent over judicial rulings was not without historical precedent. Former President Barack Obama famously criticized the 2010 campaign finance decision during his State of the Union address. Yet Obama had first articulated his respect for the separation of powers; he never dragged the justices' families into the fray. The gravity of Trump's attack stemmed from the unprecedented venom of his rhetoric.

American judges find it difficult to respond to such attacks. A steadfast norm dictates that judges do not wade into political debates. While the president takes the microphone daily, Supreme Court justices speak only through their written opinions. This inherent asymmetry makes the judiciary an easy target for executive attacks.

Yet the signal sent by this ruling was unmistakable. For years, the conservative Supreme Court had handed down repeated rulings expanding presidential powers. But on tariffs, that same Court drew a firm line. Three of the six conservative justices voted against the president's flagship policy. The president's rage was itself proof that the line was far more unyielding than he had anticipated.

13.4 The $166 Billion Battle for Refunds

Immediately following the ruling, the most pressing question was the money: would the tariffs already collected be refunded? The Supreme Court had left this question unanswered. On the day of the ruling, the president refused to promise refunds. Instead, he suggested that the matter would likely be fought out in litigation over the next two years.

A week later, the president hardened his stance. He insisted that it made no sense for countries and corporations that had exploited the United States for decades to reap an undeserved windfall, claiming it could take five years to sort out refunds. Businesses did not wait. Major corporations, including FedEx and Costco, filed a flurry of refund lawsuits.

State governments stepped up as well. Governor JB Pritzker of Illinois sent a letter to the president, demanding that the inflated costs driven by the tariffs be refunded to every household in his state.

The turning point came at the Court of International Trade. On March 4, Senior Judge Richard Eaton ruled that all importers were entitled to benefit from the Supreme Court decision, meaning relief was not restricted solely to the companies that had filed lawsuits. Judge Eaton announced that he would oversee all refund cases. The court ordered U.S. Customs and Border Protection (CBP) to establish a comprehensive refund framework.

CBP created a new refund system designated CAPE. Rather than processing entries one by one, it handled them in bulk batches. Phase 1 opened on April 20. When importers or customs brokers upload entry summaries into the automated system, it recalculates duties minus the IEEPA tariffs, disbursing refunds alongside accrued interest.

The scale was unprecedented. Over the entire preceding fiscal year, CBP had processed 338,000 refund entries. Yet during the first six weeks of CAPE Phase 1 alone, it processed nearly 8.5 million entry summaries eligible for IEEPA refunds. The government reported to the court that more than $40 billion would actually be disbursed by the end of June.

Not all importers received their money without friction. An import entry's final duty liability is finalized through a statutory process known as "liquidation." Once 80 days pass following liquidation, it is difficult for customs authorities to reliquidate entries on their own initiative. The government pushed back against the order mandating refunds even for such liquidated entries. The

Department of Justice appealed this specific issue to the U.S. Court of Appeals for the Federal Circuit.

Hurdles facing small and medium-sized enterprises also came to the fore. The Cato Institute in the United States highlighted this disparity in a July analysis. As of early July, the volume of processed refunds approached nearly 60% of the total amount owed by the government, yet that sum was derived from only 30% of total entry filings. This meant that large-scale importers were paid first, leaving smaller businesses waiting in line. Judge Eaton raised concerns over the same imbalance.

In early August, Reuters reported, citing court filings, that approximately $100 billion had been refunded. That surpassed half of the roughly $166 billion in tariffs invalidated by the Supreme Court. There was also an independent private tally compiling CBP reports submitted to the court on September 15. According to this count, approximately $122 billion had been certified and transmitted to the Treasury Department as of September 11. This figure continued to fluctuate as refund processing progressed.

Another dispute brewed over the refunds: who had actually borne the economic burden of the tariffs? Legally, tariffs are paid by importers. In practice, however, a substantial portion had been passed along to consumers through higher prices. Yet the refunds flowed back to the importers. Democratic Representative Greg Casar criticized the dynamic, pointing out that refund windfalls were flowing to corporations rather than to working-class families. Certain corporations, such as UPS and FedEx, announced intentions to pass refunds back to consumers.

Fiscal fallout lingered as well. The Trump administration had relied on tariff revenues as the budgetary justification for extending tax cuts. Immediately following the ruling, the Penn Wharton Budget Model estimated that total refunds could reach up to $175 billion. It projected that absent replacement tariffs, future tariff revenues could be slashed in half. This fiscal void directly connects to the deterioration of public finances examined in Chapters 34 and 39.

13.5 Detours: From Section 122 to Section 301

On the very evening of the ruling, President Trump immediately pulled out an alternative: Section 122 of the Trade Act of 1974. This provision empowers the president to impose temporary import surcharges in the event of serious balance-of-payments deficits. In the 52 years since its enactment, no president had ever invoked this section to levy tariffs.

Section 122 carries explicit statutory constraints. The tariff rate cannot exceed 15%, and the duration cannot exceed 150 days. Any further extension requires congressional approval. Unlike IEEPA, the statute establishes hard caps on both rates and duration.

On February 20, the president signed a proclamation levying a 10% surcharge on virtually all imports. It took effect on February 24—the very day CBP ceased collecting IEEPA tariffs. The following day, the president announced he would hike the rate to 15%. However, no official administrative action was ever promulgated to execute that increase; the operative rate remained at 10% throughout its run.

This shift produced a paradoxical result for negotiating partners like South Korea. Seoul had previously reached an agreement to lower its IEEPA tariffs from 25% to 15%. When the IEEPA tariffs vanished, countries that had negotiated concessions were subjected to the same uniform 10% Section 122 tariff as everyone else. The preferential edge won through arduous negotiations evaporated, putting all nations back on the exact same starting line.

The Section 122 tariffs landed in court as well. On May 7, the Court of International Trade ruled 2 to 1 that the Section 122 proclamation failed to satisfy statutory prerequisites. The government appealed. In practice, the real-world impact of the ruling was muted, as the 150-day statutory sunset was already fast approaching. Congress declined to grant an extension. Consequently, the Section 122 tariffs lapsed and expired upon reaching their statutory deadline on July 24.

In the meantime, the administration laid the groundwork for a more durable legal justification. On March 11 and 12, the Office of the U.S. Trade Representative (USTR) initiated two investigations under Section 301 of the Trade Act of 1974. Section 301 authorizes retaliatory measures against foreign trade practices deemed unreasonable, unjustifiable, or discriminatory, requiring formal investigations and public comment proceedings.

The first investigation targeted forced labor. The pretext was that 60 trading partners failed to prohibit or adequately block the importation of goods made with forced labor. On June 2, USTR made an affirmative finding that the practices of all 60 countries warranted actionable trade remedies. Because these 60 nations accounted for 99.4% of all U.S. imports, the investigation was a dragnet effectively encompassing every trading partner.

The second investigation probed industrial excess capacity. It examined whether 16 trading partners—including China, the European Union, Singapore, and Switzerland—maintained structural manufacturing overcapacity. The outcome of this inquiry tied directly into additional punitive tariffs on China.

On July 23, the president directed the implementation of tariffs pursuant to the forced labor investigation. The tariffs took effect at 12:01 a.m. on July 24—the very moment the Section 122 tariffs lapsed. Countries that maintained import-ban mechanisms or pledged in trade agreements to introduce them were assessed a 10% tariff; countries that did not were slapped with a 12.5% tariff.

The granular application varied by country. For South Korea, Japan, and Switzerland, the tariff was calibrated so that the combined rate with existing Most-Favored-Nation (MFN) duties totaled

12.5%. For the European Union and Taiwan, the combined rate totaled 10%. For seventeen countries—including Canada, Mexico, the United Kingdom, and India—an additional 10% was layered on top of existing baseline rates. For the remainder, including China and Vietnam, a 12.5% surcharge was added on top of existing rates.

For China, the overcapacity investigation was layered on. As examined in Chapter 2 of this book, the Supreme Court's IEEPA ruling had wiped out both the 10% fentanyl tariff and the 10% reciprocal tariff levied on China. Adding a 7.5% excess capacity tariff to the 12.5% forced labor tariff reconstructed the baseline right back to 20%. While the statutory authority had shifted, the United States was piecing back together the exact 20% tariff threshold agreed upon during the Busan truce.

Sectoral tariffs were overhauled as well. Section 232 of the Trade Expansion Act of 1962 authorizes tariffs on specific items on national security grounds. Steel, aluminum, copper, and automobiles were already subjected to it. On April 2, the president altered the calculation methodology for derivative steel, aluminum, and copper products: tariffs would no longer be assessed solely on the value of the raw metal content, but on the full aggregate price of the finished product.

The bluntest weapon was Section 338 of the Tariff Act of 1930. This statute authorizes the president to slap tariffs of up to 50% on a foreign nation if he determines that it discriminates against American commerce. It had never once been invoked since its enactment. In July, the Trump administration invoked this provision for the first time in history against Canada. The sequence of events and its fallout are explored in Chapter 14.

The Section 301 tariffs quickly wound up before the courts as well. Learning Resources, fresh off its victory in the IEEPA case, filed suit once again. It argued that the nexus between the rationale of forced labor and sweeping across-the-board tariffs on all categories of merchandise was tenuous at best. The Congressional Research Service (CRS) also analyzed that courts could closely scrutinize this required nexus.

Looking at the overarching arc, one structural shift stands out: the administration migrated away from emergency powers exercisable by the president alone toward established trade statutes with prescribed procedural steps. Section 301 mandates formal investigations and public comment periods; Section 122 imposes statutory ceilings on rates and duration. While aggregate tariff levels remained largely unaltered, their legal foundations were channeled back within statutory frameworks. The Supreme Court ruling failed to eradicate the tariffs, but it fundamentally reshaped how tariffs are levied.

13.6 What the Ruling Left Behind

This ruling etched a memorable milestone in American constitutional history. The Supreme Court squarely invalidated the most iconic policy of the second Trump administration. It did so with a conservative-dominated bench, where two justices appointed by the president joined the majority. It was a moment demonstrating that the judiciary could still function as an impartial arbiter.

At the core of the ruling lay a fundamental question: who decides taxes? The United States was founded on the rallying cry of "no taxation without representation." This was why Chief Justice Roberts anchored his opinion in Article I, Section 8 of the Constitution. A tariff is, ultimately, a tax paid by domestic citizens. The authority to impose that tax belongs exclusively to the elected Congress.

Yet the limitations of this ruling were equally stark. The decision blocked only a single instrument: IEEPA. It did not dismantle the president's tariff powers in their entirety. Mere hours after the ruling, Section 122 was deployed, and five months later, Section 301 stepped into the breach. The effective tariff burden differed little from what existed before the decision. This trajectory had been anticipated by legal experts from the very day the ruling came down.

The president's reaction laid bare a deeper crisis. Unable to defy the ruling outright, he chose instead to assault the judges. He impugned the justices' families and claimed they were swayed by foreign interests. Such rhetoric strikes at the legitimacy of judicial decisions—a tactic that formally complies with court orders while eroding the institutional authority of the judiciary itself.

The role of Congress must also be called into question. The Supreme Court affirmed that the taxing power resides with Congress. Yet Congress failed to take proactive measures on tariffs. Refusing to extend the Section 122 tariffs was virtually the extent of legislative action. Sections 301 and 232 represent broad delegations granted by Congress in decades past. Unless Congress recalibrates these delegated authorities, unilateral presidential tariff policies will grind on unabated.

For South Korea, the implications are threefold. First, the legal basis of U.S. tariffs can shift at any moment. The trade pact Seoul negotiated over IEEPA tariffs had its meaning transformed virtually overnight following the ruling. In negotiating agreements with Washington, contingency clauses must anticipate shifts in statutory authority.

Second, U.S. courts represent a crucial variable in negotiations. Federal courts have the power to upend the executive branch's trade actions. South Korean companies can also directly assert their legal rights through refund litigation and the CAPE process. Korean enterprises operating import entities in the United States must meticulously audit their entries for refund eligibility.

Third, tariffs do not disappear; they merely change shape. The Section 301 forced labor tariffs carry no sunset clause. South Korean goods face a combined rate of 12.5% alongside MFN duties.

Instituting domestic forced-labor import bans could lower this rate to 10%. Upgrading supply-chain human rights compliance frameworks has now become a direct prerequisite in bilateral trade negotiations.

The ruling also left an indelible imprint on relations with China. Having lost its legal footing under IEEPA, the United States reconstructed tariffs under Section 301. Beijing signaled a willingness to acquiesce as long as aggregate rates did not breach the 20% ceiling established in the Busan agreement. The extension of the tariff truce at the Washington summit was negotiated upon this newly reconfigured legal foundation.

February 20, 2026, showcased two sharply contrasting faces of American power. On one side stood a Supreme Court reaffirming the core principles of the Constitution. On the other stood a president who, rather than gracefully accepting the verdict, lashed out at judges and resurrected identical tariffs through alternate statutes. Over the six months that followed, the United States refunded upwards of $100 billion in duties while simultaneously erecting a new tariff fortress. The power of the law to restrain executive authority—and the ultimate limits of that power—were captured in sharp relief in this single episode.

Key Timeline

February 1, 2025	Announcement of fentanyl tariffs on Canada, Mexico, and China pursuant to IEEPA.
April 2, 2025	Announcement of "Liberation Day" reciprocal tariffs.
May 2025	The U.S. Court of International Trade rules that IEEPA tariffs exceeded statutory authority.
August 2025	The U.S. Court of Appeals for the Federal Circuit en banc reaches the same conclusion.
September 2025	The U.S. Supreme Court grants certiorari and consolidates the two cases.
November 5, 2025	Supreme Court oral argument.
February 20, 2026	Supreme Court issues 6–3 ruling; President Trump holds press conference and signs Section 122 proclamation.
February 24, 2026	CBP ceases IEEPA tariff collection; Section 122 10% tariff takes effect.
February 27, 2026	President Trump publicly raises the possibility of a rehearing.
March 4, 2026	Judge Eaton of the Court of International Trade rules that all importers are eligible for refunds.
March 11–12, 2026	USTR initiates Section 301 excess-capacity investigations (16 economies, March 11) and forced-labor investigations (60 countries, March 12).
April 2, 2026	Modification of Section 232 metal tariff calculation methodology.
April 20, 2026	CBP launches CAPE refund Phase 1.
May 7, 2026	Court of International Trade invalidates Section 122 tariffs (2–1); government appeals.
June 2, 2026	USTR makes affirmative determination of actionable forced-labor practices for all 60 countries.
July 24, 2026	Section 122 tariffs expire; Section 301 forced-labor tariffs (10%, 12.5%) take effect.
Early August 2026	Cumulative refunds reach approximately $100 billion (court filings).

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Chapter 14. The First Invocation of Section 338 of the Tariff Act

The 50% Tariff Bomb on Canada and the Bankruptcy of the USMCA

> After the Supreme Court struck down the IEEPA tariffs, the Trump administration dusted off Section 338 of the Tariff Act of 1930—dormant for 96 years—and aimed it directly at Canada. The 50% tariffs made no exception for USMCA rules-of-origin preferences, and following the collapse of negotiations, escalated all the way to import bans.

14.1 A Detour Around the Supreme Court Ruling: Section 338 Awakens After 96 Years

On February 20, 2026, the Supreme Court of the United States put the brakes on President Trump's tariffs. In Learning Resources, Inc. v. Trump, the Court struck down tariffs grounded in the International Emergency Economic Powers Act (IEEPA). IEEPA is the statute empowering the president to take economic measures on the basis of a declared national emergency. The full account of this ruling was addressed in Chapter 13.

The White House immediately searched for alternative statutory authorities. Section 122 of the Trade Act of 1974 was its initial choice. This provision permits the president to impose temporary import surcharges in the event of large balance-of-payments deficits. However, the tariff rate cannot exceed 15%, and the duration is capped at 150 days. The deadline for the Section 122 tariffs was July 24.

As that deadline drew near, the North American trade agreement also reached a critical juncture. On July 1, 2026, the first Joint Review of the United States–Mexico–Canada Agreement (USMCA) took place. The USMCA is the North American free trade agreement that took effect on July 1, 2020. In Canada, it is known as CUSMA. The agreement stipulates that on the sixth anniversary of its entry into force, the three parties must confirm in writing whether to extend the agreement for an additional 16 years.

The United States declined to extend the agreement. Jamieson Greer, the United States Trade Representative (USTR), announced that the U.S. would not renew it in its current form. Canada and Mexico sought a 16-year extension, but the United States refused. With this, the USMCA entered into an annual joint review regime. If the three nations ultimately fail to agree on an extension, the agreement will expire on July 1, 2036.

The annual review regime affords the United States the opportunity to put forward new demands every year. Without undertaking a comprehensive renegotiation, Washington can shake the fate of the agreement annually. Ambassador Greer had already noted at the time that negotiations with

Canada were proving more difficult than those with Mexico. The U.S. also took issue with Canada's administration of dairy tariff-rate quotas (TRQs)—a mechanism that applies lower tariff rates only up to a specified volume.

On July 20, 2026, just four days before the Section 122 deadline, President Trump signed three presidential proclamations. A proclamation is an official executive directive issued by the president pursuant to statutory authority. The statutory basis was Section 338 of the Tariff Act of 1930 (19 U.S.C. § 1338). The target was a single country: Canada.

Section 338 was a provision contained in the Smoot-Hawley Tariff Act of 1930. Economic historians widely consider that statute to have deepened the Great Depression by triggering retaliatory tariffs around the globe. Section 338 was designed as a mechanism to offset discrimination when a foreign country treats American commerce less favorably than that of other countries. Its original objective was to uphold reciprocity.

The statutory architecture is as follows: If the president determines as a fact that a foreign country is discriminating against the commerce of the United States, he may impose new or additional duties. The ceiling on the tariff rate is 50% of the value of the goods—known as an ad valorem duty. The duties take effect and collection begins 30 days after the proclamation is issued. If the discrimination persists, the president is empowered to bar the importation of goods from that country altogether.

U.S. law firms, including White & Case, recorded this action as the first-ever invocation of Section 338. Past administrations, including the Franklin D. Roosevelt administration, had considered invoking it but never executed it. A statutory provision that had remained entirely unused for 96 years since its 1930 enactment was mobilized for the first time.

The administration chose Section 338 because of its procedural expeditiousness. Section 301 of the Trade Act requires an investigation by USTR. Section 232 of the Trade Expansion Act necessitates an affirmative finding of a threat to national security. By contrast, Section 338 requires only a factual finding and a proclamation by the president. There is no requirement for a preliminary investigation by the International Trade Commission (ITC), nor are there public hearings.

Consequently, legal controversies inevitably follow. Holland & Knight highlighted two primary legal issues. One is whether Section 301, enacted in 1974, displaced or superseded Section 338. The other is whether an ITC investigation must precede presidential action. Because the provision had never been utilized, there was no judicial precedent interpreting it. A fierce legal challenge in the U.S. Court of International Trade (CIT) is all but certain.

Barry Appleton, a Canadian trade lawyer, pointed out that the Canadian government misjudged the critical timeline. Throughout the spring, Ottawa focused intensely on the July 1 Joint Review. In

reality, the true showdown centered on July 24, when the Section 122 tariffs were set to expire. Appleton observed that Section 122 had been a stopgap mechanism designed from the outset to buy time.

14.2 Three Proclamations and the Nullification of Rules-of-Origin Preferences

On July 20, President Trump signed three proclamations: Proclamation 11046 cited alcoholic beverages, Proclamation 11047 cited dairy products, and Proclamation 11048 cited motor vehicles. All three proclamations imposed an additional 50% ad valorem duty. The covered items were designated by tariff classification numbers listed in Annex II attached to each proclamation.

A fact sheet released by the White House cited three specific categories of discrimination. The first was motor vehicles. The White House asserted that Canada subjected U.S.-made automobiles to discriminatory duties and quotas. It further claimed that these quotas coerced American automakers into investing in Canada. Between April 2025 and March 2026, Canada's imports of U.S.-manufactured automobiles reportedly plummeted by roughly 22%, or $5.6 billion.

The second was alcoholic beverages. The White House noted that all but two Canadian provinces and territories had halted the purchase or sale of American-made alcoholic beverages. In Canada, provincial governments control the distribution and sale of alcohol, with the Liquor Control Board of Ontario (LCBO) serving as the prime example. Over the one-year period beginning in March 2025, Canadian imports of U.S. alcoholic beverages plunged by approximately 81%, or $582 million.

The third was dairy products. Canada protects its dairy industry through a supply management system, under which the state regulates production volumes and import quotas. The White House alleged that Canada applied more restrictive tariff-rate quotas to American cheese than to imports from the European Union (EU). The administration’s argument was that while both the U.S. and the EU held trade agreements with Canada, they received disparate treatment.

The scope of goods subject to the tariffs was far broader than the stated justifications. The White House itself explained that the coverage spanned from wine to hockey sticks and cement. The alcoholic beverages proclamation alone contained 63 tariff classification numbers. These included not only alcohol, but also select wood and paper products, as well as hockey equipment. The annex to the motor vehicles proclamation was the longest of the three, containing numerous items with no direct bearing on automobiles.

Appleton calculated that as many as 439 tariff numbers were targeted under the justification of automotive discrimination. He analyzed that the single product bearing the heaviest burden was plastic sacks and bags, such as polyethylene shopping bags. While the stated pretexts were

automobiles, cheese, and whiskey, the actual damage landed squarely on entirely unrelated manufacturing sectors. Thomson Reuters also cautioned that many of the items listed in the annexes had been overlooked in initial media reports.

The White House carved out several exceptions. Energy products, potash (a key fertilizer input), goods already subject to Section 232 tariffs, seafood, critical minerals, and certain civil aircraft-related items were exempted. Raw materials upon which the U.S. economy critically depends were left untouched. Consequently, the brunt of the burden fell upon consumer goods and products utilized by small- and medium-sized manufacturers.

The volume of trade covered was roughly $20 billion. Ambassador Greer explained that it was a targeted tariff action aimed at approximately 5% of Canada's total exports to the United States. The 50% duty was levied on top of existing tariff rates. Moreover, transshipping through third countries offered no escape: if the country of origin was Canada, the tariff applied.

The most consequential departure in this measure was the refusal to recognize USMCA rules-of-origin preferences. Preferential tariff treatment is the mechanism exempting qualifying originating goods from customs duties under a free trade agreement. The tariffs imposed on Canada in 2025 had largely exempted goods satisfying USMCA origin criteria. The Section 338 proclamations provided no such exemption. Even with a valid USMCA Certificate of Origin in hand, listed goods were subject to the full 50% tariff.

Appleton assessed that this rendered the certificate of origin completely worthless. He observed that while the dispute settlement chapters of the USMCA govern actions taken within the four corners of the agreement, they are powerless against maneuvers designed to bypass it entirely. Section 338 was precisely that detour: it left the formal text of the agreement intact while completely eviscerating its practical effect.

Section 338 was not the only tariff regime levied against Canada. According to Appleton, Canadian goods had also been subject to a 10% tariff under Section 301 relating to forced labor since July 24. The stated justification was that while Canada maintained statutory prohibitions against the importation of goods made with forced labor, it failed to enforce them. Thus, timed to the expiration of Section 122, multiple statutory authorities were mobilized simultaneously.

The effective date stipulated in the proclamations was August 19, thirty days after signing. This afforded Canada a one-month window for negotiations. The 50% tariff was also the opening offer brought to the bargaining table—which is why Holland & Knight characterized the measure as a "50 percent opening bid."

14.3 The Eleventh-Hour Talks in Washington and the Breakdown: Three Reasons Carney Walked Away

The Canadian negotiations were spearheaded by Dominic LeBlanc, Minister of Canada–U.S. Trade. Chief Negotiator Janice Charette shuttled alongside him to and from Washington. Over the span of three weeks, the two met with Ambassador Greer four times. By mid-August, both sides had hammered out the contours of a draft agreement to be submitted to the president.

Prime Minister Mark Carney, who took office on March 14, 2025, as Canada's 24th Prime Minister, is an economic expert who had served as Governor of both the Bank of Canada and the Bank of England. Throughout the negotiations, Carney maintained the unyielding position that he would reject any deal that failed to deliver substantial tariff reductions. The Canadian negotiating team pressed centrally for the lowering of sectoral tariffs—specifically on steel, aluminum, automobiles, and softwood lumber.

On August 18, a breakthrough appeared imminent. President Trump announced on social media that the two countries had reached an agreement. On the same day, he signed a proclamation postponing the effective date of the Section 338 tariffs by three days, setting the new effective time at 12:01 a.m. on August 22. The following day, Minister LeBlanc and Ambassador Greer stood side by side outside USTR headquarters, stating that only the final touches remained.

Prime Minister Carney briefed the provincial premiers on the framework of the prospective deal. Canada was prepared to lift its retaliatory tariffs on steel, aluminum, and automobiles if the United States substantially lowered its sectoral tariffs. Carney also requested that provincial governments return American liquor to retail shelves. It was a package that put virtually all of Canada's bargaining chips on the table.

Yet on the night of Friday, August 21, the negotiations collapsed. Prime Minister Carney recalled his negotiating delegation from Washington back to Ottawa. He announced to the public that Canada was walking away from a bad deal. At around 11:30 p.m., Ambassador Greer issued a statement asserting that Canada had refused to finalize the agreement on the terms agreed upon earlier in the week.

On Saturday, August 22, Prime Minister Carney held a press conference in Ottawa. He explained that the United States had introduced brand-new demands during the final hours of negotiations. Carney denounced those demands as uneconomic and unfair. Canadian media ran headlines quoting Carney's remark that the United States had "asked too much and offered too little." Carney outlined three core sticking points.

First was automobiles. The two sides clashed over how to calculate the regional value content for Canadian-assembled vehicles. The United States sought to apply tariff reductions solely to passenger cars, excluding medium- and heavy-duty trucks. Carney explained that this exclusion

would directly strike Ford F-Series trucks produced at the Oakville Assembly Plant and GM Silverado pickups assembled at the Oshawa plant. He warned that over time, manufacturing these vehicles in Canada would become economically unviable.

Second was Canada's other trade agreements. Carney revealed that in the final hours, Washington attempted to insert language constraining Canada's ability to enter into trade pacts with third nations. The Prime Minister's Office had touted a track record of 20 international trade agreements, including recent accords with Indonesia and the United Arab Emirates, as well as ongoing negotiations with India. Carney unequivocally rejected this demand as non-negotiable.

The United States also demanded that Canada align its tariffs on third countries to match U.S. levels. Carney attached a clear condition to this point: while harmonizing tariffs on sectors like steel might make sense if the two nations operated as a truly integrated single market, that would require U.S. tariffs on Canadian goods to be unambiguously lower than those applied to third countries.

Third was language and culture. Carney stated that the United States sought to curtail Canada's protections for linguistic and cultural sovereignty. He characterized the issue as a matter of fundamental sovereignty. In the French-language portion of the press conference, he went so far as to describe it as a threat to the French language and Quebec culture. The points of friction centered on Canada's bilingual English–French labeling requirements on consumer goods and the Online Streaming Act.

The Online Streaming Act is a Canadian statute enacted in 2023. It mandates that major foreign platforms like Netflix and Amazon contribute a portion of their Canadian revenues to funds supporting the creation of Canadian content. U.S. streaming giants and the Motion Picture Association had launched legal challenges against the legislation, and congressional Republicans had repeatedly assailed it as discriminatory.

The U.S. version of events differed sharply. On August 24, Ambassador Greer appeared on CNBC and asserted that Canada was the party that had made eleventh-hour demands for more concessions. He dismissed the bilingual labeling controversy as a "ludicrous" and fabricated narrative. Vice President JD Vance similarly lashed out, alleging that Canada had brought unreasonable last-minute demands to the table. Prime Minister Carney fired back, reiterating that the U.S. demand regarding bilingual labeling was a verified fact.

A few days later, nuances in both sides' accounts shifted somewhat. Chief Negotiator Charette flatly denied the U.S. claim that Canada had pushed last-minute demands on autos. She explained that the restriction on third-party trade agreements had suddenly surfaced late in the talks, and that it remained ambiguous whether Washington was demanding advance consultation, formal approval, or an outright veto. Ambassador Greer countered that no such binding obligation had been drafted into the agreement.

On August 27, Ambassador Greer acknowledged in an interview with CBC that the Online Streaming Act was not a "red line" for the United States. Minister LeBlanc welcomed Washington's walk-back of its stance on language and culture. Yet Greer added that there was currently no open channel to resume negotiations. Even as one sticking point dissolved, the bargaining table was not reset.

To this day, the two countries' accounts of the breakdown remain contradictory. In the absence of a publicly released draft text, it is difficult to verify independently who altered terms first. Yet one fact stands beyond dispute: the president's announcement three days prior proclaiming an accord proved incapable of guaranteeing a concluded deal. The yawning chasm between a declared agreement and an executed signature is a recurring hallmark of Trump-style diplomacy examined across multiple chapters of this book.

Domestic public opinion in Canada broadly rallied behind Carney's decision. Ontario Premier Doug Ford, a member of the opposition Progressive Conservative Party, remarked that it was a terrible deal and that Carney was right not to sign it. Canadian media reported that retaliatory tariffs enjoyed overwhelming domestic public support.

14.4 "If Attacked, It Is War": The Escalation of Retaliation and Import Bans

Just hours after the talks collapsed, at 12:01 a.m. on August 22, the Section 338 tariffs took effect. During the three-day suspension, the proclamations had been neither revoked nor amended. Once the reprieve lapsed, the original 50% duties snapped into force. Because the effective date had shifted from August 19 to August 22, operational confusion ensued at border checkpoints, with customs authorities prematurely collecting duties on certain shipments.

During the press conference, a reporter asked whether this constituted a trade war. Prime Minister Carney replied that if one is attacked, it is war—adding, "And we have been attacked." Carney emphasized that Canada had held off on retaliation until the United States actually enforced the Section 338 tariffs. He then announced that Canada would respond dollar-for-dollar, matching the U.S. tariffs on a strict one-to-one basis.

U.S. media also carried Carney's description of the tariffs as "a miscalculation." Bloomberg reported that Carney was designing the retaliatory measures to be sustainable throughout the entirety of Trump's term in office—an unmistakable signal that Canada was preparing not merely a short-term bargaining chip, but a protracted war of attrition.

President Trump fired back on Truth Social on August 24. He threatened to slap a 50% tariff on Canadian passenger vehicles, trucks, auto parts, and steel effective January 1, 2027. He also lashed out with the accusation that Canada had been "ripping off" the United States for decades. Premier

Ford pushed back, declaring that Trump had declared economic war on America's closest friend and ally.

Premier Ford warned that "all options are on the table," asserting that the U.S. would not get "one grain of sand" from Ontario. In early September, speaking from the Oval Office, President Trump went so far as to threaten to sever all trade with Canada, Mexico, the European Union, and Switzerland. The threat of trade embargoes and the ensuing market turbulence are examined in detail in Chapter 38.

The Canadian government refined its retaliation list, with Minister of Finance François-Philippe Champagne finalizing the details. The measures targeted approximately 700 U.S. product lines valued at 27.6 billion Canadian dollars—or roughly 20 billion U.S. dollars. The tariff rates were set at three tiers: 15%, 25%, and 50%, calibrated product-by-product to mirror the tariffs imposed by the U.S. under Section 338 or Section 232.

Canada's retaliatory surcharges took effect on Tuesday, September 8, following the Labor Day holiday weekend. The White House noted that the retaliation targeted steel, dairy products, agricultural machinery, and other sectors. Canada’s retaliatory tariffs likewise disregarded USMCA rules of origin, returning the blow in kind.

On the morning the tariffs took effect, a senior Canadian government official declared that Ottawa would not change course, regardless of whether the U.S. chose not to respond or opted for a "nuclear option." Prime Minister Carney released a 15-minute video address explaining the government's strategy. He acknowledged that pivoting away from dependency on the United States would carry real transition costs, but underscored that the cost of doing nothing would be far greater.

On the night of September 8, just hours after Canada's retaliatory duties came into force, President Trump signed five additional Section 338 presidential proclamations. Three of the five ordered outright import prohibitions, while the remaining two modified the product lists subject to the existing 50% tariff. This marked the very first invocation of Section 338’s statutory power to ban imports.

The import bans covered three sectors: First, most Canadian-origin alcoholic beverages packaged in bottles or cans; second, whey products and molasses—whey being the liquid byproduct of cheese manufacturing used as an essential protein ingredient; and third, motorcycles and mopeds with engine displacements exceeding 800cc. The import bans were scheduled to take effect on September 29.

The practical scope of the ban list was narrower than its sweeping headlines suggested. The dairy ban was essentially confined to whey and molasses. Curiously, non-alcoholic beer was also swept

into the list. For goods already imported but not cleared through customs prior to September 29, the existing 50% duty applied.

A senior U.S. administration official explained the rationale for resorting to bans rather than additional tariffs: because select Canadian provinces had banned the sale of American alcohol, the U.S. responded symmetrically with an import prohibition. The White House justified the move under the statutory clause of Section 338 authorizing the total exclusion of imports when discrimination persists. Having already maxed out the statutory tariff cap of 50%, expanding the product list and imposing outright import bans were the only executive remedies remaining.

The adjustments to the covered product lists took effect on September 15. Rock salt and cement were removed from the 50% tariff list. In their place, all-terrain vehicles (ATVs), animal skins and hides, mattresses, lighting fixtures, and motorboats were added, alongside select additional dairy items. The White House stated that the adjustments refined the scope in accordance with the public interest. In practice, this calibrated relief removed raw materials that inflated U.S. construction costs while substituting finished consumer goods.

On the same day, President Trump moved to shut Canada out of U.S. federal procurement. He directed USTR and the General Services Administration (GSA) to remove Canadian goods from federal procurement schedules. The GSA's Multiple Award Schedule (MAS) program manages over $50 billion in annual federal contracting. Until Canada restored reciprocal treatment, Canadian goods would remain barred from competing in this lucrative marketplace.

Minister LeBlanc denounced the U.S. measures as completely unjustified. He stated that the government was evaluating the economic impact, emphasizing that protecting Canadian workers, farmers, and businesses remained Ottawa's paramount priority. Canada maintained the position that it was ready to talk whenever the United States was prepared, making clear it had no intention of rushing cap in hand to Washington. LeBlanc reiterated that Ottawa would not rush into a deal until an economically sound agreement was in sight.

The chronological sequence of retaliation between the United States and Canada unfolded as follows:

July 1: The United States refuses to extend the USMCA for 16 years. July 20: President Trump signs three Section 338 presidential proclamations. August 18: President Trump postpones the effective date by three days and proclaims an agreement. August 21 (Night): Prime Minister Carney recalls the Canadian negotiating delegation. August 22 (12:01 a.m.): The Section 338 50% tariffs take effect. August 24: President Trump threatens 50% tariffs on Canadian automobiles and steel starting January 1, 2027. September 8: Canada puts into effect retaliatory tariffs valued at CAD 27.6 billion. September 8 (Night): President Trump signs five additional proclamations, including import bans. September 15: Adjustments to the product lists subject to the 50% tariff take effect.

September 29: Import bans on Canadian alcoholic beverages, whey products, and large motorcycles take effect.

14.5 The USMCA Remains, but Trust Is Bankrupt

The title of this chapter speaks of the bankruptcy of the USMCA. It is necessary to clarify precisely what this phrasing signifies. Legally speaking, the USMCA remains alive. The United States merely declined a 16-year extension; it did not withdraw from the treaty. The agreement remains legally binding through 2036, and goods meeting rules-of-origin requirements continue to flow duty-free across borders today.

Prime Minister Carney himself noted on September 15 that roughly 80% of Canada's bilateral trade with the United States continues to cross the border duty-free. The Section 338 tariffs apply to approximately 5% of Canada's exports to the United States. Judged purely by the numbers, the vast bulk of the North American trade architecture remains functioning.

Yet what went bankrupt was not the treaty parchment, but faith in the agreement. The true value of any international trade accord rests on the expectation that solemn commitments will be honored. Enterprises construct integrated supply chains and build manufacturing plants on both sides of the border based on that bedrock expectation. Auto parts crisscross the border multiple times before a vehicle reaches final assembly. If tariff preferences can be unilaterally swept aside with the stroke of a president's pen on a proclamation, that foundational certainty collapses.

Section 338 established a profoundly dangerous precedent in this regard. The sole statutory requirement under Section 338 is a factual determination by the president that a foreign nation is discriminating against U.S. commerce. No formal investigation is required, nor is congressional approval. When the Supreme Court struck down the IEEPA tariffs, the administration simply unearthed another forgotten statute passed by Congress nearly a century ago. The judicial check did not so much curtail presidential power as reroute the channel through which executive fiat flows.

Canada is America's oldest ally and closest neighbor. The two nations jointly operate the North American Aerospace Defense Command (NORAD). The fact that a Depression-era statute was invoked for the very first time against such a nation is laden with symbolism. The White House explicitly declared that over the past year and a half, only two countries had dared to retaliate against U.S. tariffs: China and Canada. Official U.S. government documents thus placed America’s staunch ally on the very same plane as its chief strategic adversary.

This dynamic connects directly to the central thesis of this book: U.S.–China relations. At the very same juncture, President Trump was hosting President Xi Jinping on a lavish state visit, negotiating an extension of their bilateral trade truce. U.S. tariffs on Chinese goods remained capped around 20%. In stark contrast, select Canadian products were battered by 50% tariffs compounded by

outright import prohibitions. Washington brokered a truce with its foremost adversary while waging economic warfare against its closest ally. This glaring contradiction epitomizes how Trumpian diplomacy squanders the goodwill and trust of America's allies.

The U.S. administration offers its own rationale. The White House contends that Canada initiated the confrontation by pulling American liquor off store shelves and discriminating against U.S. automobiles and dairy products. Ambassador Greer argued that the trade conflict stemmed directly from Canadian restrictions on liquor, autos, and dairy. However, Canada's liquor boycott and retaliatory measures were themselves responses to Trump's 2025 tariffs and his provocative rhetoric about annexing Canada as a "51st state." When it comes to the causal sequence of cause and effect, the narratives of the two capitals stand completely inverted.

Prime Minister Carney's response transcended tactical trade negotiations, evolving into a fundamental pivot in Canada's national strategy. On September 15, addressing global investors at the Canadian Investment Summit in Toronto, Carney declared that "nostalgia is not a strategy." Waiting for a return to the bygone status quo, he emphasized, could no longer serve as the foundation of a nation's grand strategy.

Speaking of the United States, Carney affirmed that the two nations would always remain neighbors. But that relationship, he stressed, functions only when they are genuine partners who respect each other's traditions and sovereignty. When the opportunity arises again, he stated, Canada will return as a stronger, more resilient, and more independent partner. He added that Canada's reputation as a reliable and predictable partner has gained a premium in a world where raw transaction has superseded enduring relationships.

In his address, Carney also rolled out sweeping investment incentives. The centerpiece was expanded accelerated capital cost allowances, permitting businesses to immediately write off more than 65% of equipment and capital investments as expenses. He argued that Canada's investment incentives were now double those offered in the United States. He also unveiled plans to attract private capital by leasing the operating rights of Canada's four major international airports under long-term concessions. Upon concluding his address, Carney departed for Europe to address the European Parliament.

Formidable real-world constraints remain. Over 70% of Canadian exports still head across the southern border to the United States. Carney himself acknowledged that the strategic pivot carries heavy transition costs. Broadening non-U.S. export markets will take years to bear fruit. In the interim, Canadian businesses and workers must absorb the upfront pain of punitive tariffs and import bans. Meanwhile, the governing Liberal Party recently swept all three federal by-elections, demonstrating that Ottawa's firm stance against Washington enjoys robust domestic political backing.

Costs are mounting on the American side as well. The 50% tariffs are paid upfront by U.S. importers and passed directly to consumers. American manufacturing plants relying on Canadian intermediate inputs are grappling with soaring costs. U.S. wines and spirits have vanished from Canadian store shelves, while dairy products and farm machinery run headlong into Canadian retaliatory surcharges. With Canadian cross-border travel sharply declining, the U.S. tourism industry is scrambling to lure visitors back. With the November midterm elections looming, economic strains on American farm belts and industrial rust belts are poised to intensify.

The lessons for South Korea are equally stark. Korea has committed some $350 billion in direct investments in the United States and maintains the KORUS Free Trade Agreement. Yet the Canadian crisis demonstrates that formal treaty commitments cannot reliably constrain unilateral presidential action. The sole legal prerequisite under Section 338 is a unilateral determination that a trading partner is discriminating against U.S. commerce. No trading partner can safely assume immunity from being targeted under such an expansive authority.

While there are currently no indications that South Korea is being singled out under this statute, the statutory requirement is a finding that the other country is discriminating against U.S. goods. Trade strategies that rely solely on the protective wording of treaties have laid bare their limits. Seoul must diversify export markets, coordinate multilaterally with allied nations, and preemptively assemble comprehensive legal countermeasures. This imperative explains why Canada, pointing to its network of 20 international trade agreements, is expediting market diversification with renewed urgency.

When the import prohibitions take effect on September 29, the North American trade confrontation will enter an uncharted phase. The looming threat of 50% tariffs on automobiles and steel in January 2027 continues to hang overhead. Neither side shows any appetite for blinking first. Prime Minister Carney stated that Canada stands ready to reach an agreement "when the time is right." Who will determine when that right time arrives remains entirely unknown.

The tariff war did not stop at trade frictions. Anti-American sentiment across Canadian society surged to unprecedented heights. The dispute over renaming Lake Ontario among the Great Lakes is examined in Chapter 15, while the Carney administration's push for security self-reliance and strategic solidarity with Europe is explored in Chapter 16.

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Chapter 15. Turning Lake Ontario into 'Lake America'

Canada's Extreme Anti-American Sentiment

On the afternoon of Thursday, August 27, 2026, two large maps were set up in the Oval Office of the White House. They were maps depicting the Great Lakes. One bore the title "Make the Great Lakes Great Again." In place of Lake Ontario, "Lake America" was written in bold red lettering. In front of those maps, President Trump signed an executive order directing that Lake Ontario be renamed "Lake America."

This chapter examines how the name of a single lake galvanized the fury of an entire nation. It chronicles how the tariff war examined in Chapter 14 spilled over onto the map. The Canadian federal and provincial governments, Indigenous communities, and even American governors spoke out in unison against it. Mapping companies made starkly different choices, and Canadian citizens swiftly responded to those choices. Polling figures reveal where the hearts and minds of Canadians ultimately moved.

15.1 The 'Lake America' Executive Order: The Trade War Spills Onto the Map

This executive order did not come out of the blue. The events of the preceding six days formed its backdrop. On the night of August 21, trade negotiations between the United States and Canada collapsed. Prime Minister Mark Carney stated that Canada could not accept Washington's last-minute demands. The very next day, August 22, the United States slapped a 50% tariff on approximately $20 billion worth of Canadian products. Canada announced that it would impose retaliatory tariffs of an equal scale starting September 8. This entire process was examined in detail in Chapter 14.

With the breakdown of negotiations, a war of words erupted. On Monday, August 24, Premier Doug Ford of Ontario took the offensive first. At a press conference in Hamilton, Ford branded Trump a "loser" and the "king of bankruptcy." He did not hold back from hurling profanities at Trump. Trump fired back on Truth Social, mocking Ford as Carney's "lapdog" and comparing him to his late brother, Rob Ford, sneering that Doug possessed neither the charisma nor the intelligence of his deceased brother.

The following morning, August 25, Trump published a new post stating that he was giving serious consideration to renaming Lake Ontario to "Lake America." He also offered a justification: going forward, the United States would not have much business to do with Ontario anyway. Alongside the post, he uploaded an image of a Great Lakes map inscribed with "Lake America." Mélanie Joly, Canada's Minister of Industry, brushed off the comments, asserting that Canada would continue to call it Lake Ontario regardless.

Two days later, Trump actually signed the order. Its official title was "Honoring the American History of the Great Lakes and Renaming Lake Ontario as Lake America." Immediately after signing, Trump declared, "It's official, effective immediately." The text of the order was published in the Federal Register on September 2.

The order mandated the following: The Secretary of the Interior, in coordination with the U.S. Board on Geographic Names (BGN), was to rename the lake within 30 days. The BGN is a federal body established in 1890 tasked with standardizing geographic names used by the federal government. The Department of the Interior was also required to update the Geographic Names Information System (GNIS), the official geographic names database maintained by the U.S. Geological Survey (USGS). The order directed that all references to "Lake Ontario" be purged from the system, and that all federal agency maps, contracts, and official documents use the new name.

The executive order cited two primary justifications. First, it claimed that the lake's deepest point lies within U.S. territory and that the majority of its water volume is located on the American side. Second, it cited history, asserting that the lake had been vital to American trade and national defense since colonial times. The order pointed to the historic fort at Oswego, New York, as an example, declaring that the United States is the greatest steward of the Great Lakes.

The order explicitly identified itself as a successor to Executive Order 14172 of January 20, 2025. On the first day of his second term, Trump had used that order to rename the Gulf of Mexico to the "Gulf of America" and restore the official federal name of North America's highest peak, Mount Denali, back to "Mount McKinley." At the signing ceremony for Lake America, Trump brought up those actions again: "Now we have a Gulf, and now we have a Lake. All we need now is an Ocean."

Reporters asked what message he was sending to Canada. Trump replied, "There is no message." Yet he immediately repeated his claims that Canada had been ripping off the United States for a long time, even referring to Canadians as "nasty people." Contrary to his assertion that there was no message, the timing and target of the order made it impossible to divorce from the trade war.

In reality, the reach of what this executive order could alter was narrow. Executive orders bind only the executive branch of the U.S. federal government. State governments like New York have no obligation to comply. Foreign countries and international bodies are even less bound. There is no single international body that determines the world's geographic names, and Canada, which shares the lake, did not change the name.

There is also a bilateral agreement between the two nations regarding shared toponyms. In 1989, the United States and Canada agreed to coordinate the names of transboundary geographic features. That agreement noted that it was desirable to maintain well-established official names. It stated that any name change must be backed by compelling reasons or strong local usage practices. Yet this renaming took place without any consultation whatsoever with Canada.

Summary **Key Timeline of the Lake Ontario Renaming Order**

August 21	Breakdown of U.S.–Canada trade negotiations
August 22	50% tariffs take effect on roughly $20 billion worth of Canadian goods
August 24	War of words between Premier Ford and Trump
August 25	Trump posts on Truth Social regarding potential renaming
August 27	Executive order signed, declared "effective immediately"
August 29	Google Maps begins displaying "Lake America" to U.S. users
September 2	Executive order published in Federal Register; Apple Maps updates labeling
September 26	30-day implementation deadline set by the order

15.2 The Meaning of 'Ontari'io' and Prime Minister Carney's History Lesson

On the day news of the signing broke, Prime Minister Mark Carney posted a concise message on X. His post began with the roots of the lake's name:

"The name Lake Ontario comes from the Wendat word 'Ontari'io'—which, fittingly, translates as 'the lake is handsome, the lake is vast.' This name has stood for over 400 years. It is older than Confederation. It is older than the American Declaration of Independence."

Carney continued: "We recognize that America is changing: its trade relations, its foreign policies, its national monuments, even its hydronyms. Canadians also know what it is to call reality by its true name. It is Lake Ontario. Then, now, and always."

In this statement, the phrase "name of a body of water" refers to the word "hydronym"—a geographic term denoting the proper name of a water feature such as a river, lake, or sea. Carney deliberately chose this uncommon term while cataloging the transformations in the United States. By placing the name of a body of water at the end of a list spanning from trade relations to national monuments, he framed the renaming as part of a sweeping shift within America.

The etymology cited by Carney aligns with numerous historical sources. The Wendat, also historically known as the Huron, are an Indigenous people whose language belongs to the Iroquoian language family—a linguistic classification encompassing languages spoken by various Indigenous nations around the Great Lakes. Before European arrival, the Wendat lived across a vast territory stretching from the northern shores of Lake Ontario to Georgian Bay. In Pickering, near Lake Ontario, archaeologists unearthed the remains of a 15th-century Wendat ancestral village.

Translations of "Ontari'io" vary slightly across historical accounts. The most common translation is "beautiful lake." Other sources translate it as "great lake." The Associated Press reported the

translation "lake of shining waters." While the renderings differ, they all refer to the same reality: the name by which people have called this lake across centuries.

This name already appeared on 17th-century French maps. Although French explorers used other names for a time, Ontario eventually took hold permanently. When the Canadian Confederation was established in 1867, a newly created province took its name from this lake: the Province of Ontario, today Canada's most populous province. Both the national capital, Ottawa, and the country's largest city, Toronto, are located in this province. For Canadians, Lake Ontario holds a significance that reaches far beyond the name of a body of water.

Indigenous communities also raised their voices. The Seneca Nation, located in New York State, issued a statement declaring that the president could not claim ownership of their culture, nor could reckless political actions erase it. They demanded that the order be rescinded and that the name Lake Ontario remain intact. On the Canadian side, the Mississaugas of the Credit First Nation responded succinctly: "Changing the name doesn't change our history."

At this point, it is worth revisiting the title of the executive order. The title claimed to "honor the American history of the Great Lakes." Yet the name of the lake is older than the United States itself. Embedded within this name is the history of Indigenous peoples. Carney's post and the statements of Indigenous communities zeroed in on this glaring contradiction.

The Canadian political establishment showed no partisan divide. Pierre Poilievre, leader of the official opposition Conservative Party, also voiced strong opposition. He maintained that no executive order could change the name of the lake, asserting that it was not a name President Trump could simply alter at whim. However, Poilievre added that Canada should not be swayed by such provocations, urging the country to focus on what it could control. While the governing and opposition parties differed slightly in their approach, their conclusion was identical.

15.3 "Lake Ontario: Now and Always": Premier Ford and Provincial Premiers

Premier Doug Ford of Ontario answered with a sign rather than mere words. On Saturday, August 29, two days after the signing, Ford unveiled a massive billboard on the shores of Lake Ontario at the Fifty Point Conservation Area, situated on the border between Hamilton and Grimsby. The sign read: "Lake Ontario. Now and Always."

Standing before the sign, Ford directed his words at Trump. Calling Canadians a resilient people, he declared: "We will never, ever back down from bullies." He affirmed that the body of water would continue to be called Lake Ontario across Canada and throughout the world. In a social media video, he asserted: "Long after Donald Trump is gone, this lake will still be called Lake Ontario."

Ford also addressed why Trump was trying to rename the lake: precisely because Ontario and Canada were standing up for themselves. Branding Ontario the "engine of Canada," he pledged to do whatever it takes to protect Ontario residents.

Trump's camp refused to back down. That same day, Trump reposted an apparently AI-generated image. It depicted Canada geese with Trump-like blonde hair, holding rifles, guarding "Lake America." The Canada goose is an iconic symbol of Canada; the depiction framed Canada's national bird as defending an "American lake."

Premiers of other provinces also chimed in. (In Canada, the head of a provincial government is called a "Premier." In this book, Ontario's Ford is referred to as Premier, as are the premiers of the other provinces.)

Premier Tim Houston of Nova Scotia posted a brief remark on social media: "This is getting ridiculous. Come on, man. It's Lake Ontario." This lighthearted, dry comment quickly went viral across Canada.

Premier Wab Kinew of Manitoba drew a vivid analogy. Speaking at a separate press conference in Winnipeg, he remarked:

"You know when a washed-up rock band goes on a casino tour and plays a song from 50 years ago? That's where we're at in Donald Trump's presidency. He thought renaming the Gulf of Mexico was a big hit. He's playing the hit again for his base. But everyone here just thinks it's a bit sad. It's not his best work."

Not all reactions were humorous. Canadian historian Robert Bothwell cautioned that this issue was far weightier than a joke. In his assessment, Trump's overarching goal was to subordinate Canada—at best turning it into a colony, and at worst annexing it into the United States. While this interpretation reflects one scholar's view, it resonated deeply within Canada when viewed alongside Trump's habit of referring to Canada as the "51st state."

Backlash also erupted south of the border. Governor Kathy Hochul of New York, which borders Lake Ontario, criticized the order. Governor Gretchen Whitmer of Michigan likewise registered opposition. Governor Phil Scott of Vermont, a Republican, called the directive "petty and disappointing." Governor Tony Evers of Wisconsin responded with satire, posting a video showing him crossing out Lake Michigan on a diner napkin and rewriting it as "Lake Wisconsin."

The southern shore of Lake Ontario is a region with strong Republican support, yet the reaction there was frosty as well. Mayor Rob Corradino of Oswego, New York, voiced deep concern, pointing out that the trade war with Canada was already bruising the local economy and warning that renaming the lake would only exacerbate that damage. Oswego happened to be the very city cited in the executive order as a historical justification. The Rochester City Council unanimously passed a

resolution affirming that the city would continue to use the name "Lake Ontario" in all official city business.

There was action in the U.S. Congress as well. Democratic Representative Debbie Dingell and Representative Tim Kennedy of Buffalo, New York, drafted legislation. Three members of the House of Representatives ultimately introduced a bill titled the "Hands Off Our Great Lakes Act." Its aim was to block the president's renaming. However, with Republicans in control of Congress, the likelihood of the bill passing was slim.

15.4 The Map War: The Choices of Google and Apple, and MapQuest's Counter-Surge

An executive order is a document on paper. The maps that people check every day live on their smartphones. Consequently, the clash quickly moved to mapping apps.

Google was the first to act. On August 29, Google published an announcement on its official blog noting that the U.S. GNIS had officially changed the name of Lake Ontario to Lake America. Google explained that it displays U.S. geographic names according to GNIS standards and would therefore vary the labeling by region: U.S. users would see "Lake America," Canadian users would continue to see "Lake Ontario," and users outside the two countries would see both names together. Google stated that it was adhering to its long-standing policy for bodies of water with differing names in different countries.

According to this explanation, Canadians should not have experienced any disruption. Yet the following day, Sunday, August 30, a problem erupted. "Lake America" began appearing on maps hosted on official Canadian federal government websites—specifically maps detailing housing and infrastructure projects. The same glitch surfaced on the websites of Metrolinx, Ontario's public transit agency, and several major Canadian banks.

The cause lay in technical architecture. Many Canadian websites embed Google Maps via Application Programming Interfaces (APIs)—a pathway allowing one website to incorporate the functionality of another service. Certain websites had simply been pulling Google's default U.S.-based data feed. As one digital policy expert explained to the CBC, even for Canadian government websites and apps, the underlying engine was American technology, which was why "Lake America" was being displayed even inside Canada.

Google offered a fix that night, explaining that website developers simply needed to configure their map region parameter to Canada. After that, Canadian websites reverted to displaying Lake Ontario. Nova Scotia Power likewise corrected the outage map on its website. The technical glitch was resolved in a day or two, but it laid bare just how dependent Canadian public services were on technology from U.S. corporations. Canadian media treated this as an issue of "digital

sovereignty"—a theme that connects directly to the discussions of Canadian self-reliance explored in Chapter 16.

Apple followed a few days behind Google. In a televised interview on August 31, Secretary of the Interior Doug Burgum disclosed that President Trump had personally contacted Apple. Between September 1 and 2, Apple updated its map labeling for U.S. users. Apple did not respond to press inquiries. Trump promptly posted on Truth Social, writing that with the name changes on Google Maps and Apple Maps, this historic update was now completed, finalized, and binding.

Statements from the information technology sector offered insight into the industry's mindset. An industry lobbyist told Politico that picking a fight with Trump over something so trivial was simply not worth it. Big Tech corporations calculated the cost of clashing with the president and opted for compliance.

Not every mapping company took that path. MapQuest is an early digital mapping service launched in 1996. Over the years, its prominence had long faded under the shadow of built-in car navigation and Google and Apple Maps. Yet MapQuest announced that it would retain the name Lake Ontario, explaining that it intended to preserve the historical and familiar names of lakes and bays. After Google and Apple modified their labeling, MapQuest posted satirical comments on X, highlighting that Lake Ontario was displayed "correctly" on its own service. It even launched an interactive tool allowing users to playfully rename bodies of water however they wished.

The public reaction was immediately reflected in the download figures. On the night of August 30, MapQuest soared to No. 2 overall in downloads on the Canadian Apple App Store. By the morning of September 1, it claimed the No. 1 spot among all free apps on the U.S. App Store, outpacing even ChatGPT. According to app analytics firm Appfigures, downloads skyrocketed 6,295% compared to ordinary levels. Downloads, which typically numbered fewer than 1,000 per day, reached approximately 210,000 on September 1 alone. By September 2, MapQuest ranked as the No. 1 free app in both the U.S. and Canadian App Stores.

The White House did not attack MapQuest directly. White House spokesperson Taylor Rogers sent a brief comment to CBS, asserting that Canada had long been a bad neighbor ripping off the United States and stating that thanks to the President's bold leadership, America was being put back on the map. Rogers did not address whether MapQuest's decision constituted a violation of the executive order—and since executive orders do not bind private enterprises, there was nothing to answer for.

The Map War left three striking takeaways. First, while an executive order’s direct legal force is narrow, its practical impact widens through Big Tech companies. Second, the exact same lake came to be designated by different names depending on where the user was physically located. Third, consumers found a way to voice their stance simply by downloading an app. Countless people in Canada and the United States hit the download button for MapQuest as an act of quiet protest.

The cultural realm also joined the satire. In early September, the popular American animated sitcom South Park briefly changed its title card to South America, in what was widely interpreted as a lampoon of Trump's relentless barrage of geographic renamings.

15.5 Boycotts and Public Opinion: How Far Did the Outrage Spread?

The renaming of Lake Ontario did not fall like a spark onto empty ground. Canada's consumer boycott against the United States had already begun in early 2025, when Trump first imposed tariffs and repeatedly referred to Canada as the "51st state." In March 2025, public Crown corporations across several provinces, including the Liquor Control Board of Ontario (LCBO), pulled American alcoholic beverages from their shelves. Because provincial governments monopolize alcohol distribution in much of Canada, this measure took effect immediately. Citizens turned to apps like "Maple Scan" to scan barcodes and verify products' country of origin.

Polling from that period vividly captured the atmosphere. In an Angus Reid Institute survey, 85% of respondents answered that they were substituting at least some American goods with Canadian-made products. In another poll, 91% of Canadians agreed that Canada must become less dependent on the United States—a priority that took precedence over repairing bilateral relations.

Travel to the United States dropped sharply as well. According to official figures from Statistics Canada, return trips by Canadians from the United States fell by roughly 25% in 2025. Studies analyzing mobile phone location data found an even steeper decline. In several Florida cities popular as winter retreats, Canadian visitors plunged by more than half. In early 2026, airlines slashed approximately 450,000 seats on routes connecting Canada and the United States.

By the summer of 2026, the trend shifted slightly. Statistics Canada reported that return trips by Canadians from the United States in July rose 10.1% year-over-year. Return trips by air also increased by 0.6%, snapping a 34-month streak of declines. However, this increase was largely due to how depressed the numbers had been a year earlier; air travel in July was still 15.6% lower than in July 2024. Preliminary data for August also pointed to modest gains, though those numbers remain subject to adjustment once finalized.

It was against this backdrop that the tariffs took effect on August 22 and the renaming executive order followed on August 27. Calls across Canadian cyberspace to reignite the U.S. travel boycott surged. Whether this sentiment translated into an actual decrease in travel is not yet confirmed by statistical data; a proper assessment will have to wait until post-September numbers become available. Rising anger and concrete behavioral shifts must be evaluated separately.

Meanwhile, the tariff war escalated to another level. Beginning September 8, Canada levied retaliatory tariffs of 15%, 25%, and 50% on U.S. products. On that same day, Trump signed a

proclamation barring imports of Canadian alcoholic beverages, dairy products, and motorcycles. The details of these measures were discussed in Chapter 14.

Public sentiment rallied firmly behind the Canadian government. An Ipsos poll conducted for Global News and released on August 29 showed that 63% of respondents felt the government's decision to walk away from talks was the right move—even if it resulted in higher prices and job losses. Support for retaliatory tariffs reached 73%. There was a generational divergence, however: while 80% of older Canadians supported walking away from negotiations, support among Generation Z fell below 50%.

Surveys by the Angus Reid Institute told a similar story. Seventy-six percent of Canadians affirmed that halting negotiations was correct. Sixty-nine percent believed Prime Minister Carney demonstrated strength by rejecting a "bad deal." Sixty-two percent viewed retaliatory tariffs as an appropriate response. Concerns were also pronounced: 89% of respondents worried that the trade war would push up prices. Even so, more than 60% believed Canada would ultimately emerge stronger.

Government approval ratings also climbed. According to pollster Abacus Data, approval for the Carney government rose 4 percentage points over recent weeks to reach 56%. Prime Minister Carney's personal favorability stood at 53%. Abacus analyzed that support for the Carney administration stemmed predominantly from public approval of its handling of relations with the United States. On August 31, candidates from the governing party swept all three federal parliamentary by-elections.

Public opinion inside the United States did not favor Trump either. In an Ipsos poll, over 60% of Americans opposed renaming the lake, while only 14% approved. Opposition cut across party lines: 84% of Democrats and 65% of Independents were opposed. Even among Republican supporters, 43% opposed the move compared to 33% who favored it.

American sentiment regarding the broader trade war was comparable. In the same Ipsos poll, nearly 70% of Americans believed the U.S. should compromise with Canada. Forty-six percent placed greater blame for worsening relations on the United States, compared to 12% blaming Canada. In an Economist/YouGov poll, 64% of Americans still regarded Canada as an ally or friendly nation. However, the proportion viewing Canada as an unfriendly nation or an enemy stood at 22%, the highest level since 2016. This uptick came primarily from Republican voters.

Summary **Key Polls Around the Renaming Executive Order**

> **Canada (Ipsos / Global News, released August 29)**
>
> Decision to walk away from talks was right: 63%; Support for retaliatory tariffs: 73%
>
> **Canada (Angus Reid Institute)**

> Halting negotiations was right: 76%; Retaliatory tariffs are appropriate: 62%
>
> Worried about trade war's impact on prices: 89%
>
> **Canada (Abacus Data)**
>
> Support for Carney government: 56%; Carney personal favorability: 53%
>
> **United States (Ipsos)**
>
> Opposed to lake renaming: 60%+; In favor: 14%
>
> Even among Republicans: 43% opposed vs. 33% in favor

There were also incidents where public anger turned on individuals. On September 11, the chief executive officer of a Michigan credit union departed for a trip to Halifax, Nova Scotia, with his family. He took a family photograph at the airport and used ChatGPT to edit the image so that all four individuals appeared to be wearing sweatshirts that read "Lake America." The caption posted with the photo read: "What do you think of our shirts? Don't think Canada is going to like them."

He later stated that he had originally uploaded the image with an AI disclaimer to a private Facebook account. However, after arriving in Halifax, his sister who was traveling with them reposted the photo publicly without the disclaimer. The image went viral almost instantly, unleashing a flood of outrage from Canadian internet users. The executive reported receiving death threats. The family cut their planned ten-day trip short and returned to Michigan.

He issued an apology, maintaining that he had not intended to make a political statement, but had simply made a joke about the lake renaming. He acknowledged that the photo was disrespectful and that his judgment had been flawed. The credit union's board of directors issued a statement rejecting the contents of the post. Then, on September 24, the board announced that, effective immediately, he was no longer an employee. The board did not give a reason for his departure, nor was it disclosed whether he had resigned or been dismissed.

This episode reveals two distinct dynamics. First, for Canadians, the name of Lake Ontario had ceased to be a subject that could be joked about. Second, online outrage can quickly cross the line. A single AI-edited photograph was met with death threats, and a person lost his livelihood. A clear distinction must be made between legitimate protest and targeted attacks against individuals.

15.6 What a Single Name Revealed: Cracks in Neighborhood Ties and a New Canadian Nationalism

Why did President Trump choose the name of this lake? The text of the order cited American history and geography as its rationale. Looking at the timing, however, a very different interpretation emerges. The move came immediately after negotiations collapsed, tariffs took effect, and a fierce verbal exchange with the Premier of Ontario unfolded. His very first post had noted

that there would not be much business to do with Ontario in the future. It is far more natural to read the renaming as symbolic pressure exerted as an extension of the trade war. This is the analysis of this book; Trump himself insisted there was no message.

The cost of symbols is asymmetric. For Trump, putting pen to paper cost nothing. For his base, it served as another spectacle following the renaming of the Gulf of Mexico. For Canadians, however, this executive order struck at the core of their identity. The name "Ontario" is the name of their province, a remnant of Indigenous language, and a memory of Confederation. As Canadian historian Robert Bothwell observed, Canadians did not receive this order simply as a joke.

As a result, political differences within Canada were pushed into the background. Prime Minister Carney of the Liberal Party, Premier Ford of the Progressive Conservatives, and Conservative leader Pierre Poilievre all spoke with one voice. Premiers from Nova Scotia in the east to Manitoba in the central region joined in. Indigenous communities stood on the same side. Trump's pressure effectively produced the unintended consequence of uniting Canada. Canadian media termed this a new Canadian nationalism.

Yet this solidarity also has its limits. In opinion polls, support among younger generations was lower than among older age groups. Nearly nine out of ten respondents worried about rising prices. The boycott's chilling effect on travel showed signs of weakening by the summer of 2026. The intensity of outrage, actual changes in behavior, and the resilience to bear economic costs can diverge from one another. How long Canada's cohesion will endure will ultimately be decided by the tariff burdens that lie ahead.

On September 1, Prime Minister Carney outlined his conditions to reporters. The door to resuming negotiations remained open, he said, but the United States had to stop its mockery and sarcasm and get serious: "When the U.S. stops with the memes, stops with the sarcasm, stops with the posturing, and starts having a serious conversation, we'll be ready to have that conversation." He remarked that such behavior was not constructive, adding dryly, "That's their democracy." The lake renaming and goose memes had eroded trust at the negotiating table, and Carney's remarks pointed directly to that damage.

Trump repeated the same grievances the next day, reiterating his claim that Canada had ripped off the United States for decades. The positions of the two leaders ran along parallel tracks.

The Map War also presented Canada with another vital assignment. The fact that Canadian government websites displayed "Lake America" for a day laid bare how heavily Canada's public services depended on American tech corporations. A decision made by the U.S. government could pass through American firms and appear on Canadian screens. This experience added momentum to debates over data and technological sovereignty. The process of Canada partnering with Europe to pursue security and economic self-reliance is explored in Chapter 16.

The 30-day implementation deadline set by the executive order is September 26, 2026. The U.S. federal government's geographic names database is already using the new name. The National Geospatial-Intelligence Agency also announced that it had incorporated the new name into its geospatial name servers. On Google Maps and Apple Maps viewed by U.S. users, the lake appears as Lake America. Yet on Canadian maps, it remains Lake Ontario. Residents of New York living along the lake's shores and the Rochester City Council also continue to use the name Lake Ontario.

The same lake now bears two different names divided along an international boundary. The waters of the lake mix without regard to national borders; its name could not. A lake called by a single name for more than 400 years has become a signpost measuring the widening distance between two neighboring nations. The tumult surrounding a roadside sign, an app, and a single photograph might appear superficial on the surface. Beneath it lies a profound transformation: two long-standing allies beginning to see each other through fundamentally altered eyes.

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Chapter 16. Prime Minister Mark Carney's Counterstrike

EU Associate Membership and Preparing for the Tail Risk of a U.S. Military Invasion

> A Chronicle of the Autumn of 2026: Canada Partnering with Europe for Security Self-Reliance in the Face of Trump's Economic and Military Threats

16.1 Two Scenes on the Same Day

On Wednesday, September 23, 2026, Washington's eyes were fixed on Joint Base Andrews. President Trump welcomed President Xi Jinping in person right on the tarmac. It was the day the emperor-grade protocol examined in Chapter 1 unfolded.

On that very same day, The New York Times (NYT) published an interview with Canadian Prime Minister Mark Carney. Carney was in New York to attend the United Nations General Assembly. Reporters asked whether he took Trump's comments about Canada becoming the "51st state" seriously. Carney paused for a few seconds before speaking.

"Someone in this position has a responsibility to look at extreme tail risk." He then added, "It's just risk management." "It's not the baseline scenario. But it would be irresponsible not to prepare."

"Tail risk" is a term drawn from finance. It refers to events that have a low probability of occurring, but carry catastrophic consequences if they materialize. It signifies events situated in the long, thin tails at either end of a probability distribution curve. People are prone to ignoring or brushing aside such possibilities. Carney had previously served as Governor of both the Bank of Canada and the Bank of England. He used the financial terminology intimately familiar to him to describe the worst-case scenario for national security.

The NYT reported that Carney signaled he had carefully weighed the possibility of a U.S.-led military invasion. Yet Carney never disclosed what had been prepared or how. Though reporters pressed him repeatedly for concrete measures, he declined to answer.

Matina Stevis-Gridneff, the NYT Canada bureau chief who authored the article, appeared on CTV the following day. She made clear that Carney himself had not used the word "invasion." That word was the newspaper's choice of phrasing. At the same time, she noted that Carney had paused to reflect deeply before choosing his words, adding that everyone present in the room understood precisely what he meant.

This distinction is not insignificant. Carney did not say "the United States will attack." He merely stated that he factored the low-probability, worst-case scenario into his calculations. Yet it was unprecedented for a G7 leader to publicly broach the possibility of military action by an allied

neighbor. The two nations share the longest border in the world, stretching roughly 8,891 kilometers. Neither nation stations military forces along this border.

In the same interview, Carney outlined other strategic visions as well. He said he was examining options to expand economic ties with China. He stated that Canada would reduce its dependence on the United States in the military and technology sectors, citing Elon Musk's satellite internet service Starlink as an example. He also offered this observation: "When a different American president comes along, we will be a better partner because of what we are doing now."

On the very same day, on one side, an American president welcomed the leader of a rival superpower with a bomber flypast. On the other side, the prime minister of America's closest ally weighed the possibility of U.S. military action as a worst-case scenario. These two juxtaposed scenes demonstrate precisely where Trumpian diplomacy stood in 2026.

16.2 Between 'Business as Usual' and 'Provocation'

The following day, September 24, reactions reverberated across Ottawa. Minister of National Defence David McGuinty met with reporters before heading into a cabinet meeting. "Every military in the world spends time analyzing risk scenarios," he said, adding, "It is entirely normal." When asked which specific scenarios had been reviewed, he declined to answer. He would not disclose details that the Prime Minister himself had withheld.

Evan Solomon, Minister of Artificial Intelligence, took a similar stance. He remarked that running through any scenario in advance was simply how governments operate, declining to comment on what the military was preparing.

Criticism also surfaced. Peter MacKay, who previously served as Minister of National Defence and Minister of Foreign Affairs under Conservative governments, called the remarks irresponsible. He viewed the statement as crossing the line from retaliation into provocation. He argued that the priority now was to return to the negotiating table and get the tariffs lifted. Whether Carney was playing to a domestic audience or signaling the White House, MacKay assessed that it did not serve Canada's interests.

Don Davies, the House Leader of the New Democratic Party (NDP), viewed the matter from a different angle. He noted that the very fact that such preposterous possibilities had to be weighed reflected a profound shift in bilateral relations.

Former NDP leader Tom Mulcair sided with Carney. He pointed out that this was not some vague notion cooked up by a parliamentary committee out of nowhere; rather, it arose because Trump had explicitly spoken of turning Canada into the 51st state. U.S. political analyst Eric Ham also praised it as prudent judgment, citing Washington's actions in Venezuela and the escalating tensions over Greenland as evidence.

The White House did not hide its irritation. Anna Kelly, Principal Deputy Press Secretary at the White House, sent a statement to The Globe and Mail. She suggested that Carney should instead be grateful to Trump: "President Trump has done more than anyone to protect the great people of Canada."

Bewildered reactions emerged within the United States as well. The Governor of Alaska, which borders Canada, remarked that the chances of an invasion were "zero." He expressed surprise that such an exercise had even been conducted. However, he added that one must understand that this issue felt far more tangible to Canadians.

Trump himself posted a different message on Truth Social on the morning the NYT article was published. He claimed that Canada was ruining itself by taking in countless unvetted immigrants. Data from Statistics Canada told a different story. Population growth in the second quarter was a mere 0.2%. The number of immigrants had actually declined by 4.2% compared to a year earlier.

16.3 A Blueprint Redrawn After 100 Years

Carney's comments had not emerged in a vacuum. On January 20, 2026, The Globe and Mail ran a front-page story revealing that the Canadian Armed Forces had developed models simulating a hypothetical U.S. invasion. Citing two senior government officials, the newspaper reported that this was believed to be the first time in roughly a century that the Canadian military had modeled an attack by the United States.

The details of the model were sobering. It concluded that if U.S. forces advanced from the south, they could seize Canada's key land and maritime choke points within a week. Some estimates suggested it could take as little as two days. Canada possessed neither the troop strength nor the equipment to repel the U.S. military in a conventional war.

Consequently, the Canadian military envisioned an insurgency-style asymmetric war. Under this concept, small tactical units or armed civilians would resist through ambushes, sabotage, and drone strikes. The core of the strategy was hit-and-run tactics designed to wear down an occupying force. One official cited the Soviet-Afghan War (1979–1989) as an analogy, noting that planners drew upon the tactics employed by the Mujahideen against Soviet forces. Among the 158 Canadian soldiers killed in Afghanistan, a substantial portion lost their lives to improvised explosive devices (IEDs). The Canadian military had effectively repurposed the very insurgent tactics it had confronted in that conflict into a framework for its own territorial defense.

The newspaper distinguished between a "model" and a "plan." A model is a conceptual and theoretical framework; a plan is an operational document directing phase-by-phase military action. Officials emphasized that the probability of the United States actually invading remained low. Retired Lieutenant-General Mike Day, former commander of the Canadian Special Operations

Forces Command, described a U.S. invasion as "fantasy." Nevertheless, he acknowledged that the Canadian military would be incapable of stopping the world's most powerful armed forces.

It was not unprecedented for the two nations to view each other as hypothetical adversaries. In 1921, Colonel James Sutherland Brown of the Canadian Army devised "Defence Scheme No. 1." The concept posited that if the United States showed signs of invading, Canadian forces would preemptively strike across the border. The plan envisioned lightning raids on American cities like Seattle and Portland to buy time. The Canadian military abandoned this plan several years later. For its part, the United States drafted "War Plan Red" in the early 1930s, simulating a conflict against the British Empire and Canada. Subsequently, the two nations became staunch allies through World War II and the Cold War. In 1958, they co-founded the North American Aerospace Defense Command (NORAD), an integrated command through which both nations jointly defend the skies of North America. Yet a century after discarding those blueprints, the Canadian military had brought them out once again.

What prompted them to dust off those blueprints? In a May 2025 CBS interview, Trump had dismissed the possibility of using military force against Canada, remarking that it was unlikely and that he did not foresee such a thing happening in Canada. Yet in that very same interview, he suggested that something could happen regarding Greenland. In January 2026, the U.S. carried out a military strike against Venezuela, abducting Nicolás Maduro and bringing him to the United States. The pressure campaign surrounding Greenland subsequently metastasized into retaliatory tariffs against eight European nations (Chapters 17 and 18). Ottawa watched the gap between rhetoric and action narrow. The assessment that the probability was not zero emerged against this exact trajectory.

16.4 Broken Negotiations, the End of 40 Years of Integration

Underpinning this discourse on military scenarios was the collapse of bilateral trade relations. The detailed developments were covered in Chapters 14 and 15; here, only the broad trajectory is traced.

On July 20, 2026, Trump signed three presidential proclamations invoked under Section 338 of the Tariff Act of 1930. They slapped a 50% tariff on Canadian dairy products, alcoholic beverages, motor vehicles, and other goods. The tariffs targeted roughly $20 billion worth of Canadian goods annually. Section 338 is a provision dating back to 1930; this marked the first time in history a U.S. president had ever levied tariffs under it.

Ahead of implementation, the two nations conducted negotiations. Trump delayed the effective date by three days, moving it from August 19 to August 22. On the night of August 21, however, talks collapsed. Carney stated that the American demands "defied economic logic and were unfair."

The 50% tariffs took effect at 12:01 a.m. on August 22. Energy, potash (potassium fertilizer), and critical minerals were exempted.

Carney vowed to retaliate "dollar for dollar." Canada's retaliatory tariffs took effect on September 8. They targeted 27 billion Canadian dollars—approximately 20 billion U.S. dollars—worth of American goods. Trump countered by announcing that sector-specific tariffs on Canadian-made automobiles would increase to 50% starting January 1, 2027. Imports of certain dairy products and alcoholic beverages were to be banned outright beginning September 29. He also instructed federal agencies to exclude Canadian products from long-term U.S. government procurement contracts. In late August, he signed an executive order renaming Lake Ontario to "Lake America."

On the morning of September 8, the day the retaliatory tariffs took effect, Carney released a video message: "The last forty years have been a period of deepening economic integration with the United States. Quite frankly, it was easy business. But it also meant leaning far too heavily on a single economic partner. That era is over."

He summarized the government's path forward: "Our plan is to build and diversify. It is not to deny reality, or wait around for the good old days to return, or remain dependent." He declared that in the failed negotiations, what the United States had sought was not a genuine economic partnership. What America sought was Canadian dependence.

The figure of "40 years" held profound meaning. In 1989, the Canada–U.S. Free Trade Agreement had taken effect. In 1994, it was succeeded by the North American Free Trade Agreement (NAFTA), which incorporated Mexico. Supply chains in automobiles, energy, and manufacturing had intertwined across borders into a single fabric. Roughly 70% of Canada's exports flowed to the United States. Carney's video was a declaration that Canada would willingly dismantle this 40-year-old architecture.

16.5 Two Days in Strasbourg

From September 15 to 17, Carney visited Europe. On September 13, two days before departure, he met with reporters at an event during the Toronto International Film Festival. "We are not seeking to become an EU member state." He explained that what Canada sought was a "unique alliance." A senior Canadian government official outlined their objectives to the Associated Press: the goal was to bolster Canadian sovereignty without ceding authority to Brussels. However, Canada would seek pathways enabling Canadian citizens to live and work in Europe visa-free.

On September 16, Carney took his seat in the hemicycle of the European Parliament in Strasbourg, France. It was the occasion of European Commission President Ursula von der Leyen's annual State of the European Union address. It was the first time in history a foreign head of government had attended this address. Carney sat in the very front row.

Von der Leyen diagnosed that democratic nations were confronting fractures in the international rules-based order. Looking directly at Carney, she declared: "I want to work with you to open the door for Canada to become the EU's first associate member." Members of the European Parliament rose to their feet in a standing ovation. Carney nodded, stood up, walked toward von der Leyen, and embraced her.

Von der Leyen proposed transforming the framework of relations. She urged going beyond the Comprehensive Economic and Trade Agreement (CETA), which had provisionally entered into force in 2017. She called for forging an "alliance for the future" to establish a space of shared prosperity and economic security. As key areas of cooperation, she highlighted manufacturing, artificial intelligence, critical minerals, and energy. "This is not a partnership directed against anyone. It is for our collective strength." She stressed that power does not belong to the strongest, the richest, or the loudest, adding that democracies have the freedom to choose with whom they work.

"Associate membership" is a mechanism that does not yet exist. The treaties of the European Union contain no provision for "associate member" status. The concept was first floated in May 2026 by German Chancellor Friedrich Merz with respect to Ukraine. The blueprint discussed at the time envisioned attending EU summits, having representation on the European Commission, and receiving a portion of the EU budget—yet holding no voting rights. Ukraine, which sought full EU membership, did not welcome the concept.

Nor could von der Leyen decide upon Canadian associate membership unilaterally. It requires deliberation and consensus among the 27 member states. CNBC reported that several member states had not been informed of the announcement in advance. The Prime Minister's Office in Ottawa welcomed the prospect of a "far stronger and more ambitious future alliance," but stopped short of explicitly endorsing the title of "associate member." Jonathan Wilkinson, slated to take up his post as Canada's new Ambassador to the EU, reaffirmed that Canada did not seek full EU membership.

The following day, September 17, Carney stood at the podium in the very same chamber, invited by European Parliament President Roberta Metsola. The address began in French and transitioned into English.

He did not open with trade. Instead, he drew his narrative from the Ettersberg hill, a forest above Weimar, Germany—the place where Goethe had walked, contemplated, and written. An oak tree on that hill had been named after Goethe. In the 20th century, that very oak became enclosed within the barbed-wire fences of the Buchenwald concentration camp. Carney quoted a line from Goethe's Faust in German: "Freedom and life belong only to those who must conquer them anew each day."

He then followed with a second tale of oak trees. Following the Battle of Vimy Ridge in 1917, Lieutenant Leslie Miller of the Canadian Expeditionary Force gathered a handful of acorns. He planted them in his hometown of Milliken, Ontario, and those saplings grew into a grove. A century

later, cuttings taken from those trees were repatriated and planted back on Vimy Ridge. Carney declared that this was the essence of the Canada–EU partnership: "We are not fair-weather allies. We do not pursue zero-sum transactions."

Carney never once uttered Trump's name. Yet what he was targeting was unmistakable. "Economic integration is being weaponized. Tariffs are being wielded as instruments of coercion. Supply chains have become vulnerabilities to be exploited." He also criticized tech platforms attempting to act like sovereign states. He likened the raging tempest brought on by these converging forces using a vivid metaphor: "A single tree falls in a storm. A forest stands." He explained that beneath the forest floor, the roots of oak trees intertwine, sharing nutrients.

He redefined the contemporary meaning of sovereignty. Sovereignty no longer merely meant the ability to feed oneself, fuel oneself, and defend oneself. Today, it requires reliable and secure access to artificial intelligence, semiconductors, critical minerals, and payment systems. Clean energy technologies, vaccines, and space-based telecommunications also belong to this fold. His diagnosis was that no country could fill these vulnerabilities alone. "Canada and Europe are strong on our own. We are stronger together." "The goal is not self-sufficiency. It is collective resilience."

He subtly slipped in a reference to Greenland as well. After noting that Canada and Europe were not bound merely by geography, he added: "As our Danish friends well know, we share a 3,000-kilometer border across the Arctic." Canada faces Danish Greenland across the waters of the Arctic.

Carney laid out Canada's specific proposals. First, deep cooperation across critical minerals, defense industry, artificial intelligence and computing capacity, energy security, space, and payment systems. Second, advancing toward frictionless digital trade in goods (excluding agriculture) and a broad range of services. Third, enabling young people from both sides to live, work, and study on either side of the Atlantic. This included Canada joining Erasmus+, the EU's student exchange program, and Horizon Europe, its flagship research and innovation program. He also suggested exploring ways to integrate financial services into a single market.

He placed Canada's resources and energy squarely on the bargaining table. Canada holds deposits of more than 34 critical minerals. In the top 10 minerals essential for the green energy transition, Canada is a major global producer. Just the day before, von der Leyen had announced the creation of a new "European Critical Raw Materials Agency"—an entity designed to procure and stockpile raw materials vital for electric vehicles, semiconductors, batteries, and defense applications. Carney stated that Canada could supply Europe with liquefied natural gas (LNG) and hydrogen on a massive scale, accompanied by plans to construct new deepwater ports along the Arctic and Atlantic coasts.

Carney was equally explicit about what he was not proposing: "We are not proposing a third bloc to rival great powers." Instead, he advocated an alliance strong enough that no outside force could dictate their choices. It had to be an alliance open enough for other nations to join, and one that

upheld international law rather than replacing law with brute power. He pledged that any final agreement would be subject to debate and vote in the Parliament of Canada.

The atmosphere in the chamber was telling. Terry Reintke, co-president of the Greens/EFA Group in the European Parliament, arrived wearing a Canadian national ice hockey jersey. Between his speeches, Carney flew to Liverpool to meet the new British Prime Minister before returning.

Following meetings with global investors in Toronto, his whirlwind itinerary spanned Strasbourg, Liverpool, back to Strasbourg, and then onto Saint-Pierre and Miquelon, Ottawa, and finally the United Nations General Assembly in New York. The NYT interview emerged at the very tail end of this grueling diplomatic tour.

16.6 Trump's Reaction: "Ridiculous" and a "Hostile Act"

On September 16, the day von der Leyen unveiled her proposal, Trump was in Charlotte, North Carolina. He was on the campaign trail stumping for Republican Senate candidate Michael Whatley ahead of the November midterm elections. At the airport, reporters asked him about Canada's potential EU associate membership.

Trump dismissed it as "ridiculous." He branded Canada a "terrible trading partner." Then he issued a conditional warning: "If it's with good intentions, fine. If it's with bad intentions, we will put very heavy tariffs on Europe." "If we think it's hostile in any way, shape, or form, we're going to put strong tariffs or stop trading with them in a lot of areas."

He did not elaborate on what would constitute a hostile act or what specific tariffs he would levy. This threat put to the test the 2025 trade accord between the United States and the EU, which capped U.S. tariffs on most EU exports at 15%. EU member states did not immediately respond to Trump's saber-rattling.

It was not the first time Trump had bristled at solidarity between Canada and Europe. In the early hours of March 27, 2025, he had posted on Truth Social: "If the EU teams up with Canada to do economic harm to the U.S., they will both face far higher tariffs." At the time, Carney had been in office as Prime Minister for barely two weeks. He had chosen France and the United Kingdom as the destinations for his first overseas tour. A year and a half later, the identical warning was repeated.

Relations between Europe and the United States had already fractured. European allies had refused to participate in the war against Iran waged by the United States and Israel (Chapter 9). Trump had pushed to annex Greenland, threatening retaliatory tariffs against European nations (Chapter 17). In January 2026, the leaders of seven European countries—including France, Germany, and the United Kingdom—issued a joint statement declaring that Greenland belongs to its people. In early September, the EU signed a cooperation declaration with Greenland, pledging

200 million euros in investments. Von der Leyen's overture toward Canada took place against this exact backdrop: two parties alienated by Trump steadily gravitating toward one another.

16.7 Defense Self-Reliance in Action: Procurement, Submarines, Fighter Jets, and the Arctic

Action in defense moved faster than political rhetoric. Over the preceding year, Canada had deliberately shifted the center of gravity of its arms procurement and security cooperation toward Europe.

First, the EU defense procurement program SAFE. SAFE stands for "Security Action for Europe." It is a mechanism providing 150 billion euros in low-interest loans to finance joint weapons procurement by member states. It was launched in May 2025 as the first pillar of the "ReArm Europe" initiative. On June 23, 2025, Canada concluded a Security and Defence Partnership with the EU, followed by negotiations to join SAFE. On February 14, 2026, at the Munich Security Conference, Canada signed the participation agreement. The European Parliament gave its consent in May, and the Council of the EU formally concluded the agreement on June 15. Canada became the first non-European country to participate in SAFE.

By participating in SAFE, Canadian defense firms can partner with European enterprises to bid on joint procurement tenders. In return, Canada contributes financial contributions proportional to its benefits. Defence Minister McGuinty called SAFE "a huge market for us."

However, the exact nature of SAFE must be clearly understood. SAFE is a procurement and financing facility. It is neither EU accession nor a mutual defense guarantee. Canada's principal security alliance remains the North Atlantic Treaty Organization (NATO). While some have erroneously claimed that Canada formally joined the EU's Permanent Structured Cooperation (PESCO), that is inaccurate. What Canada joined was SAFE.

Second, submarines. On July 6, 2026, at CFB Halifax, Carney announced the preferred bidder for the Canadian Patrol Submarine Project: the Type 212CD submarine from Germany's ThyssenKrupp Marine Systems (TKMS). South Korea's Hanwha Ocean with its KSS-III was relegated to reserve bidder status. Carney described it as a "difficult and close decision between two outstanding contenders." Canada retained the right to enter negotiations with Hanwha should talks with TKMS falter.

The Type 212CD was co-developed by Germany and Norway and will be operated by both navies; the first boat is due for delivery in 2029. Numerous analyses pointed to interoperability with NATO allies as the decisive factor. The selection was widely interpreted as prioritizing collective defense anchored in Europe. The day after the announcement, Hanwha Ocean's stock plummeted by

roughly 23%. President Lee Jae-myung wrote on Facebook that challenge inevitably brings both triumph and regret.

On September 20, Carney met with Norwegian Prime Minister Jonas Gahr Støre in Ottawa. The two leaders announced plans to elevate their bilateral defense cooperation agreement to a higher tier the following year, with the TKMS submarine selection serving as the launching pad.

Third, fighter jets. In 2023, Canada contracted to purchase 88 F-35A fighters from Lockheed Martin in the United States. In March 2025, immediately after taking office as Prime Minister, Carney ordered a formal review of the contract. The 16 aircraft already funded and paid for would be received as scheduled. The remaining 72 aircraft were subject to reconsideration. A mixed-fleet concept was actively discussed, assembling Sweden's Saab Gripen E in Canada to operate alongside the F-35. In June 2026, CBC reported on options under consideration: procuring 72 to 88 F-35s while adding up to 72 Gripens. The review, originally slated for completion by September 2025, remained unresolved a full year later.

On September 23, the first F-35A bearing Canadian markings conducted its maiden flight in Fort Worth, Texas. It was the first time in 44 years that a new-type fighter wearing Canadian roundels had taken to the sky. Under ordinary circumstances, it would have been celebrated with major fanfare, but the Canadian Armed Forces remained conspicuously understated. In his NYT interview, Carney framed the fighter decision this way: "It's a real decision: different capabilities, strategic dependency issues, and differing economic impacts."

Yet harsh realities imposed constraints. The Royal Canadian Air Force planned to retire its aging CF-18 fleet completely by 2032. Air force and NORAD officials repeatedly indicated that the F-35 remained the optimal platform. The American side warned that scaling back the F-35 purchase would complicate NORAD operations. In August, Minister McGuinty conceded that the F-35 review was "a point of debate" in the broader trade negotiations, though he noted that the Prime Minister was in no rush to conclude it. The fighter jet decision had become an intricate knot binding national defense, domestic industrial policy, and high-stakes diplomacy with Washington.

Fourth, the Arctic. In March 2026, Carney visited Norway—the first visit by a Canadian prime minister to the Nordic country since 1980. The two nations agreed to formally launch the "Arctic Dialogue" in September, addressing strategic surveillance, domain awareness, interoperability, and research and development. In June, their respective coast guards signed a cooperation agreement and conducted joint exercises. A joint statement affirmed that "Arctic security is national security for both our countries."

On September 23 in New York, Carney and von der Leyen co-hosted an event for the international ocean observation alliance. Canada pledged 82 million Canadian dollars to the initiative. Carney stated that autonomous underwater gliders would be deployed beneath the Arctic sea ice for months-long continuous monitoring: "You cannot protect what you cannot see."

Fifth, France. On September 20, Carney visited Saint-Pierre and Miquelon to meet with President Emmanuel Macron. Saint-Pierre and Miquelon is a French territorial collectivity located roughly 25 kilometers off the southern coast of Newfoundland, home to approximately 6,000 residents. It was the first official visit by a sitting Canadian prime minister to the islands.

The choice of venue was steeped in symbolic significance. Trump had previously posted a map on Truth Social showing the entire North American continent draped in the American flag—a map that swallowed Saint-Pierre and Miquelon as well. On that very soil, Carney and Macron stood together to reaffirm the sovereignty of both nations. The two leaders attended a ceremony commemorating the islands' 1941 rallying to Free France. The two nations agreed to share space launch facilities and satellite data reception stations, and established a regional cooperation committee connecting Atlantic Canada with Saint-Pierre and Miquelon.

Crucially, certain items were absent from this roster. There was no decision by Canada to exit NORAD, nor to sever ties with the United States inside NATO. Nor was there any announcement establishing an independent Arctic security pact with Nordic nations. Canada's maneuvers were not an abandonment of the United States. Rather, they were the construction of alternative pillars to support a strategic architecture that had previously rested entirely upon a single American foundation.

16.8 Public Opinion and Politics: "A Sad but Necessary Path"

The Canadian public supported this strategic trajectory. Polling firm Abacus Data conducted a survey between September 4 and 9. An overwhelming 81% supported deepening integration with Europe while remaining outside the EU—facilitating easier trade, travel, work, and study. On full EU membership, opinion was divided, with 49% in favor and 30% opposed.

A Léger poll of 1,533 Canadians conducted from September 19 to 21 yielded comparable results. On the proposal of EU associate membership, 70% voiced support, while only 13% were opposed, and 18% were unsure. When conditional caveats were introduced, however, attitudes shifted markedly. If adopting the status required Canada to align its laws and regulations with EU standards, 30% stated their support would decline, while 25% indicated their support would increase. In Manitoba and Saskatchewan, over a quarter opposed the concept.

Assessments of Carney himself were similarly elevated. A survey by Liaison Strategies showed Carney's job approval rating at 66% in late August and early September, and 65% in a survey running from September 6 to 19. In a poll conducted by Spark Advocacy (Spark Insights), approval for the Carney government hit an all-time peak of 70%. Seventy-four percent of respondents believed Carney was handling relations with the United States well or adequately. Far from eroding his popularity, the tariff war was serving as a political bulwark.

The opposition took a markedly different tone. Conservative Party Leader Pierre Poilievre criticized Carney on September 13 as being "out of touch with reality." At a campaign rally in Brantford, Ontario, on September 20, he declared: "Canada will never become the 28th state of the EU." He insisted that Canada could not adopt EU taxes, EU laws, or EU open-border immigration policies.

There was a backstory to this formulation. Earlier, Finnish President Alexander Stubb had posed a playful question: wouldn't Canada prefer being the EU's 28th member rather than America's 51st state? Poilievre seized on the quip and inverted it into a grave defense of national sovereignty.

Dissenting voices surfaced within conservative ranks as well. Former Conservative Prime Minister Stephen Harper stated that the government had "no choice but this path." Describing himself as a lifelong admirer of the United States who had long regarded close ties with Washington as one of Canada's most cherished assets, Harper observed: "The current U.S. administration takes the view that economic integration between our two countries cannot coexist with Canadian sovereignty. Therefore, protecting our sovereignty requires reducing our dependence on the United States. I find all of this sad, and equally necessary."

Figures within the Carney government framed the crisis as an opportunity. Dominic Barton, chair of Invest in Canada and former global managing partner of McKinsey & Company, emphasized that diversification was not about abandoning America, but about massively expanding non-U.S. horizons: "Twenty years from now, we may look back and thank Trump for shaking us out of our complacency." Minister of Finance François-Philippe Champagne remarked: "Today, the most sought-after commodity is trust."

Everyday changes followed. Ottawa City Council voted unanimously to initiate the process of renaming "Trump Avenue" in the city. Around Lake Ontario, signs sprouted declaring "Lake Ontario: Now and Always" (Chapter 15).

16.9 Lingering Questions and Constraints

Carney's counterstrike had a clear trajectory. Yet the obstacles ahead were equally formidable.

First, the scale of the market. The United States absorbs roughly 70% of Canadian exports, representing well over $300 billion annually. By contrast, Canada–EU bilateral trade stood at 130 billion euros in 2025—falling far short of the American market. The Associated Press noted that Europe could not swiftly substitute for the U.S. market. Carney pledged to double Canada's non-U.S. trade over the next decade. Another objective was concluding a free trade agreement with India within the year, with Indian Prime Minister Narendra Modi scheduled to visit Canada in December to sign the pact. Translating these goals into reality will require substantial time.

Second, institutional ambiguity. The status of "associate member" does not exist in any EU treaty. The substantive scope of rights and obligations remains entirely undefined. Consensus is required among all 27 member states, and the Parliament of Canada must also hold a vote. The Canadian public harbored deep resistance to aligning domestic laws and regulations with EU directives. Canadian officials noted that even the nomenclature of the new relationship remained to be decided —whether it would be called "associate membership" or an "alliance for the future." The next critical milestone is the Canada–EU Summit scheduled for October 29–30 in Montreal.

Third, geography. Canada is separated from Europe by the vast Atlantic Ocean. With the United States, it shares the world's longest border. North American airspace defense is bound inextricably to the United States under the banner of NORAD. Neither SAFE, nor submarines, nor Arctic dialogues can replace this structural reality. Nor is Canada's goal to sever ties with America. Rather, it is to expand alternative options to the point where Washington's coercive leverage is substantially diluted. A line from Carney's European Parliament address encapsulates this calculus: "In an exploitative relationship, the stronger party's leverage crumbles long before complete independence is achieved."

Fourth, time. In his NYT interview, Carney left open the door to seeking reelection. He presided over a majority government. Yet he acknowledged that many of the major initiatives he had pledged would take 18 months to two years to bear fruit, including major energy projects and infrastructure buildouts. The pain of the tariff war hits immediately, whereas the fruits of diversification arrive only down the road. In August, Canada's unemployment rate stood at 6.4%. Statistics Canada reported an accelerating pace of job losses across trade-dependent sectors. How long his high approval ratings can withstand this structural lag remains an open question.

16.10 Signals South Korea Must Decipher

Canada's strategic choices offer critical mirror-reflections for South Korea. The following is an interpretation grounded in the facts:

First, arms procurement is never determined solely by technology and price. Hanwha Ocean pledged over 70 billion Canadian dollars in trade and investment offsets to Canada, along with promises of more than 25,000 annual jobs. Yet Canada chose a submarine co-operated by NATO allies. Alliance frameworks and interoperability trumped industrial offset packages. Herein lies the structural barrier South Korea's defense industry faces when knocking on the doors of European and North American markets: industrial capability must be paired with strategies that secure partners embedded within alliance networks.

Second, middle-power solidarity generates bargaining power. At the World Economic Forum in Davos in January 2026, Carney asserted that middle powers must act in concert: "If you are not at the table, you are on the menu." Canada did not face the United States alone. It diversified its

strategic horizons to include the EU, France, Norway, India, and Vietnam. On September 24, Ottawa welcomed Vietnamese President Tô Lâm. South Korea is likewise navigating relentless U.S. pressure across tariffs, investments, and overseas troop deployments (Chapters 10, 19–22, and 50). Canada is actively testing a playbook for preserving an alliance while distributing systemic dependence across multiple partners.

Finally, the weight of articulating the worst-case scenario. Carney spoke of "tail risk," yet steadfastly refused to reveal specific contingency measures. Domestically, he faced criticism for alleged provocation. Yet he also revealed to the NYT that he still spoke with Trump "frequently." He signaled rigorous preparation for worst-case scenarios without ever severing channels of dialogue. Trusting an ally is fundamentally distinct from surrendering one's fate entirely to that ally. In the autumn of 2026, that was the precise distinction Canada demonstrated to the world.

16.11 Conclusion

On September 23, 2026, Trump welcomed Xi Jinping at Joint Base Andrews. On that very same day, the prime minister of America's closest ally characterized potential U.S. military action as a "tail risk." Barely a week earlier, that prime minister had received a standing ovation in the European Parliament. The President of the European Commission declared her desire to welcome Canada as the EU's first associate member.

Canada has not thrown itself entirely into Europe's embrace. "Associate membership" remains little more than a concept, and Europe cannot replace the colossal American market. Canada continues to safeguard North America alongside the United States within the frameworks of NORAD and NATO. Yet the trajectory has irreversibly shifted. Canada entered the European defense procurement market through SAFE. It selected a German-Norwegian design for its next submarine fleet, while placing the F-35 under extended review for over a year. Seven out of ten Canadian citizens endorse this new relationship with the EU.

In the 1920s, the Canadian military's Defence Scheme No. 1 was mothballed and forgotten in a desk drawer. A century later, Canadian planners redrew a remarkably similar blueprint. What prompted them to dust it off was neither Moscow nor Beijing, but the words and deeds of an American president. Evoking Goethe's oak and the acorns of Vimy Ridge, Carney spoke of the power of the forest: a single tree may fall in a storm, but the forest endures. Trump's tariffs and intimidation failed to fell Canada. Instead, they propelled Canada across the Atlantic to take new, deeper root.

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Chapter 17. The Threat of Forced Annexation of Greenland and Retaliatory Tariffs on Eight European Nations

> The Full Story of the Greenland Crisis That Shook Arctic Security: Trump Declaring 10% to 25% Retaliatory Tariffs on Eight European Countries, Including Denmark, Which Refused the Territorial Purchase

17.1 From Real Estate Deal to Security Demands: The Roots of the Greenland Obsession

Greenland is the largest island in the world. With an area of approximately 2.16 million square kilometers, it is nearly ten times the size of the Korean Peninsula. Its population is around 57,000. Administratively, it is an autonomous territory within the Kingdom of Denmark. Foreign affairs and defense are handled by Denmark, while all other domestic affairs are governed by Greenland's self-rule government.

The island's value stems from its strategic location and abundant resources. Greenland sits at the vital crossroads between North America and Europe, linking the Arctic Ocean to the North Atlantic. The shortest missile trajectory connecting Russia and the United States also passes directly over the island. In the island's northwest lies Pituffik Space Base of the U.S. military—formerly known as Thule Air Base. Responsible for early missile warning and space surveillance, the base houses approximately 150 U.S. military personnel. Beneath Greenland's vast ice sheet lie rich deposits of minerals such as rare earths and uranium. As global climate change reduces the ice cover, discussions surrounding new maritime shipping routes and natural resource development have intensified as well.

President Trump first floated the idea of Greenland during his first term in 2019. He likened his acquisition scheme to a large-scale real estate transaction. Danish Prime Minister Mette Frederiksen dismissed the proposal as an "absurd discussion." Trump subsequently canceled his planned state visit to Denmark, and the issue temporarily subsided.

The posture of his second administration, however, was fundamentally different. In December 2024, as president-elect, Trump wrote that the ownership and control of Greenland was an "absolute necessity." After taking office, political slogans hardened into concrete demands. In March 2025, Vice President JD Vance visited Pituffik Space Base, where he openly criticized Denmark for failing to invest adequately in Greenland's security. In May of that year, The Wall Street Journal reported that U.S. intelligence agencies had been directed to intensify intelligence gathering on Greenland. During a congressional hearing, Secretary of Defense Pete Hegseth

pointedly refrained from offering a clear denial when questioned about whether there were operational plans for a military occupation.

Denmark's mounting alarm was formally documented in official state records. In December 2025, the Danish Defence Intelligence Service (DDIS) released its annual threat assessment report. The report explicitly warned that the United States was leveraging its economic power to enforce its will, threatening the use of military force regardless of whether the targets were allies or adversaries. It was entirely unprecedented for a Danish intelligence agency to designate its foremost treaty ally as a security risk factor. That same month, Danish public broadcaster DR reported that several Americans tied to Trump had conducted covert influence operations in Greenland. The report revealed that these operatives had sought to identify and map individuals in Nuuk who favored strengthening ties with the United States versus those who opposed it.

On December 21, Trump appointed Louisiana Governor Jeff Landry as Special Envoy to Greenland. Landry characterized the post as a volunteer role dedicated to "making Greenland part of the United States." Danish Foreign Minister Lars Løkke Rasmussen declared that he was "deeply angered." Denmark summoned the U.S. Ambassador to Denmark to lodge a stern diplomatic protest. Prime Minister Frederiksen and Greenlandic Prime Minister Jens-Frederik Nielsen issued a joint statement underscoring that national borders and state sovereignty are anchored in international law. The following day, Trump fired back, asserting: "We need Greenland not for minerals, but for national security."

On January 3, 2026, U.S. forces executed an operation in Venezuela capturing President Nicolás Maduro. This military action injected acute new tension into the Greenland standoff. After all, if an administration was willing to forcibly abduct a foreign head of state by armed might, there was no guarantee it would refrain from encroaching upon the sovereign territory of an ally. On January 6, White House Press Secretary Karoline Leavitt declared that securing Greenland was a core national security priority. She added that the deployment of the U.S. military remained an option available to the Commander-in-Chief at all times. In a CNN interview, White House Deputy Chief of Staff Stephen Miller bluntly questioned by what right Denmark controlled Greenland in the first place.

The escalating phases of the Trump administration's pressure campaign against Greenland can be summarized as follows:

March 2025	Vice President Vance visits Pituffik Space Base
May 2025	Reports reveal directive to intelligence agencies to step up Greenland espionage
December 2025	Danish Defence Intelligence Service explicitly cites the U.S. as a risk factor
December 2025	Governor Landry appointed Special Envoy to Greenland
January 2026	White House declares military options are not off the table

January 2026	10% to 25% tariffs proclaimed against eight European nations

17.2 "We Choose Denmark": The 1952 Rules of Engagement and the Copenhagen Joint Press Conference

When the White House openly broached military options, Denmark responded with law and principle. On January 7, the Danish daily Berlingske posed a direct question to the Ministry of Defence: were the standing rules of engagement contained in a 1952 royal decree still valid?

These standing instructions were crafted during the early years of the Cold War. When Nazi Germany invaded in 1940, Danish forces had waited fruitlessly for central orders and failed to mount an effective defense. The regulation was born directly out of that painful historical lesson. The directive dictates that if foreign forces attack Danish territory, the units under assault must immediately engage and fight back. There is no requirement to wait for or request orders from higher command. This applies even if commanders in the field are unaware of any formal declaration of war. The Danish Ministry of Defence confirmed that this directive remains "still valid," adding that Joint Arctic Command stationed in Greenland holds the authority to determine whether an attack has taken place.

English-language media seized on this development, running sensational headlines such as "shoot first, ask questions later." Yet that phrase was never uttered by the Danish government. U.S. fact-checking organization Snopes confirmed that no such language could be found anywhere in Danish official statements. Strictly speaking, Denmark had not issued any new ultimatum; it had merely reaffirmed that a statutory framework in place for over 70 years applied with equal force to Greenland. Even so, the implications were grave. Should U.S. military forces attempt to enter Greenland by force, Danish service personnel are bound by law to pull the trigger.

Prime Minister Frederiksen went a step further later that same week. She warned that if the United States were to launch a military strike against an ally, it would mark the end of NATO. Article 5 of the North Atlantic Treaty treats an armed attack against one member as an attack against all. But if the aggressor is the undisputed hegemon of the alliance itself, the entire structural logic of the treaty collapses. The Danish Prime Minister's warning confronted this fundamental contradiction head-on.

On January 13, the two leaders appeared side by side in the "Hall of Mirrors" at the Prime Minister's Office in Copenhagen. Greenlandic Prime Minister Nielsen spoke first: "Right now we are facing a geopolitical crisis. If we have to choose between the United States and Denmark right here and now, we choose Denmark." He affirmed that they choose NATO, the Kingdom of Denmark, and the European Union, concluding unequivocally: "Greenland is not for sale."

This declaration was unprecedented within the broader trajectory of Greenlandic politics. Full independence from Denmark has long stood as an overarching historical aspiration in Greenland. Nielsen himself had remarked in March 2025: "We do not want to be Americans, nor do we want to be Danes; we want to be Greenlanders." Yet now, insisting that this was no time for internal independence debates, he stood shoulder-to-shoulder with Denmark. Trump's heavy-handed coercion had achieved the ironic result of binding Greenland and Denmark closer together.

Prime Minister Frederiksen declared that they were confronting "completely unacceptable pressure from our closest ally." Acknowledging that standing up to the United States was far from easy, she foresaw that the hardest hours had yet to come. Asked about Nielsen's remarks, Trump dismissed them, claiming he did not know who Nielsen was and did not agree with him.

The very next day, January 14, high-level talks convened in Washington. Danish Foreign Minister Rasmussen and Greenlandic Foreign Minister Vivian Motzfeldt sat down at the White House with Vice President Vance and Secretary of State Marco Rubio. The meeting lasted roughly an hour. Following the session, Foreign Minister Rasmussen characterized the discussion as "frank and constructive," but conceded that "fundamental differences" remained. He acknowledged that they had failed to alter the American stance, adding that it had become unmistakably clear that the President still harbored ambitions to conquer Greenland.

Both sides agreed to establish a working-level consultation group to search for common ground. Yet immediately after the meeting concluded, Trump declared from the Oval Office: "We have to have it." On the very day the bilateral working group was formed, the President had once again dismantled the core premise of any meaningful negotiation.

17.3 Arctic Endurance: The Symbolic Deployment of European Troops

When the Washington talks ended empty-handed, Denmark moved decisively to action. The Danish Ministry of Defence announced that, in close coordination with NATO allies, it was expanding its military troop presence in Greenland. The Danish-led joint military exercise was designated "Arctic Endurance," meaning "Arctic endurance."

European nations answered Denmark's request without delay. Just past midnight on January 15, French President Emmanuel Macron posted a statement on social media confirming that France would participate in the joint exercise at Denmark's invitation. He noted that the initial contingent was already in transit and that additional forces would follow. French authorities confirmed that approximately 15 mountain infantry troops (chasseurs alpins) had arrived in Nuuk. The German Federal Ministry of Defence dispatched a 13-member reconnaissance team. Sweden sent staff officers to assist with exercise preparations, while Norway deployed two personnel. The Netherlands, Finland, and the United Kingdom also dispatched small contingents. Reports surfaced that Canada had likewise indicated its intention to participate in the maneuvers.

Denmark significantly bolstered its own troop presence on the island. By January 19, it had deployed roughly 200 additional personnel to Greenland to reinforce the permanent standing garrison of Joint Arctic Command.

Participation in Operation Arctic Endurance was as follows:

Lead Nation	Denmark (under Joint Arctic Command; reinforced by approx. 200 troops)
France	Approx. 15 mountain infantry troops
Germany	Reconnaissance team of 13 (withdrawn on January 18)
Sweden	Staff officers for exercise preparation
Norway	2 personnel
Others	Small contingents from the Netherlands, Finland, and the United Kingdom

Viewed purely in terms of numbers, the contingent appeared modest—not even matching a single U.S. rifle company. But battlefield combat power was never the purpose of this deployment. A French government official explained that the objective was to demonstrate that European forces could be rapidly deployed whenever the need arose. The strategic message was unmistakable: should the United States lay a hand on Greenland, it would have to confront soldiers representing multiple European allies, not Denmark alone. It was a deployment where the diversity of national flags mattered far more than the raw volume of boots on the ground.

Denmark also carefully observed procedural and diplomatic propriety. Between January 16 and 17, Denmark extended a formal invitation to the United States to take part in the exercise. This step was designed to underscore that the maneuvers were not aimed at any specific adversary, but were intended purely to strengthen Arctic defense.

Firsthand testimony from the operational commander on the ground offered further clarity. Major General Søren Andersen, Commander of Joint Arctic Command, stated in an interview with the Associated Press that over his two and a half years of commanding forces in Greenland, he had never once spotted a Chinese or Russian warship in Greenlandic waters. Trump had persistently asserted that Chinese and Russian naval vessels were swarming the waters off the island's coast. The theater commander's eyewitness account directly dismantled that claim.

17.4 January 17 Truth Social: Declaring Tariffs Against Eight European Nations

Trump answered Europe's maneuvers with tariffs. On January 16, he dropped hints to reporters that he might impose punitive tariffs on nations refusing to cooperate on the Greenland issue. Just

one day later, on Saturday, January 17, posting from his golf club in West Palm Beach, Florida, he took to Truth Social.

Trump called out Denmark, Norway, Sweden, France, Germany, the United Kingdom, the Netherlands, and Finland in turn. He wrote that these countries had traveled to Greenland "for purposes unknown." He went on to assert that this created a highly dangerous situation threatening the "safety, security, and survival of our planet." Claiming that China and Russia coveted Greenland while Denmark was powerless to do anything about it, he accused these nations of playing a "very dangerous game."

The tariff scheme was organized into two distinct phases. Beginning February 1, a 10% tariff would be levied on all goods imported into the United States from these eight nations. On June 1, that rate would escalate to 25%. These tariffs would remain in force until a deal was finalized for the United States to purchase Greenland "completely and totally." He concluded his proclamation with the declaration: "The time has come, and IT WILL BE DONE!"

Trump's Greenland tariff measures can be summarized as follows:

Target Nations	Denmark, Norway, Sweden, France, Germany, United Kingdom, Netherlands, Finland (8 nations)
Phase 1	10% tariff on all goods effective February 1, 2026
Phase 2	Hiked to 25% effective June 1, 2026
Condition for Relief	Agreement on the complete U.S. purchase of Greenland
Official Pretext	Punishing the "dangerous game" played by troop-deploying nations in Greenland

There were multiple glaring, unresolved problems inherent in this proclamation.

First, it lacked any clear legal authority. Trump failed to cite under which statute the tariffs were being imposed. At the time, the vast majority of the Trump administration's sweeping tariff actions relied upon the International Emergency Economic Powers Act (IEEPA)—a statute then under review by the U.S. Supreme Court, an issue examined in detail in Chapter 13.

Second, it directly collided with existing trade agreements. In July 2025 at Turnberry, Scotland, the United States and the European Union had concluded a bilateral trade framework that capped tariffs on EU goods at 15%. With the United Kingdom, an agreement had been struck capping most tariffs at 10%. The Greenland tariffs were supplementary duties exceeding those negotiated ceilings, effectively amounting to a unilateral repudiation of agreements negotiated by the administration itself.

Third, the mechanism for enforcement remained utterly nebulous. The EU operates as a single customs union. Six of the eight targeted nations were EU member states. If tariffs were slapped exclusively on German products, German exporters could readily reroute goods through fellow member states. The White House offered no viable mechanism to plug this loophole. Meanwhile, Norway and the United Kingdom stood outside the EU customs territory, introducing a completely separate layer of operational confusion.

Fourth, the selection logic of the target nations defied basic alliance rationale. Every single country subjected to tariffs was an active NATO ally. They had engaged in Arctic defense training on sovereign NATO territory in Greenland. Subjecting formal treaty partners to economic sanctions merely for taking part in an allied defense exercise ran counter to the very bedrock of collective security. The British government immediately pushed back, pointing out that punishing allies with tariffs for pursuing NATO collective security was "completely wrong."

On the very day the tariffs were proclaimed, powerful dissenting voices erupted across the streets. Copenhagen's City Hall Square was awash in the red hues of Danish and Greenlandic flags. Protesters chanted the island's indigenous name, "Kalaallit Nunaat." The march stretched all the way from City Hall to the U.S. Embassy, with turnout estimated between 15,000 and 20,000 demonstrators. Parallel rallies simultaneously unfolded in Aarhus, Aalborg, and Odense.

In Nuuk, the demonstration was monumental in scale. Defying freezing sleet, thousands marched toward the U.S. Consulate. Turnout was estimated to represent roughly a quarter of Nuuk's total population—making it the largest protest rally in Greenland's history. Marchers sang traditional Inuit hymns, raising placards with slogans such as "Greenland is not for sale" and "Greenland for Greenlanders." Red baseball caps satirizing Trump's signature campaign gear also appeared in the crowd, bearing slogans demanding that the United States get out. A survey conducted in January 2025 had already revealed that 85% of Greenlandic residents opposed incorporation into the United States, with a scant 6% expressing support.

That very day, an American congressional delegation was also visiting Copenhagen. It was a bipartisan mission of 11 lawmakers led by Democratic Senator Chris Coons, joined by Republican Senators Lisa Murkowski and Thom Tillis. The delegation met with Danish and Greenlandic political leaders and business executives. In a press conference, Senator Coons emphasized that there was no immediate, pressing security threat to Greenland, affirming that Greenland is part of Denmark and that this should definitively close the matter. He appealed to the Danish public not to abandon their faith in the American people. Senator Murkowski underscored that Greenland must be regarded as an ally, "not as an asset." The delegation subsequently laid a commemorative wreath at the monument honoring Danish soldiers who perished fighting in Afghanistan and Iraq.

American domestic public opinion was hardly on the President's side either. A YouGov survey showed that only a negligible minority of American adults supported acquiring Greenland through

military force.

17.5 "Dear Jonas": The Text Linking the Nobel Peace Prize to Greenland

On Sunday, January 18, the day after the tariffs were proclaimed, two Nordic leaders dispatched brief text messages to Trump: Norwegian Prime Minister Jonas Gahr Støre and Finnish President Alexander Stubb. Both leaders conveyed their deep opposition to the tariff decision and proposed entering into direct dialogue.

The reply arrived approximately 30 minutes later. It opened with the salutation "Dear Jonas"—a phrase by which the message would subsequently become known. Trump wrote:

"Your country decided not to give me the Nobel Peace Prize for stopping over 8 wars. So, I no longer feel an obligation to think purely of Peace. Peace is always the most important thing, but I can now think about what is good and proper for the United States."

The text message then pivoted directly to Greenland. Trump asserted that Denmark was incapable of defending Greenland against Russia or China. He went on to challenge Denmark's historical claim of ownership, questioning what legitimate basis Denmark possessed other than that a ship had landed there hundreds of years ago, adding that American ships had landed there as well. Having done more for NATO than anyone else, he argued, it was now high time for NATO to do something for the United States. He concluded by asserting that unless the United States established "complete and total control" over Greenland, the world would not be secure.

Trump instructed his staff to circulate this text message to European ambassadors stationed in Washington and requested that it be forwarded directly to their respective heads of state and government. What had originated as a private reply was thus effectively converted into an official diplomatic document. On January 19, PBS NewsHour in the United States first broke the contents of the message. The Norwegian government confirmed receipt of the text, and White House officials acknowledged that it had been sent.

The text was rooted in a fundamental factual misconception. The Nobel Peace Prize is not conferred by the Norwegian government; it is decided independently by the five-member Norwegian Nobel Committee, which is elected by the Norwegian Parliament (Storting)—a system continuously practiced since 1901. Prime Minister Støre highlighted this reality in a formal statement, noting that he had already explained this institutional structure to President Trump on numerous occasions. He reiterated that Greenland is an integral part of the Kingdom of Denmark, and that Norway stands in total and unwavering support of Denmark on this matter.

There was an additional, revealing backdrop to this episode. The 2025 Nobel Peace Prize had been awarded to Venezuelan opposition leader María Corina Machado. Just days before the text message incident, Machado had met Trump at the White House and presented him with her Nobel

medal. Trump praised it as a magnificent token of mutual respect and announced that he would cherish and keep the medal. The Norwegian Nobel Committee promptly issued a clarification stating that the Nobel Peace Prize cannot be revoked, transferred, or divided. Even with the actual medal held in his hands, Trump had not let go of the sting of failing to win the prize himself.

Amid mounting public criticism, Trump told reporters on the night of January 19 that he had no interest in the Nobel Prize. Even so, he added that anyone who believed the Norwegian government did not control the Nobel Prize was merely "kidding themselves."

This text message laid bare that the demand for Greenland was not the product of detached strategic calculation alone. An American president's personal grievances and territorial ambitions were strung together in the very same sentence. What conclusion did allied heads of state draw upon reading this text? It was the sobering realization that the policy decisions of the President of the United States could be swayed by raw, personal emotions operating entirely outside the boundaries of national interest.

17.6 Europe's Countermeasures: The Eight-Nation Joint Statement and the "Trade Bazooka"

On Sunday, January 18, the eight nations targeted by the tariffs issued a joint statement. Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, and the United Kingdom spoke with one resolute voice. It was an exceptionally rare occurrence for core allies of the United States to publicly push back against an American president in this coordinated fashion.

The joint declaration rested on four fundamental pillars: First, as fellow NATO member states, they stood in unreserved solidarity with the Kingdom of Denmark and the people of Greenland. Second, bolstering Arctic security was a shared transatlantic imperative, and the Danish-led maneuvers threatened no one. Third, tariff threats undermined transatlantic relations and risked triggering a "dangerous downward spiral." Fourth, they remained prepared to engage in constructive dialogue, provided it was anchored in the inviolable principles of state sovereignty and territorial integrity. The statement closed with a commitment to maintain a united, closely coordinated response moving forward.

The individual statements of allied heads of government were even more blunt than their collective text. Swedish Prime Minister Ulf Kristersson declared: "We will not be blackmailed." He stressed that this was an issue not merely for the nations specifically singled out, but for the entire European Union. President Macron denounced the tariffs as "unacceptable," emphasizing that whether in Ukraine or Greenland, no form of threat would sway France's stance. The Norwegian Prime Minister affirmed that threats had no legitimate place among allies. British Prime Minister Keir Starmer directly conveyed this position to Trump during a telephone conversation that same

day. In an address the following day, Starmer stated unequivocally that the future of Greenland was for Greenland and Denmark alone to decide.

In Germany, Vice Chancellor Lars Klingbeil affirmed that Germany would not capitulate to threats. Italian Prime Minister Giorgia Meloni called the tariffs a "mistake," though she calibrated her rhetoric by suggesting that misunderstandings may have arisen. In Britain, Nigel Farage, leader of Reform UK and a staunch, longtime Trump supporter, also publicly conceded that the tariffs would inflict harm on the United Kingdom.

The EU leadership mobilized immediately. European Commission President Ursula von der Leyen and European Council President António Costa posted coordinated statements echoing identical language. They proclaimed total solidarity with Denmark and the people of Greenland, warning that the tariffs damaged transatlantic ties and risked initiating a dangerous downward spiral. On the afternoon of January 18, an emergency meeting bringing together the ambassadors of all 27 EU member states was convened in Brussels.

The phrase most widely invoked throughout that meeting was the "trade bazooka." Its formal statutory name is the Anti-Coercion Instrument (ACI). It is a mechanism established to empower the EU to retaliate when a third country deploys economic coercion in an attempt to force policy shifts on the Union or its member states. The instrument traced its genesis to the 2021 confrontation between China and Lithuania, when Beijing blocked trade with Lithuania following the latter's decision to deepen ties with Taiwan. Spurred by that crisis, the EU drafted the legislation, formally adopting it in 2023.

The array of countermeasures authorized under the ACI is vast. It encompasses retaliatory tariffs, export bans, restrictions on trade in services, exclusion from public procurement tenders, and even suspensions of intellectual property protections. Such measures could drastically choke off American companies' access to the European single market. Originally conceived to counter autocratic adversaries such as China, nobody had anticipated that the weapon might one day be directed at an allied superpower like the United States. Adding to the gravity of the dilemma, the instrument had never once been formally invoked.

France forcefully demanded the immediate activation of the ACI. French Minister of the Economy and Finance Roland Lescure argued that the EU had to demonstrate its readiness to brandish the tool. European Commission spokesperson Olof Gill emphasized that the ACI "has never been off the table," affirming that the EU possessed robust retaliatory instruments and stood fully prepared to respond if tariffs were implemented.

However, the emergency meeting stopped short of immediately triggering the ACI. Instead, ambassadors decided to ready an array of responsive tools while prioritizing a diplomatic off-ramp. The most immediate and straightforward card was an existing package of retaliatory tariffs already prepared for execution. During earlier trade negotiations with the United States in 2025, the EU

had drawn up a detailed retaliation list covering €93 billion—roughly $108 billion—worth of American goods. That package envisioned imposing duties of up to 30% across a vast spectrum of U.S. commodities, ranging from automobiles to poultry. Following the Turnberry agreement, the execution of these tariffs had been temporarily suspended until February 7. Simply allowing that deadline to lapse without renewal would automatically resurrect the retaliatory duties. One diplomat characterized this approach as "passive retaliation."

The European Parliament intensified the pressure campaign. Manfred Weber, head of the European People's Party (EPP), the largest political group in the European Parliament, announced that as long as the threat to Greenland remained, the trade agreement with the United States could not be ratified. On January 21, Bernd Lange, Chair of the European Parliament's Committee on International Trade, announced the formal suspension of work on implementing the Turnberry agreement. He stated that in the face of ongoing and intensifying threats against Greenland, Denmark, and European allies, the Parliament was left with no other viable choice. Lange sharply criticized Trump for treating tariffs as instruments of political coercion, characterizing the maneuver as an assault on the European Union's economic and territorial sovereignty.

Washington fired back with warnings of further escalation. Treasury Secretary Scott Bessent asserted that it would be "very unwise" for Europe to retaliate. U.S. Trade Representative Jamieson Greer countered by accusing the EU of having dragged its feet on implementing its existing commitments.

Financial markets reacted immediately. On Monday, January 19, European equity markets slid, with automotive shares experiencing steep drops. Among the eight targeted countries, Germany maintained the largest trade surplus with the United States, followed by France and the United Kingdom. German automotive vehicles and machinery, French luxury goods and pharmaceuticals, and British aerospace components and spirits found themselves directly exposed. Bilateral trade in goods and services between the EU and the United States exceeded €1.7 trillion in 2024 alone—a colossal economic relationship moving an average of €4.6 billion every single day.

Yet fractures were visible beneath the facade of European solidarity. On January 18, Germany abruptly withdrew the 13-member reconnaissance team it had deployed to Greenland. The German government explained that the contingent had concluded its pre-planned mission. However, withdrawing the unit the very day after tariffs were declared triggered conflicting interpretations. German Foreign Minister Johann Wadephul stressed that the tariff dispute would not impair broader cooperation within NATO. Europe was striving to demonstrate firmness while simultaneously desperate to avoid a head-on collision with the United States. This delicate tension was the defining feature of the European response.

Europe's retaliatory toolkit can be summarized as follows:

Diplomacy	Joint declaration by the eight nations, EU leadership solidarity statements, emergency meeting of 27 member-state ambassadors
Parliamentary	European Parliament halts ratification process of the Turnberry trade pact
Trade Track 1	Weighing the lapse of suspension on €93 billion in retaliatory tariffs
Trade Track 2	Weighing invocation of the Anti-Coercion Instrument (ACI) (formal triggering held in reserve)
Military	Continuation of Operation Arctic Endurance, Denmark deploying additional reinforcements

17.7 Arctic Security Shaken: Questions Left in the Wake of the Crisis

The Greenland crisis brought about a scenario that NATO had never once contemplated throughout its 77-year history. The preeminent leader of the alliance demanded the sovereign territory of a fellow member state. When rebuffed, it refused to rule out the use of armed force. It subsequently imposed retaliatory tariffs on allies that participated in a joint defensive exercise. The threat had originated not from external adversaries, but from within the alliance itself.

Three salient paradoxes emerged from this crisis:

First, American pressure produced outcomes directly diametrical to its intended objectives. Greenland shelved its internal independence debates and rallied firmly around Denmark. Denmark increased its military force posture in the Arctic. European allies deployed troops to Greenland for the first time in history. What the United States sought was uncontested control over Greenland; the actual result was a visibly expanded European military presence on the island.

Second, punitive actions justified under the pretext of security directly sabotaged security cooperation. Trump contended that Greenland had to be shielded against China and Russia. Yet the actual targets of his retaliatory tariffs were the very allies endeavoring to bolster Arctic defense. Denmark and other European nations had repeatedly affirmed their readiness to expand Arctic defense in partnership with the United States. Foreign Minister Rasmussen explicitly concurred with Washington that the Arctic was no longer a low-tension region. The true bone of contention was never whether Greenland required defense; it was whether defending Greenland necessitated owning it.

Third, tariffs were co-opted as an instrument of territorial negotiation. Tariffs are fundamentally designed to address trade imbalances. Trump wielded them as coercive leverage to enforce a territorial transaction. During his first term, he had invoked national security grounds to slap steel tariffs on allies. However, making the forced sale of an ally's territory a mandatory precondition for lifting tariffs was entirely unprecedented. This dangerous precedent instilled profound anxiety in

every allied nation running a trade surplus with the United States—and South Korea is certainly no exception.

Neither the United States nor Europe derived any genuine advantage from this crisis. Russian state media seized upon the standoff, highlighting how Western alliances were fracturing from within. China gained rhetorical ground to portray itself as a champion of the rules-based international order. The two rivals the United States claimed to be guarding against in the Arctic thus ended up watching the intra-Western clash from comfortable vantage points.

The climax of the crisis unfolded over five tumultuous days between January 17 and January 21. The tariff proclamation, the joint allied declaration, the "Dear Jonas" text message, and the European Parliament's suspension of the trade pact erupted in rapid succession. Then, on January 21, Trump traveled to Davos, Switzerland. There, he declared that he would not resort to military force. He subsequently announced that he and NATO Secretary General Mark Rutte had forged a "framework for a future agreement" concerning Greenland and the wider Arctic. Along with that announcement, he proclaimed that the tariffs scheduled to take effect on February 1 would not be imposed. It was a dramatic retreat merely four days after the initial threat. The concrete realities of that framework, the high-stakes negotiations that followed, and the September U.S.–Denmark–Greenland trilateral security pact are explored in Chapter 18.

Not a single penny in tariffs was ever collected. Yet over the course of those five days, Europe absorbed an indelible lesson: American security commitments are not unconditional, and even an ally's sovereign territory can be reduced to a transactional bargaining chip. The red caps mocking Trump on the streets of Copenhagen and the traditional Inuit melodies resonating through Nuuk were not easily forgotten even after the tariffs were rescinded. What began as a tariff war over Greenland endured as a profound crisis of trust.

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Chapter 18. The Davos Forum and the U.S.–Denmark Security Negotiations

The Irrevocable Fracture of the Transatlantic Alliance

> The Bizarre Diplomatic Patch-Up That Expanded the U.S. Military Presence Without Encroaching on Danish and Greenlandic Sovereignty, and the Collapse of Trust in the Western Alliance Left in Its Wake

18.1 Wednesday in Davos: Ruling Out Force, Rescinding Tariffs, and 'TACO'

In the third week of January 2026, an unusual atmosphere enveloped Davos, a small resort town in the Swiss Alps. The 56th Annual Meeting of the World Economic Forum (WEF) took place from January 19 to 23. Around 3,000 participants gathered from roughly 130 countries worldwide, with chief executive officers of major corporations alone numbering 850. The official theme was "A Spirit of Dialogue." Yet the talk of the forum was not dialogue, but Greenland.

As seen in Chapter 17, President Trump announced retaliatory tariffs against eight European nations on January 17. The targets were Denmark, Norway, Sweden, France, Germany, the United Kingdom, the Netherlands, and Finland. A 10% tariff would be levied starting February 1, escalating to 25% on June 1 if no agreement was reached to purchase Greenland. The pretext was that these nations had participated in Operation Arctic Endurance, deploying troops to Greenland.

Even on January 19, the day before departing for Davos, Trump did not rule out the use of military force. On January 20, he declared there was "no going back" on plans to annex Greenland. That same day, he posted AI-generated composite images on social media depicting himself planting the American flag on Greenland soil. A sign beside him read, "U.S. Territory, Established 2026." He also posted an image of a map showing Canada and Greenland draped in the Stars and Stripes. He even disclosed a private text message sent by French President Emmanuel Macron, which contained the line: "I do not understand what you are doing in Greenland."

Europe's response grew equally sharp. On January 20, European Commission President Ursula von der Leyen took the podium at Davos, calling for a "new form of European independence." She firmly declared that the sovereignty of the Kingdom of Denmark and Greenland was non-negotiable. That same day, Belgian Prime Minister Bart De Wever chose even harsher language. He remarked that Europe had previously treated Trump leniently, even on tariff issues, confessing this was calculated to secure U.S. backing in the war in Ukraine. But now, he asserted, too many red lines had been crossed, adding: "There is a world of difference between a happy vassal and an unhappy slave." A vassal is a subject who pledges fealty to a lord in exchange for protection; it was

an open confession that the relationship Europe had tolerated in return for American protection had reached its breaking point.

Canadian Prime Minister Mark Carney also declared at Davos that it was time to envision a world in which the U.S.-led order was coming to an end. (Canada's response is examined in detail in Chapter 16.) On January 21, the European Parliament halted the ratification process for a planned trade agreement with the United States. Member states prepared to deploy the Anti-Coercion Instrument (ACI)—a mechanism designed to retaliate when a third country uses economic coercion to alter EU policy. European media dubbed it the "trade bazooka." Germany likewise announced it would request the European Commission to examine deploying the measure.

Amid this atmosphere, on Wednesday, January 21, Trump took the stage at the main Davos plenary hall. His speech was lengthy and laden with factually inaccurate assertions. He spoke as if Greenland were practically American territory, despite Norse settlement of the island dating back more than a millennium and its having been under Norwegian and then Danish rule since the thirteenth century. He claimed that the United States had protected Greenland during World War II and handed it back to Denmark, only to complain that Denmark had shown no gratitude. He went so far as to describe Greenland as "a piece of ice that you could hardly even call land."

Yet the crux of the speech lay elsewhere. For the first time, he made it explicitly clear that he would not use military force:

"People thought I'd use force. I don't have to use force. I don't want to use force. I will not use force."

He had thus closed off on his own accord the military option he had kept open for over a year since his 2025 election victory. However, he did not suggest he was lifting economic pressure. He demanded "immediate negotiations" with Denmark and delivered a veiled warning to European leaders: if they agreed, the United States would appreciate it; if they refused, the United States would "remember."

During the speech, Trump repeatedly referred to Greenland as "Iceland." Iceland is an entirely separate sovereign nation and fellow NATO member. This verbal slip reignited debates in the American and international press over the president's age and cognitive fitness. Secretary of State Marco Rubio acknowledged days later that the president had confused the two geographical names. (Trump's health issues are addressed separately in Chapters 48 and 49.)

The plot twist arrived just hours after the speech. Following a meeting with NATO Secretary General Mark Rutte, Trump posted on social media that the two had established a "framework for a future deal" regarding Greenland. A "framework" refers to an agreement that sketches out broad parameters without granular specifics. Citing this framework, he rescinded the retaliatory tariffs slated to take effect on February 1. He explained that the new deal included cooperation on the

"Golden Dome" missile defense initiative and mineral development. The Golden Dome is the Trump administration's proposed missile defense shield for the U.S. homeland.

It was a dramatic U-turn after merely four days. The backdrop to this shift emerged later. Citing administration officials, NBC News reported the inside story: Trump had directed Chairman of the Joint Chiefs of Staff Dan Caine to brief him on options and fallout from a military seizure of Greenland. After receiving the briefing, Trump decided against an invasion. Reuters reported that this outcome was the result of intense pushback from the president's close aides, who vehemently opposed an invasion.

Domestic backlash within the United States was also severe. In a mid-January poll by YouGov, only 8% of Americans supported a military takeover of Greenland, while 73% opposed it. Even Republican Speaker of the House Mike Johnson characterized the president's threats as "completely inappropriate." Former Senate Republican Leader Mitch McConnell warned that the use of force would be a catastrophic self-inflicted wound for the United States. Republican Representative Don Bacon predicted that invading Greenland would lead directly to impeachment.

Former U.S. Ambassador to NATO Nicholas Burns offered a similar assessment: Trump had backed down in the face of military, economic, and political resistance from Europe—resistance the Trump administration had failed to anticipate. The New York Times analyzed that this episode demonstrated the distinct limits of Trump's coercive leverage.

Wall Street and the media affixed a familiar moniker to this retreat: "TACO"—an acronym for "Trump Always Chickens Out." Coined by a Financial Times columnist during the 2025 tariff negotiations, the term describes Trump's behavioral pattern of issuing extreme threats only to back down when markets convulse or political pushback mounts. The term gained renewed currency in Davos.

18.2 The Reality of the 'Framework': A Conversation Between Two Men and Reaffirming the 1951 Agreement

Trump framed the Davos agreement as a massive victory. The following day, he claimed to have secured "total and permanent access" to Greenland. However, the account offered by the party named as his partner in the agreement was entirely different.

First, Secretary General Rutte himself drew the line. He clarified that the issue of controlling Greenland was never raised in his conversation with Trump. Speaking to Reuters, he added that mineral development had not been discussed either. The subject of the discussion, he stated, was the overarching security of the Arctic region as a whole. The essence of the understanding, according to Rutte, was that NATO allies would step up their contributions to Arctic security. Concrete measures were to be formulated by NATO military commanders over the coming months.

Detailed negotiations regarding Greenland itself were to be pursued separately among the three parties: the United States, Denmark, and Greenland.

NATO Spokesperson Allison Hart's announcement pointed in the same direction. The spokesperson explained the framework referenced by Trump as discussions aimed at safeguarding Arctic security through collective allied efforts, centered on the seven allies with Arctic territory. Hart noted that negotiations involving the United States, Denmark, and Greenland would follow shortly—talks designed to prevent Russia and China from gaining an economic or military foothold in Greenland.

Denmark and Greenland immediately redrew their red lines. Greenlandic Prime Minister Jens-Frederik Nielsen spoke out first, stressing that only Greenland and the Kingdom of Denmark possessed the authority to enter into agreements concerning Greenland. The Danish government firmly declared: "We cannot negotiate our sovereignty."

In the Danish Parliament (Folketing), two seats are allocated to Greenland. One of those representatives, Aaja Chemnitz, blasted Trump's statements as "completely nuts." She asserted that there was no such thing as a "deal," pointing out that NATO had zero mandate to negotiate anything on behalf of Greenland. She criticized Trump's remarks for generating "complete confusion." Another lawmaker caustically noted that the meeting was not a genuine negotiation at all, but merely "a conversation between two men."

The EU also maintained caution. Remarks by Bernd Lange, Chair of the European Parliament's Committee on International Trade, captured the mood: no one knew the details of the so-called solution. Nevertheless, the EU announced on January 22 that it would resume the ratification process for the trade agreement with the United States. With the tariff threat lifted, the justification for prolonging the standoff had diminished.

What, then, did the "framework" actually contain? Britain's Sky News summarized its reality: it merely reaffirmed commitments already enshrined in the 1951 U.S.–Denmark agreement, coupled with European nations reiterating their commitment to step up efforts in Greenland's defense. CNN also pointed out that no formal agreement document existed yet, analyzing that, based on available information, it was virtually identical to what the United States already possessed. Reuters reported that the two had agreed to trilateral negotiations aimed at updating the 1951 pact.

Here, it is necessary to examine the 1951 agreement, as all the discussions in the latter half of this chapter rest upon it. Its formal title is the "Agreement Pursuant to the North Atlantic Treaty between the United States and the Kingdom of Denmark Concerning the Defense of Greenland." Signed in Copenhagen on April 27, 1951, at the height of the Korean War, this agreement granted the United States the right to construct bases and station forces within "defense areas" designated by Denmark. The United States exercised jurisdiction over its forces within those areas. American

vessels and aircraft were permitted to transit freely to and from Greenland. In the treaty text, the United States explicitly recognized Denmark's sovereignty over the entirety of Greenland.

Today's Pituffik Space Base (formerly Thule Air Base) was established under this agreement. Situated in northwestern Greenland, Pituffik houses early warning radars designed to detect incoming ballistic missiles targeting the U.S. homeland. During the height of the Cold War, nearly 10,000 U.S. military personnel were stationed in Greenland. Following the end of the Cold War, the United States drew down its forces, leaving only around 150 personnel by 2026.

Frank Rose, a former Assistant Secretary of State who was the last U.S. official to negotiate defense pacts with Denmark, emphasized this point: under the 1951 agreement alone, the United States already possessed all the military access it required. If what Trump wanted was bases and radar stations, he could have obtained them without any annexation threats.

On January 23, two days after the Davos agreement, Danish Prime Minister Mette Frederiksen met with Secretary General Rutte in Brussels. The two agreed that NATO needed to expand its role in the Arctic. Later that same day, Frederiksen flew directly to Greenland's capital, Nuuk, to meet with Prime Minister Nielsen. Danish Foreign Minister Lars Løkke Rasmussen announced that diplomats from both nations had met in Washington to establish modalities for future negotiations. He stated that dates for upcoming meetings would not be disclosed, explaining that what was needed now was to tune out the noise and proceed quietly through institutional channels.

The acute crisis subsided, but the scars left in the hearts of the Greenlandic people could not be erased. Immediately following Davos, Greenlandic politician Tillie Martinussen told Canada's CBC News: "We will never be able to truly trust the US again." This sentence was widely cited as the most succinct summation of the Greenland crisis.

18.3 Eight Months to a Patch-Up: Unending Provocations and Quiet Diplomacy

Following Davos, the United States, Denmark, and Greenland entered into behind-the-scenes negotiations. Yet the eight months leading to a diplomatic patch-up were far from quiet. Trump's provocations continued, while Europe used the interval to expand its own framework for Arctic defense.

In early February, France and Canada each opened a consulate in Nuuk—a move intended to signal solidarity with the people of Greenland. On February 11, NATO launched Operation Arctic Sentry, an operation designed to bolster the alliance's defensive posture in the Arctic. Modeled after "Baltic Sentry"—which was created to safeguard seabed infrastructure in the Baltic Sea—the operation originated from a German proposal. Its official purpose was countering Russian and Chinese threats in the Arctic. Yet numerous analysts interpreted the operation as, in reality, a

measure to appease Trump. It effectively stripped away the pretext Trump had advanced—that "Denmark lacks the capability to defend Greenland."

On February 18, King Frederik X of Denmark visited Greenland. The monarch's visit symbolized that the Kingdom of Denmark stood firmly united with Greenland. That same month, an uncomfortable scene unfolded at the Munich Security Conference in Germany. Senator Lindsey Graham, a close Trump ally, remarked in an interview that the Greenland issue had already passed, using coarse profanity to imply that he didn't care who owned Greenland. U.S. digital outlet Puck and Danish daily Berlingske reported the backstory: Graham had engaged in abrasive and disrespectful conduct even during his direct meetings with the Danish and Greenlandic prime ministers.

In February, Prime Minister Frederiksen warned that Trump was still "very serious" about acquiring Greenland. That warning soon became reality.

On February 21, Trump posted on Truth Social that he would deploy a hospital ship because so many people in Greenland were sick and receiving no medical care. Earlier that morning, the Danish military had announced that it had medically evacuated a crew member from a U.S. submarine near Greenland. Whether Trump had misunderstood this incident or was referring to something else was never clarified.

As part of the Kingdom of Denmark, Greenland possesses a state-run universal public healthcare system. His talk of sending a hospital ship to a place with far broader public healthcare coverage than the United States invited widespread ridicule. Prime Minister Nielsen's response was curt: "No thanks."

Around that time, Danish domestic politics also experienced upheavals. Prime Minister Frederiksen called a snap general election, citing the Greenland crisis as a primary justification. She declared that relations with the United States had to be redefined, appealing that Europe must arm itself and unite to safeguard peace on the continent. Opinion polls indicated that the crisis boosted support for her Social Democratic Party—an external threat sparking a domestic rally-around-the-flag effect. Retaining the premiership following the election, she went on to sign the September agreement.

As spring arrived, the Greenland issue became entangled with another war. As examined in Chapter 7, the United States and Israel launched airstrikes against Iran in 2026. When the Strait of Hormuz was blocked, Trump demanded troop deployments from European allies. Major European nations refused—a process detailed in Chapter 9.

On April 8, Trump unleashed his fury against NATO allies on Truth Social, complaining that allies were nowhere to be found when America needed them. In that post, he derided Greenland as a "big, poorly managed block of ice"—venting his frustrations over the Iran war onto Greenland.

This outburst demonstrated that the Greenland issue was not driven by security calculations alone; rather, presidential personal emotions and disparate foreign policy grievances were thoroughly intertwined.

On May 21, the United States held an opening ceremony for its refurbished consulate in Nuuk. Hundreds of residents took to the streets chanting slogans such as "Greenland belongs to Greenlanders." It was an expression of deep wariness toward the expansion of the American diplomatic footprint.

On July 7, the NATO summit convened in Ankara, Türkiye. There, Trump reiterated his contention that Greenland would be better off under U.S. control rather than Denmark's. Prime Minister Frederiksen responded once more that Greenland was not for sale and that its sovereignty must be respected. The summit of an alliance had turned into a stage for bitter sparring over an ally's sovereign territory.

While rhetorical sparring continued in public, work at the negotiating table never halted. U.S. broadcaster NPR reported that officials from the three governments had been negotiating quietly for months, seeking ways to address Trump's security concerns regarding an island of barely 56,000 residents. Final fine-tuning took place over the last two weeks.

18.4 The September 18 Announcement and the September 22 New York Signing: Three Divergent Narratives

On Friday, September 18, 2026, Trump spoke first. He announced on Truth Social that the United States, Denmark, and Greenland had agreed on a security pact. He claimed that the agreement granted the United States permanent control over Greenland's security and "all other needs," adding that it "completely" resolved multiple American security concerns.

That same day, the statement from the Danish Prime Minister's Office was cast in a completely different light. It stressed that the agreement recognized the sovereignty and territorial integrity of Greenland and Denmark, and protected the right to self-determination of the peoples of both nations. Self-determination is the right of a people to freely determine their own political status. Greenlandic Prime Minister Nielsen stated that the agreement benefited all three governments and recognized Greenland's distinct interests.

The following day, September 19, the Danish government drew the line once more, making clear that Danish sovereignty over Greenland would not be compromised in any way by this agreement. Up to this point, the text of the agreement had not been made public. Neither the scale of U.S. troop reinforcements nor any potential transfer of authority over diplomacy or natural resources was known. One side proclaimed "permanent control" while the other insisted on "respect for

sovereignty." This bizarre situation—two sides presenting contradictory interpretations of the very same agreement—persisted for four days.

On Tuesday, September 22, the high-level General Debate of the 81st Session of the UN General Assembly opened in New York. In his address to the General Assembly, Trump previewed the agreement, stating that it allowed the United States to construct two new bases in Greenland. He declared that American adversaries could no longer establish military footholds in Greenland without express written approval from the United States, adding that the same restriction applied to sensitive investments.

Immediately following the address, a signing ceremony was held on the sidelines of the General Assembly. President Trump, Danish Prime Minister Frederiksen, and Greenlandic Prime Minister Nielsen signed side by side. Prior to signing, Trump described the agreement as "tremendous" for both Europe and the United States. Frederiksen called it an "agreement that can last forever." Nielsen hailed it as a "win-win-win" for all three parties, stating: "Your security is our security, and our security is your security."

Nielsen observed that the world had changed substantially since 1951, noting that the people of Greenland were also conscious of the long-term security threats President Trump had underscored. He then voiced a single hope: that this agreement would dispel once and for all any doubts regarding where Greenland's loyalties lie. Frederiksen reiterated that the agreement respected the territorial integrity of the Kingdom of Denmark and Greenland's right to self-determination.

Immediately after the signing ceremony, the White House released the full text of the agreement. The official title is lengthy: "Agreement between the Government of the United States of America and the Government of the Kingdom of Denmark together with the Government of Greenland to Amend and Supplement the Agreement of 27 April 1951." Rather than creating an entirely new treaty, it took the form of amending and supplementing the 1951 agreement. The text was drafted in three languages: English, Danish, and Greenlandic. In the event of divergent interpretations, the English text prevails.

Based on media reports and the released treaty text, the core provisions can be summarized as follows:

First is the sovereignty clause. The preamble reaffirms the sovereignty and territorial integrity of the Kingdom of Denmark. It also recognizes the people of Greenland as a people with the right to self-determination under international law. Furthermore, it explicitly cites Section 21 of the Act on Greenland Self-Government, which sets out the procedure for Greenlandic independence. The phrase "permanent control" invoked by Trump appears nowhere in the agreement.

Second is base expansion. The United States is permitted to modernize and expand its operations at Pituffik Space Base. Narsarsuaq in the south and Mestersvig in the east were designated as new

defense areas. These two locations are roughly 1,500 kilometers apart. What specific installations will be constructed there will be determined through future mutual agreement among the three parties. Any party may propose additional defense areas, but the consent of the other parties is required.

Third is freedom of movement. U.S. aircraft are granted the right to overfly all of Greenland and its territorial waters and land anywhere. Subsurface access rights were also obtained, widely interpreted as rights related to submarines or seabed installations.

Fourth is the exclusion of third countries. Non-NATO nations are prohibited from constructing military facilities or maintaining a permanent military presence in Greenland. Any exception requires the unanimous consent of all three parties: Denmark, Greenland, and the United States. Screening of foreign investments from outside NATO and the EU was also tightened. The screening is conducted by Greenland in accordance with its domestic laws and in cooperation with Danish authorities—a provision squarely aimed at China and Russia.

Fifth is duration. The agreement contains no expiration date. Any amendment requires the mutual consent of all parties.

Sixth is validity following independence. Even if Greenland eventually gains independence from Denmark, the agreement remains in full force. CBS News reported this as a salient element of the pact. A British analytical outlet reported its findings from reviewing the published text: a newly independent Greenland is obligated to remain in NATO and inherit all of Denmark's rights and obligations under this agreement.

Seventh is the entry-into-force procedure. Signature alone does not bring the pact into effect. It will enter into force only after the Danish Parliament and the Greenlandic Parliament (Inatsisartut) complete their requisite domestic procedures and notify the United States through diplomatic channels. As of September 2026, the ratification process in the two parliaments had not yet commenced.

18.5 Reading the Agreement: Sovereignty Defended, the Future Bound

Two competing interpretations clashed over the September agreement. This section examines both interpretations in turn. Disentangling fact from narrative reveals where the "bizarre" nature of this pact truly originates.

The first interpretation reflects the official stance of the Danish and Greenlandic governments: not a single inch of sovereignty was surrendered. The agreement contains no provisions for territorial purchase or cession. On the contrary, the preamble explicitly enshrines Danish sovereignty and Greenlandic self-determination. Ever since the 1951 pact, the United States had already exercised extensive military prerogatives within designated defense areas. This agreement

merely expanded that existing framework rather than creating a new one. Trump ultimately failed to achieve the "total ownership" he had sought.

Under this interpretation, the chasm between Trump's initial demands and the ultimate outcome is vast. In January 2026, he demanded the following: the outright purchase of Greenland, the use of military force if necessary, and tariffs of up to 25% on eight European nations. The September outcome was as follows: the purchase collapsed; the threat of military force was renounced by Trump himself in January; and the tariffs were withdrawn that same month. All that remained was an expansion of U.S. military access within the preexisting parameters of the 1951 agreement.

The analysis of South Korean financial broadcasting cited in this book's reference materials aligns closely with this view: Trump packaged the deal as if the United States had acquired all of Greenland, but Denmark successfully safeguarded its territory and sovereignty while humoring Trump's theatrical ceremonies. It gave Trump a face-saving justification ahead of the midterm elections, while Denmark walked away with the substantive practical gains.

The second interpretation is the exact opposite: a careful reading of the treaty text suggests Trump's claims are closer to the truth. Arnaud Bertrand, a French geopolitical commentator, published an analysis to this effect the day after the text was released. While the preamble states that it "reaffirms" Danish sovereignty, Denmark granted a foreign military new bases, gave that military broad freedom of movement across the entire island, and endowed it with veto power over the entry of third nations—and did so with no expiration date. Bertrand characterized this as substantive de facto control. His conclusion was provocative: between the two conflicting narratives, it was Denmark that had distorted the facts more egregiously.

The justification for this second interpretation lies in the stark departures from the 1951 agreement. The 1951 pact was structured to remain in force only for the duration of the North Atlantic Treaty. The new agreement has no termination date. The 1951 pact presupposed the Kingdom of Denmark; the new agreement binds Greenland even after it attains independence. In 1951, the designated defense areas were limited; the new agreement established two additional areas and granted U.S. aircraft the right to overfly and land across the entire territory.

In this author's assessment, both interpretations capture only one side of the coin. The phrase used by the aforementioned British analytical outlet aptly summarizes this agreement: "control without sovereignty." Legal sovereignty remained intact with Denmark. However, the practical scope of what that sovereignty could actually exercise was substantially narrowed. The United States did not become the owner of the land; instead, it secured the enduring right to dictate how the land is used.

This is precisely why this agreement is termed a "bizarre patch-up." Three parties affixed their signatures to the very same document, yet each signatory explained the document's meaning in a completely different way: Trump proclaimed permanent control, Denmark claimed the defense of

sovereignty, and Greenland heralded proof of its loyalty. Three distinct narratives were overlaid onto a single text. It was an agreement engineered so that everyone could claim victory—and yet, an agreement where no one truly won.

A tally of what each party gained and lost reveals the following:

What Trump gained was a diplomatic trophy ahead of the November midterm elections. This agreement arrived immediately after the U.S.–China summit examined in Chapter 1, at a moment when the freeze on arms sales to Taiwan and the managed-trade deal were drawing fierce criticism as "empty-handed negotiations." The Greenland pact enabled him to showcase the slogan "The United States permanently controls Greenland" on the campaign trail. What Trump lost was 20 months' worth of allied trust—trust that cannot be repurchased with two military bases.

What Denmark gained was legal confirmation of its sovereignty. A sentence reaffirming Danish sovereignty was enshrined in a document signed by the President of the United States, creating a legal hurdle that makes it harder for the U.S. to assert annexation claims in the future. What Denmark lost was a portion of its initiative over Greenland's defense. In a structure where U.S. forces operate across the entirety of the island, Denmark's role is inevitably diminished.

What Greenland gained was recognized standing as a negotiating party. Under the 1951 agreement, Greenland was merely a colony; during the expansion of Thule Air Base in 1953, indigenous Inuit residents were forcibly evicted from their ancestral homes. This time, the Government of Greenland stood as a co-signatory. What Greenland lost was a portion of its future options. Even if it eventually achieves independence, it must embark on statehood saddled with the obligations of this agreement. The room for an independent nation to decide for itself whether to remain in NATO or host U.S. military bases has been severely constrained.

Prime Minister Nielsen's remarks at the signing ceremony are poignantly complex to read in this light. He expressed his hope to wash away doubts over where Greenland's loyalties lie—the voice of a small, vulnerable autonomous government forced into a corner where it had to actively prove its loyalty to its allies. The very ally meant to provide security had turned into an overlord demanding proof of allegiance.

Europe's reaction was one of sober, subdued welcome. NATO appraised the agreement as a step forward in enhancing Arctic security, stability, and cooperation. Several European leaders also expressed their welcome. Yet this welcome was closer to sheer relief—relief that, at the very least, an armed confrontation between allies had been averted.

18.6 Fractures Left Behind the Patch-Up: Trust in the Transatlantic Alliance Does Not Return

The Greenland crisis began in January 2025, right after the launch of the second Trump administration, and ostensibly drew to a close with the September 18, 2026 agreement—a span of nearly one year and eight months. Yet there are things that no handshake at a signing ceremony can ever restore.

First is the fact that an allied intelligence service formally designated the United States as a threat. The Danish Defence Intelligence Service (DDIS) released its 2025 threat assessment report, which for the first time identified the United States as a potential threat to national security, placing it on the same list alongside Russia and China. It was unprecedented in the agency's history. Denmark had been one of NATO's twelve founding members in 1949. Following the September 11 terrorist attacks, it fought alongside the United States under Article 5 of the North Atlantic Treaty, losing 44 Danish soldiers in Afghanistan alone. That such a country placed the United States on its threat ledger speaks volumes.

Second is the fact that allied militaries prepared to engage one another in armed conflict. As examined in Chapter 17, the Danish government confirmed that the 1952 standing order remained in effect—a directive mandating immediate resistance without waiting for higher orders if Danish territory came under attack. In March 2026, Danish public broadcaster DR reported even more granular details: early that year, the Danish military had deployed special forces and prepositioned blood supplies for casualties. They had even transported explosives to crater and disable the runways at Nuuk and Kangerlussuaq to prevent U.S. military landings. Even though these contingency measures were never executed, the mere fact that allies prepared to fight each other shattered the foundational premises of the alliance.

Third is the transformation in public perception among European citizens. A YouGov survey conducted across major European nations in February 2026 revealed that a majority in every surveyed country viewed the United States more negatively because of the Greenland crisis. What followed was equally telling: a majority doubted whether Europe could stand up to the United States even if it united its strength. In every country surveyed except Germany, the single largest plurality of respondents believed that this brand of American foreign policy would last only for the duration of Trump's term. Europeans no longer trust the United States, yet they still lack the confidence to stand on their own without America. This contradiction defines the true state of the transatlantic alliance today.

Assessments by American foreign policy experts are equally grave. Kori Schake of the American Enterprise Institute posited a timeframe of an entire generation—the time it will take to rebuild the fractured trust with America's closest allies. Richard Haass, former president of the Council on Foreign Relations, diagnosed that Europeans have now begun to view the United States as a threat,

arguing that Trump was dismantling what the United States had built over more than 75 years. The Wall Street Journal criticized in an editorial that Trump was fulfilling the longest-held dream of Russian grand strategy: driving a wedge between Western Europe and the United States and fracturing NATO.

Indeed, Moscow welcomed the crisis. Kremlin officials pointed to Trump's tariff threats against European allies as tangible proof that the transatlantic alliance was disintegrating. Russian government daily Rossiyskaya Gazeta lauded Trump's bid to annex Greenland. Kaja Kallas, EU High Representative for Foreign Affairs and Security Policy, caustically remarked that China and Russia must be throwing a party right now.

Joshua Yaffa of The New Yorker encapsulated the entire crisis in a single sentence: Trump had manufactured a needless crisis within NATO and fueled European distrust, only to return to almost the exact same options available months earlier. In other words, he had squandered the trust of allies merely to attain what was already attainable under the 1951 agreement.

The lesson Europe drew from this episode is unmistakable: American security commitments are no longer an unconditional guarantee. Depending on the whims of a single president, even an ally's sovereign territory can be turned into a bargaining chip. This is precisely why Europe is boosting defense expenditures, deploying its own forces to the Arctic, and accelerating EU-level defense cooperation. Former NATO Secretary General Anders Fogh Rasmussen even broached the concept of a "European NATO" without the United States.

For South Korean readers, this chapter is by no means an alien tale. The methodology of Trump's diplomacy laid bare by the Greenland crisis follows a consistent pattern: stake out extreme demands, apply pressure through tariffs, retreat when the other side holds firm, announce a "framework," and package the outcome as a triumph. This pattern is repeated in the demand for Middle East troop deployments in Chapter 10, as well as in the Georgia factory crisis examined from Chapter 20 onward. It is an approach that tallies the value of alliances on a transactional ledger.

In the Greenland case, the strength that enabled Denmark to hold its ground derived from three factors. First were law and principle: the Danish Constitution and the Act on Greenland Self-Government served as an unyielding bulwark against any cession of sovereignty. Second was solidarity: eight European nations dispatched troops, and the EU readied its trade countermeasures. Third was internal U.S. institutional checks: Congress, public opinion, and military leadership put the brakes on the use of military force. Because these three factors operated in unison, Denmark was able to conclude negotiations strictly within the bounds of preserving its sovereignty. Conversely, had even one of these three been absent, the outcome could have been drastically different.

The signing ceremony in New York on September 22, 2026, marked the formal conclusion of the Greenland crisis. Yet what this chapter records is not the articles of the agreement, but everything

that crumbled on the path to that agreement. The United States gained two bases and open-ended access rights. In return, one of its staunchest allies placed the United States on its national security threat ledger. Europe no longer takes American protection for granted. As a Greenlandic politician put it, the signing of an agreement does not mean the return of trust.

In the forthcoming Part 4, the stage shifts to Georgia in the American South—an incident where an ally's investment was repaid with handcuffs and detention. The treatment of allies was no different across the Atlantic in the Arctic than it was across the Pacific at the factory of a South Korean corporation.

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Chapter 19. The Diplomacy of Insult: Trump's Words and the Relationships They Broke

Introduction

President Trump belittles foreign leaders without restraint. He gives them nicknames, exposes their weaknesses, and mocks them in public. This habit dates back to his first term. In his second term, the words have grown harsher, and the price attached to them has grown larger. Words turned into tariffs, and tariffs spread into suspended negotiations. One country even received notice of a troop withdrawal.

This chapter collects cases from the autumn of 2025 through September 2026. In each case, it looks at three things. What did he say? How did the other side take it? How did the relationship change?

19.1 A Habit Carried Over from the First Term

The first-term cases can be covered briefly. Trump called Kim Jong-un "Rocket Man." He gave Syria's Assad the nickname "Animal Assad." He called Mexico's López Obrador "Juan Trump." After the 2018 G7 summit in Canada, he attacked Prime Minister Trudeau as dishonest and weak. In 2019, he denounced the Danish prime minister for rejecting his proposal to buy Greenland. He then canceled a scheduled visit to Copenhagen.

In the first term, the insults mostly ended with words. The same scenes continued at the start of the second term. Trump called Trudeau "governor" and referred to Canada as the 51st state. In February 2025, he called Ukrainian President Zelensky a dictator without elections. At the end of that month, the two men had a public shouting match in the Oval Office. In August 2025, just before the South Korea–U.S. summit, he posted that the situation in South Korea looked like a purge or a revolution. The summit ended on friendly terms, but the South Korean government was on edge until the last moment before the meeting.

In the second term, insults come attached to economic instruments. Tariffs, sanctions, aid cutoffs, and troop reductions follow behind the words. The cases below show that pattern.

19.2 Cases

(1) Canada: From Mockery to Trade War

The conflict with Canada ran throughout the second term. The remark calling Trudeau "governor" fueled anti-American sentiment among Canadians. A boycott of American goods spread

across Canada. In the April 2025 general election, the Liberal Party led by Mark Carney won. Trump's pressure was a central issue in that election.

In October 2025, Carney visited the White House. Trump said there was "mutual love" between the two countries. The relationship seemed to be thawing. A few weeks later, however, the province of Ontario ran a television advertisement in the United States. The ad was an edited version of a speech in which former President Reagan criticized tariffs. The Reagan Foundation claimed the ad distorted the speech. Trump declared that he was ending all trade negotiations, citing Canada's "egregious behavior." Ontario backed down and said it would pull the ad. It was the second time Trump had cut off negotiations with Canada, following a similar move that June.

In August 2026, the negotiations finally collapsed. On August 21, Carney announced that Canada was suspending trade talks with the United States. The reason was that the United States had changed the terms at the last minute. Carney said the United States had demanded much and offered little. At the last moment, the United States had tried to insert a clause restricting Canada's authority to conclude trade agreements with other countries. Carney stated that this issue had never been on the negotiating table in the first place. The United States imposed a 50% tariff on Canadian products. The scale of the goods affected varies by report, from $20 billion to $28 billion. Carney said Canada would impose retaliatory tariffs of the same amount.

The war of words also continued. Members of Trump's cabinet mocked the Canadian military on social media. Trump signed an executive order directing the federal government to refer to Lake Ontario as "Lake America." On September 1, Carney said that dialogue would be possible only if the United States stopped doing memes and throwing shade and got serious. As for the cabinet members' mockery of the Canadian military, he replied that it was conduct unbefitting their offices.

Canada turned its eyes beyond the United States. Carney unveiled a strategy to double non-U.S. exports within ten years. In January 2026, he visited Beijing and reached a preliminary agreement to resolve the trade dispute with China. America's closest neighbor had, in effect, joined hands with China.

(2) Colombia: From "Drug Leader" to "A Great Guy"

Colombian President Petro clashed with Trump all year long. In January 2025, the two collided over the acceptance of deportation flights. In September, at a pro-Palestinian demonstration in New York, Petro urged U.S. soldiers not to follow Trump's orders. The United States revoked Petro's visa.

In October 2025, Trump wrote on Truth Social that Petro was an "illegal drug leader." He claimed that Petro was encouraging drug production across Colombia. He said he would cut off all aid to Colombia and raise tariffs. In front of reporters, he called Petro a "lunatic." On October 24, the U.S. Treasury Department placed Petro on its sanctions list. Petro's wife, his son, and his interior minister were listed alongside him. Petro fired back that the sanctions were a contradiction and that

he would not kneel. He also retained lawyers, saying he would fight the matter in U.S. courts. Colombia had been the United States' closest partner in South America.

On January 3, 2026, the U.S. military captured Venezuelan President Maduro. Trump warned that the same thing could happen to Petro. He also said that a Venezuela-style operation against Colombia sounded fine to him. Petro countered that he would take up arms. Anti-American protests broke out across Colombia. At one point, a White House official appeared holding a doctored image of Petro and Maduro in prison uniforms. Petro recalled his ambassador to the United States.

The reversal came with a single phone call. In early January, Petro called Trump. Trump said the tone of the call had been good and proposed a meeting at the White House. Before the meeting, Colombia resumed accepting deportation flights. It also handed over a criminal-organization boss indicted by the United States. On February 3, the two men met at the White House for nearly two hours. Trump said Petro had been "great." It was a private meeting without ceremony, but the conflict stopped, at least for the time being.

In the Colombian case, the mending came when the other side moved first. Trump's words changed, but Colombia's actions changed before that.

(3) South Africa: From Insult to Exclusion from an International Summit

In May 2025, President Ramaphosa visited the White House. Trump pressed him with the claim that white farmers in South Africa were being killed and having their land taken away. Ramaphosa replied that he had never seen evidence supporting such claims. The international community regards this claim as unfounded.

In November, South Africa hosted the G20 summit in Johannesburg. The United States did not send a government delegation. When the summit ended, the two sides clashed again over the handover of the presidency. South Africa refused, saying that handing it over to a junior diplomat would be an insult. On November 26, Trump announced that South Africa would not be invited to the 2026 G20 in Miami. He also said all payments and subsidies to South Africa would be cut off immediately. The United States had already cut off aid in February of that year.

The South African presidency called Trump's announcement regrettable. It stated that it would not accept insults from another country that belittled its values. South Africa emphasized that it was a G20 member in its own name and by its own right. Ramaphosa said he had tried several times to restore the relationship, but that the United States was retaliating on the basis of false information. Relations between the two countries did not recover afterward.

(4) India: The Scar Left by "Dead Economy"

Prime Minister Modi had been one of the leaders closest to Trump during his first term. On July 31, 2025, Trump called India and Russia "dead economies." He wrote that he did not care what

India did with Russia. The post said the two countries could take their dead economies down together. The United States imposed a 25% tariff on India. Another 25% was added on the grounds that India was buying Russian oil, bringing the total to 50%.

India's pushback came through action rather than words. Trump said repeatedly that he had brokered the India–Pakistan ceasefire. This was a sensitive claim for the Indian government. Modi said that no country had made the fighting stop. He did not mention Trump by name. Modi announced that he would broaden cooperation with Putin. He also spoke by phone with Brazil's Lula, another target of the tariffs.

On February 2, 2026, the two countries realigned their relationship. On the condition that India stop buying Russian oil, the United States lowered the tariff to 18%. Trump called Modi "one of my greatest friends." Modi in turn called Trump a "cherished friend." Britain's Chatham House, however, assessed that the relationship had been scarred by a year of hostility and tariffs. India further hardened its strategic autonomy, leaning on no single side. Chatham House judged that relations between the two countries had entered a managed decline.

(5) Brazil: The Price of Shielding Bolsonaro

Trump is close to former Brazilian President Bolsonaro. Bolsonaro was on trial on charges of attempting to overturn the results of the 2022 presidential election. In July 2025, Trump called the trial a "witch hunt." He said he would raise tariffs to 50% unless the trial was halted, and he carried it out in August. President Lula said the United States was interfering in Brazil's judiciary and likened the tariffs to blackmail. Bolsonaro was sentenced to 27 years in prison.

At one point the relationship seemed to be easing. The two men had a brief encounter at the UN General Assembly in September 2025. Trump said he and Lula had "good chemistry." In December, the two leaders discussed tariffs and sanctions by phone.

In 2026, the conflict grew again. After a White House meeting in May, Lula expressed hope that the relationship would improve. When the United States floated new 25% tariffs in June, Lula said Brazil could not accept such treatment. In July, the United States imposed new tariffs on 18% of Brazil's exports. In an op-ed in The Washington Post, Lula wrote that the tariffs were a strategic mistake. He also wrote that Brazil's destiny would be decided by Brazilians alone.

Brazil faces a presidential election in October. Lula's opponent is Senator Flávio Bolsonaro, Bolsonaro's eldest son. The Washington Post analyzed that the new tariffs had become a burden for the candidate close to Trump. It is a configuration in which pressure from a foreign leader ends up helping the leader on the other side.

(6) Denmark and Eight European Countries: The Greenland Tariff Threat

From the start of his second term, Trump said he would make Greenland American territory. In January 2026, this demand escalated into a crisis. Trump did not rule out the use of military force. On January 17, he announced tariffs on eight European countries, including Denmark. The targets were Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, and the United Kingdom. The plan was to impose 10% from February and raise it to 25% from June. He said the tariffs would remain until an agreement to purchase Greenland was reached. The measure targeted the countries that had sent delegations to Greenland.

Europe pushed back with one voice. The eight countries issued a joint statement of full solidarity with Denmark and Greenland. Danish Prime Minister Frederiksen said, "Europe will not be blackmailed." She told parliament that anything except sovereignty was open to negotiation. She warned that if the United States attacked a NATO ally, NATO would be finished as well. Large demonstrations were held in Copenhagen and in Nuuk, Greenland. The European Union halted the ratification process for the trade agreement with the United States announced in July 2025. Trump, for his part, posted a doctored map image showing Canada and Greenland painted in the Stars and Stripes.

Trump soon backed down. On January 21, he promised not to use force or tariffs. The Greenland question was settled by a trilateral agreement on September 18, 2026. But because of this episode, the European allies came to see the United States as a partner that was hard to trust.

(7) France: A Leaked Private Text and a Wine Tariff

In the middle of the Greenland crisis, a war of words broke out with President Macron. Trump had created a "Board of Peace" for the reconstruction of Gaza and invited several leaders. France signaled that it would not participate. On January 19, Trump said that nobody wanted Macron because he would soon be leaving office. Macron's term ends in May 2027. Trump threatened a 200% tariff on French wine and champagne. He said that would bring Macron in.

Trump published on Truth Social a private text message Macron had sent him. The message contained an invitation to a dinner in Paris along with the remark that he did not understand what Trump was doing in Greenland. In his Davos speech, Trump joked about the sunglasses Macron had worn the previous day. He also said Macron had been using the United States for 30 years. Macron said the tariff threat over Greenland was fundamentally unacceptable. He argued that the European Union should bring out its anti-coercion instrument.

The conflict continued into June 2026. Trump said he would impose a 100% tariff on wine unless France scrapped its digital tax. This came just before the G7 summit in Évian. Macron replied that the United States does not set the laws of Europe or of France. Not as long as he was president, he said.

(8) The United Kingdom: "Not Churchill"

Prime Minister Starmer built a good relationship with Trump early in the second term. In 2025, he personally delivered King Charles's invitation for a state visit. The two countries signed a trade agreement in May of that year.

The relationship cracked over the Iran war. On February 28, 2026, the United States and Israel launched airstrikes on Iran. Supreme Leader Khamenei was killed in the strikes. Starmer initially blocked the U.S. military from using British bases such as Diego Garcia for the attack. On March 3, Trump said at the White House, "We're not dealing with Churchill." It was the third attack that week alone. Trump said he was not satisfied with the United Kingdom. He also said the United Kingdom was ruining the relationship. He withdrew his support for the U.K.'s agreement to return the Chagos Islands. He also criticized British immigration policy and energy policy.

Starmer told parliament that he did not believe in regime change from the skies. The United Kingdom did not take part in the initial strikes and said it would not join offensive operations. When Iranian missile and drone attacks spread to the Gulf region, it did allow the use of bases for defensive purposes. Even so, Trump's attacks did not stop. In late March, Trump shared a comedy video depicting Starmer dodging his phone calls. That same day, the two leaders spoke by phone about the Iran war.

The trade agreement signed in 2025 was left unfinished and became uncertain. Assessments emerged that the so-called special relationship between the United States and the United Kingdom was faltering.

(9) Spain: An Order to Sever Trade

Prime Minister Sánchez is the European leader who has stood up to Trump most openly. He refused to accept the goal of raising NATO defense spending to 5% of gross domestic product. He also criticized Israel's war in Gaza.

In March 2026, Spain barred the use of the two joint bases in its south for the attack on Iran. Its position was that the bases could be used only for activities consistent with the UN Charter. On March 3, Trump said he would cut off all trade with Spain. He said it during his White House meeting with German Chancellor Merz. Trump said Spain was "terrible." He said the Spanish people were wonderful but the leadership was awful. He also said that apart from its wonderful people, Spain had nothing the United States needed.

Sánchez summed up the government's position in four words. They meant "No to war." He said Spain would not become an accomplice to something harmful to the world just to avoid retaliation. The European Commission stated that a threat against a member state is a threat against the European Union. It also declared its solidarity with the EU as a whole.

On July 8, during the NATO summit in Ankara, Turkey, Trump issued the order again. He instructed Treasury Secretary Bessent to cut off all trade with Spain. He said this should include travel as well. Yet since the first order in March, trade between the two countries had continued unchanged. Spain's trade policy is set by the European Union. It is difficult for the United States to single out one member state and sever trade with it. Trade Representative Greer said the International Emergency Economic Powers Act could be used. Immediately after Trump's remarks, Spanish government bond yields rose. The Spanish government showed no sign of alarm, saying relations between the two countries were good.

(10) Germany: A Troop Withdrawal over a Single Word of Criticism

Chancellor Merz had been one of the European leaders who supported Trump most actively. There was an awkward moment during his first White House visit in June 2025. Merz noted that the following day was the anniversary of the Normandy landings. Trump interjected that it must not have been a pleasant day for Germany. Merz replied that the day had been the beginning of Germany's liberation from Nazi dictatorship. Trump conceded that he was right.

In April 2026, Merz brought up the Iran war in front of a group of students. He said the United States was being humiliated by the Iranian leadership. He also said the United States had no convincing negotiating strategy. Trump retorted that Merz did not know what he was talking about. He accused Merz of doing a terrible job on immigration and other issues. He then announced that he was reviewing a reduction of U.S. forces stationed in Germany. On May 1, the U.S. Department of Defense announced that about 5,000 troops would be withdrawn within six to twelve months. Trump said this was only the beginning and that he would cut far more.

Merz responded with the general principle that the transatlantic alliance would continue. Europe's reaction was calm. Some voices said it was time to think about a Europe without the United States. Merz, who had faced domestic criticism for siding with Trump, lost the goodwill he had built up in a single stroke.

(11) Italy and the Holy See: The Defection of the Closest Ally

Pope Leo XIV is the first American pope. After the U.S. intervention in Venezuela in January 2026, the Holy See expressed concern. The pope said that the diplomacy of dialogue was giving way to the diplomacy of force. On April 7, he criticized Trump's threats against Iran as unacceptable. On April 12, Trump attacked the pope in a long post, calling him "terrible." A public war of words between the Holy See and the United States is almost without precedent. The pope replied that he was not afraid of the Trump administration. Trump went so far as to question the legitimacy of the pope's election.

Italy's Prime Minister Meloni had been the only European leader to attend Trump's inauguration. That same Meloni said the attack on the pope was unacceptable. It was a rare instance of Meloni

publicly criticizing Trump. In Italy, people across party lines rallied around the pope. In an interview with an Italian daily, Trump said he was shocked by Meloni. He said he had thought she was brave, but that he had been wrong. Meloni had also opposed the Iran war. It was the episode in which the European leader closest to Trump turned her back on him.

(12) The Countries That Stayed Silent: Saudi Arabia and Japan

Not every insult turned into a war of words. On March 27, 2026, Trump spoke at an investment event in Miami. The event was sponsored by Saudi Arabia's sovereign wealth fund. Trump said Saudi Crown Prince bin Salman had probably never expected to end up flattering him. He used a vulgar expression about kissing his backside. Two days earlier, he had called bin Salman a "warrior." The Saudi royal court and foreign ministry issued no official response. Saudi state media covered the event without mentioning the remark. Facing the threat from Iran, Saudi Arabia could not afford to shake its alliance with the United States.

Japanese Prime Minister Takaichi went through something similar. During her first White House visit in March 2026, Trump defended the surprise attack on Iran. As he did so, he said that Japan, of all countries, should know about surprise attacks. He also joked, asking why Japan had not given advance notice of the attack on Pearl Harbor. Takaichi merely glanced at the cabinet members beside her and did not respond. Within Japan, this response drew both praise and criticism.

Countries that depend heavily on the United States for their security swallowed the insults. In return, the relationship was maintained on the surface.

19.3 Patterns Read from the Cases

First, insults and economic instruments move as a package. In Canada, India, Brazil, France, and Spain, tariff threats followed the insults. In Colombia and South Africa, sanctions and aid cutoffs followed. In Germany, a troop withdrawal followed. If the first-term insults stayed at the level of words, the second-term insults are previews of policy.

Second, the responses of the other side fall into two types. There are countries that fight back. Canada, Spain, South Africa, and Brazil belong here. They rebut publicly and hold out with retaliatory tariffs or international solidarity. There are also countries that endure. Saudi Arabia and Japan belong here. They preserve the relationship but pay a price in face at home.

Third, mending came when the other side made substantive concessions. Colombia accepted deportation flights and handed over criminals. India stopped buying Russian oil. Only then did Trump's words change to "great" and "great friend." For Trump, insults serve as a pressure tool for extracting concessions. This is an interpretation drawn from the cases collected in this chapter.

Fourth, insults have the counterproductive effect of helping the other leader at home. Canada's general election became a contest to choose a leader who would stand up to Trump. In Brazil, analysis emerged that Trump's tariffs were a burden for the candidate close to him. A leader attacked by a foreign head of state can stand before the public as the defender of national sovereignty.

Fifth, even close allies drifted away. Meloni and Merz had been the leaders in Europe most friendly to Trump. Both came under attack over a single word of criticism about the Iran war. Starmer, too, saw a relationship he had spent nearly a year cultivating sour within a few weeks.

Sixth, there is a gap between threat and execution. The Greenland tariffs were withdrawn four days after they were announced. The severing of trade with Spain was ordered twice, yet trade continues unchanged. Critics point to such moments and say that Trump always backs down at the last minute. But the threat itself shakes the confidence of markets and allies. The rise in Spanish government bond yields is one example.

19.4 The Link to the U.S.–China Summit

Among the cases collected in this chapter, there are no personal attacks aimed at President Xi Jinping. In his public remarks, Trump generally calls Xi a strong leader or a friend. The rough words are concentrated on allies and on weaker counterparts.

This asymmetry erodes America's bargaining power in U.S.–China relations. This is the author's interpretation. Allies that have been insulted look for alternatives outside the United States. Canada reached a preliminary agreement to resolve its trade dispute with China. India announced that it would broaden cooperation with Russia. Europe began discussing a Europe without the United States. The weaker the cohesion of the alliances, the less reason China has to hurry in its negotiations with the United States. This is one of the reasons the United States comes home empty-handed from the summit table.

Conclusion

Trump's insults look impulsive, but they follow a consistent pattern. He rattles the other side with words, applies pressure with tariffs or sanctions, and switches to praise once he gets concessions. In the short term, this method has extracted a few concessions. In the long term, it has eroded the asset of allied trust. Over the past year, Canada as well as many countries in Europe, South America, and Africa have distanced themselves from the United States. That vacancy can be filled by another great power.

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PART 4

The Tragedy of Luring Manufacturing to America: Korean Workers in Handcuffs

Chapter 20. Raid on the Georgia Hyundai–LG Battery Plant

HSI and FBI Mobilize Armored Vehicles and Helicopters

20.1 September 4, 2025: Morning in Ellabell

There is a small town called Ellabell in Bryan County, Georgia. It sits about 40 kilometers west of downtown Savannah. In the open fields adjacent to this town, Hyundai Motor Group Metaplant America (HMGMA) was established. The site covers roughly 3,000 acres—an expanse more than four times the size of Yeouido. Hyundai Motor Group invested about $7.6 billion here, including the battery joint venture, to build an electric vehicle manufacturing facility. It had been producing the Ioniq 5 since October 2024. Governor Brian Kemp hailed this complex as the largest economic development project in the history of Georgia.

Right next to the electric vehicle plant, a battery factory was under construction. It was the plant of HL-GA Battery Company, a 50-50 joint venture between Hyundai Motor and LG Energy Solution. The scale of investment was $4.3 billion. The role of this factory was to supply battery cells directly to the vehicle assembly plant. It was an initiative right at the epicenter of domestic EV supply chain localization, an objective the U.S. government had relentlessly championed.

On the morning of Thursday, September 4, 2025, the construction site hummed like any ordinary day. Workers wearing hard hats and fluorescent vests moved between steel frameworks and pipes. Inside the building, technicians who had flown in from South Korea were calibrating battery production equipment. Much of the machinery for manufacturing electrodes and assembling cells was produced by South Korean and Japanese manufacturers. Importing, installing, and test-running these machines is tasked to engineers from the companies that manufactured the equipment. These were positions that could hardly be filled with local American workers.

That morning, helicopters appeared in the airspace above the factory. Local broadcaster WTOC aired footage taken during the morning showing helicopters circling over the plant. Shortly thereafter, federal agents swept onto the plant grounds. State police blocked the access roads leading to the factory. A Korean employee working in a nearby office heard the news from a colleague. Word was that the plant was surrounded by helicopters and military-style armored vehicles. When he went to the plant later, only hundreds of cars sat abandoned in the parking lot without their owners.

Thus began what was the largest single-site operation in the history of U.S. immigration enforcement.

20.2 Around 400 Agents and Over 10 Agencies: The Scale of the Operation

The agency spearheading this operation was Homeland Security Investigations (HSI). HSI is an investigative division under Immigration and Customs Enforcement (ICE), itself part of the Department of Homeland Security (DHS). It handles cases such as unlawful employment, human smuggling, and customs crimes as criminal matters. Its role differs from ICE's Enforcement and Removal Operations (ERO), which oversees deportations.

On September 5, the day after the operation, federal authorities held a joint press conference. Representatives from the U.S. Attorney's Office for the Southern District of Georgia, HSI, ICE, the FBI, the ATF, and the DEA stood side by side. Special Agent in Charge Steven Schrank of HSI Atlanta announced the results. He stated that the raid was the largest single-site enforcement operation in HSI history.

The participating agencies announced by the authorities were as follows: HSI led the investigation. ICE Enforcement and Removal Operations, the Federal Bureau of Investigation (FBI), and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) joined the force. The Drug Enforcement Administration (DEA) and Internal Revenue Service Criminal Investigation (IRS-CI) also took part. The Department of Labor Office of Inspector General, the United States Marshals Service (USMS), and the Georgia State Patrol were listed as well. American news outlets including CBS reported that the U.S. Border Patrol was also on the scene. Video footage from the site captured workers being loaded into vans bearing Border Patrol insignia. Multiple media outlets reported the total mobilized personnel at around 400 federal and state agents combined.

There was a reason why even the Drug Enforcement Administration and the firearms bureau were mobilized. Authorities explained that this operation was a criminal investigation rather than an administrative inspection. DHS stated that it was part of an investigation into unlawful employment practices and other serious federal crimes. They claimed to be executing federal search warrants issued by a court. Authorities stated that the investigation had been underway for several months. DHS's explanation was that multiple agencies had contributed their respective areas of expertise.

Yet the contents of the search warrant later obtained by CNN diverged sharply from this official explanation. There were only four targets named in the warrant. Not a single South Korean worker was among those four targets. In effect, a warrant targeting four individuals was used to haul away 475 people.

The scenes on the ground were captured on video. In video obtained by CNN, masked agents brandishing firearms bark orders at the workers. Workers wearing hard hats wait in line for their turn. Worker support organizations reported that workers were moved toward the plant cafeteria. There, agents spent several hours checking the identity of each person one by one. Authorities

stated that several individuals attempted to flee and jumped into a retention pond on the factory grounds. Agents deployed boats to apprehend them.

After the operation, ICE directly released footage from the scene. The footage shows workers standing alongside buses, waiting to be handcuffed. Agents slapped handcuffs onto the workers' wrists. Chains were wound around their waists, and shackles were fastened to their ankles. South Korean viewers reacted with profound fury upon seeing this video. The protocol used to transport violent felons had been applied to technicians against whom no criminal charges had been substantiated.

One worker who lived through this ordeal filed a claim for damages against the federal government one year later. His name was Alfredo Fajardo Melgarejo, a native of Colombia. In his claim, he alleged that an agent pointed a rifle at him and choked him. He also wrote that the chains, left under the scorching sun for hours, burned his skin. He noted that the restroom door on the transport bus was chained shut. DHS countered that its agents had not used excessive force. These claims have yet to be determined in court.

20.3 317 Out of 475: Korean Technicians and the Gray Zone of Visas

Special Agent in Charge Schrank announced that 475 individuals had been arrested. He stated that the majority were South Korean nationals. The South Korean government identified 317 South Koreans among them. LG Energy Solution disclosed that 47 of its own employees were among those detained. The remainder were employees of partner companies and subcontractors of LG Energy Solution, Hyundai Engineering, and others. Hyundai Motor announced that none of the detained individuals were directly employed by Hyundai.

Authorities asserted that all 475 individuals were staying in the United States unlawfully or had violated the terms of their stay. Schrank outlined three categories: those who had crossed the border illegally, those who had entered visa-free and engaged in unauthorized work, and those who had overstayed their visas. Most of those arrested were transferred to the ICE detention facility in Folkston. Folkston lies at the southern edge of Georgia, adjacent to Florida.

Examining the manner in which the South Korean technicians entered the country lays bare the root of the problem. According to South Korean news reports, 170 of the 317 South Koreans entered under ESTA. Another 146 held B-1 or B-2 visas. ESTA is the Electronic System for Travel Authorization, which permits stays in the United States for up to 90 days without a visa. The B-1 is a short-term business visitor visa, and the B-2 is a tourist visa. Both programs permit business activities such as meetings, contract negotiations, and market research. However, they do not permit employment where one receives wages from a U.S. company.

The problem lies in the gray zone between the two. U.S. Department of State regulations separately specify one activity that B-1 holders are permitted to perform: installing and servicing equipment purchased abroad, and training local staff in its operation. The established principle is that if such services are included in the equipment sales contract, they may be performed under a B-1 visa. South Korean corporations had routinely dispatched technicians relying on this very provision. It was a long-standing practice throughout the industry. Companies considered many of the technicians setting up LG Energy Solution's machinery to fall squarely under this category.

Immigration authorities, on the other hand, viewed engaging in manual physical labor on a construction site as illegal employment in and of itself. The line dividing where equipment installation ends and construction labor begins was murky. Hundreds of South Koreans were standing right on that blurred line. Subsequent reports revealed that some among the detained even held formal work visas. In those cases, the very legal basis for the arrests remains deeply questionable.

There were practical reasons why companies did not seek proper work visas from the outset. The H-1B, the U.S. work visa for specialty occupations, is subject to a strict annual quota. Because applicants vastly exceed the cap, recipients are selected via a lottery. Even if selected, it takes more than six months before the individual can actually start working. This system is ill-suited for equipment installation personnel needed for only a few weeks to several months.

Nor did South Korea have other alternatives available. Canada and Mexico have access to dedicated professional visas under North American trade agreements. Australia and Singapore likewise possess dedicated visa quotas negotiated under their respective free trade agreements. Although South Korea concluded the KORUS FTA, it failed to secure a dedicated visa allocation. There is a bill proposing to grant 15,000 E-4 visas annually to Korean professionals: the "Partner with Korea Act." This bill has been introduced in the U.S. Congress multiple times since 2013, but it has never once passed.

To summarize, the structural trap was as follows: The United States demanded that South Korean corporations build factories quickly. Yet there was virtually no appropriate visa for the people needed to build and equip those factories. Companies dispatched personnel under customary short-term visas. Enforcement authorities treated that customary practice as a crime. This book defines this structural dynamic as the "visa trap" into which South Korean companies fell.

20.4 The Raid Ten Days After the Summit

The timing of the raid stung South Koreans all the more painfully. In late July 2025, South Korea and the United States concluded their tariff negotiations. South Korea pledged to invest $350 billion in the United States. On August 25, President Lee Jae-myung held his first summit with

President Trump in Washington. At that meeting, South Korean conglomerates unveiled additional large-scale U.S. investment plans. The raid took place a mere ten days later.

President Trump's initial reaction was blunt and uncompromising. When reporters at the White House asked him about relations with South Korea on September 5, he responded: "They were illegal aliens, and ICE was just doing its job." These words ignited widespread outrage across South Korean public opinion.

Three days later, Trump's tone shifted slightly. He posted a message on the social media platform Truth Social. He asked foreign companies investing in the United States to respect U.S. immigration laws. At the same time, he pledged to make it possible to bring in specialized experts quickly and legally. He added that he did not wish to discourage or deter foreign investment into the United States. Instead, he demanded that they hire and train American workers.

By late October, his tune had changed even further. Trump claimed that he had been "strongly against" the raid. He also claimed he had said the Koreans should be allowed to stay before they were released. His explanation was that to build complex machinery, bringing in people is unavoidable in the initial stages. The president was effectively stating that he had opposed an operation conducted by his own administration. If the president was unaware, it was a problem of administrative control; if he was aware, it was a problem of duplicity and backtracking.

The reaction of Georgia state politicians was equally noteworthy. Governor Kemp had long been the public face of efforts to attract South Korean business investment. He had visited South Korea numerous times, promoting Georgia as a welcoming home for Korean corporations. The day after the raid, Kemp and Georgia Republican figures issued a joint statement. Its core message was that every employer in the state must obey the law. Nowhere in the statement was there any criticism regarding the mistreatment of workers from an allied nation. Kemp's political conduct is examined separately in Chapter 22.

A variety of interpretations emerged in South Korea regarding the incident. One interpretation argued that it was an attempt to discipline and tame South Korea ahead of negotiations on granular trade conditions. Another interpretation suggested that field-level enforcement agencies, eager to boost immigration arrest statistics, simply acted without considering the diplomatic fallout. There are still no official records available to confirm which view is correct. Yet one thing is indisputably clear: While the White House was actively courting investment, the Department of Homeland Security raided that very investment site with handcuffs in hand. Within the U.S. government, the right hand and the left hand were operating completely out of sync.

20.5 Return by Chartered Flight and the Visa Working Group

The South Korean government mobilized its response on the very night of the raid. The Ministry of Foreign Affairs assembled an emergency response team and dispatched consular officials to the site and the detention facility. The government officially expressed its "grave concern and regret." It emphasized that the legitimate economic activities of South Korean businesses and the rights and interests of its citizens must not be unjustly infringed. LG Energy Solution suspended all employee business travel to the United States.

On September 7, Chief of Staff to the President Kang Hoon-sik held a press briefing. He announced that South Korea and the United States had reached an agreement to secure the release of the detained South Koreans. The South Korean government decided to send a chartered aircraft to bring them home. The government insisted on a voluntary departure format rather than formal deportation. This was necessary so that they would face fewer administrative disadvantages when seeking to re-enter the United States in the future.

The detention lasted for an entire week. On September 11, the South Koreans were finally released from the Folkston facility. A Korean Air chartered flight took off from Atlanta carrying the released workers. The aircraft touched down at Incheon International Airport on September 12. One South Korean worker chose to remain in the United States. The treatment of the workers during their detention and the full repatriation process are detailed in Chapter 21.

The U.S. government also moved to contain the fallout. Deputy Secretary of State Christopher Landau expressed regret to South Korean officials in Seoul. He stated that the Korean workers would suffer no disadvantages when re-entering the United States. On September 30, the first meeting of the U.S.–ROK Commercial Travel and Visa Working Group was held in Washington. On the U.S. side, officials from the Department of State, the Department of Homeland Security, and the Department of Commerce took part.

At this meeting, the two countries affirmed several points: First, that B-1 visa holders are permitted to install, service, and repair equipment purchased abroad. The United States reaffirmed that individuals entering under ESTA can perform the same activities. Second, it was agreed to establish a dedicated "Korea Investor Desk" within the U.S. Embassy in Seoul. Third, a direct hotline connecting South Korean consulates and U.S. immigration authorities would be established.

Here, a glaring contradiction comes to light. The very activities the U.S. government confirmed as permissible during the meeting were precisely what those technicians had been doing. In effect, workers who were doing permitted tasks had been rounded up in chains and carted away. Yet the dedicated work visa that South Korea had demanded did not emerge from this meeting either. The U.S. side cited legislative hurdles in Congress as the reason. They offered only the vague assurance that long-term improvements would remain under review. Immigration practitioners and corporate

visa service providers assessed that this step merely reiterated existing practices. They pointed out that travelers fully armed with proper paperwork were still frequently turned away at airport immigration counters.

20.6 The Plant Stands, but the Price of Halted Construction

The raid immediately threw the plant's operational schedule into turmoil. José Muñoz, President of Hyundai Motor Company, stated that the launch of the battery plant would be delayed by at least two to three months. LG Energy Solution announced that construction work would remain suspended into the first half of 2026. When the technicians needed to calibrate the equipment were removed all at once, the machinery setup process ground to a halt. Electric vehicle production schedules awaiting battery cells from this plant were inevitably pushed back as well.

The personnel management practices of South Korean corporations underwent a major shift. LG Energy Solution revised its business travel guidelines to prioritize dispatching staff holding B-1 visas. On-site personnel were instructed to keep documentation proving their work duties on their person at all times. The company appointed an on-site crisis manager and secured dedicated support from external legal counsel. Samsung Electronics advised employees traveling on ESTA not to stay longer than two weeks. Conglomerates that had been rushing into U.S. investments began hesitating over the very act of dispatching personnel.

In April 2026, Muñoz announced at an economic event in Washington that the battery plant was about to open. Construction was completed in July of that year. Just over seven months had passed since the raid. The battery plant was erected in the end. Yet the financial costs, lost time, and human trauma incurred along the way are nowhere to be found on corporate balance sheets.

Life around the factory complex changed as well. An owner of a Korean grocery store near the plant told local Korean-American media: While business had recovered slightly heading into summer, sales remained at roughly half of what they were prior to the raid. Some Asian grocery stores closed down entirely just a few months after the sweep. A Korean worker in the manufacturing sector reported that the influx of personnel arriving from South Korea had dropped significantly compared to the past. An HR representative at an LG subcontractor left Georgia altogether after the factory's completion. He sold his house and moved to another plant in Texas.

Even after a full year had passed, the legal battles were far from over. In November 2025, reports surfaced that about 200 of the detained South Koreans were preparing a lawsuit against ICE. They raised issues of unlawful detention, racial discrimination, human rights violations, and the excessive use of force. In an interview with a U.S. television network, one technician testified to the conduct of the detention guards: Guards had invoked the name of Kim Jong Un and pulled the corners of their eyes to mock Asians. He remarked that even now, he did not know why he had been

seized in that manner. He added that he had never received an apology or any explanation from U.S. authorities.

By September 2026, the number of South Koreans joining the claims surpassed 300. They initiated administrative claim proceedings under the Federal Tort Claims Act (FTCA). This is a mandatory preliminary administrative procedure that must be completed before filing a civil lawsuit against the federal government. The named targets of the claims totaled nine agencies, including the Department of Homeland Security, ICE, Customs and Border Protection (CBP), the FBI, the Department of Justice, and the Department of Labor. A Korean-American attorney based in Georgia is representing them. This marks the first collective legal challenge against the largest single-workplace raid of Trump's second term. The U.S. government maintains its stance that the raid was entirely lawful. LG Energy Solution and Hyundai Engineering kept their distance, describing the filings as legal actions pursued at the individual level.

The earlier-mentioned case of Alfredo Fajardo, the Colombian worker, illuminates yet another facet of the ordeal. He maintains that he held a valid employment authorization document. Yet after being detained in Folkston for nearly nine months, he was deported to Colombia in May 2026. On the one-year anniversary of the raid, he filed a claim seeking $2 million in damages. DHS countered that he was an undocumented entrant and that employment authorization does not confer lawful residency status. Behind the 317 South Koreans were other workers from various nations who were left behind without a name.

Some of the South Korean technicians eventually returned to the United States. According to CNN's reporting, many of them are doing the exact same work on the very same types of visas. They work under the persistent anxiety that they could be rounded up once again. A full year after the raid, a dedicated visa program for South Koreans has yet to be created.

20.7 Conclusion: The Speed of Investment and the Speed of Institutions

The Georgia incident does not begin and end as an isolated episode at a single factory. Wielding tariffs as a weapon, the United States demanded that foreign companies build manufacturing plants on American soil. South Korea answered that demand with the staggering figure of $350 billion. Yet no one gave thought to facilitating the movement of the human personnel needed to actually build those factories. Capital crossed borders at rapid speed, but human beings were halted dead in their tracks before the visa counter.

This incident also exposes the stark limitations of Trump-style summit diplomacy. In the summit hall, leaders exchange grand numbers and firm handshakes. Joint communiqués are inscribed with headline investment totals and purchasing commitments. Yet what actually executes those agreements on the ground is an intricate web of agencies and bureaucratic regulations. The warmth of the summit room never reached down into the operational raid plans of immigration

enforcement agencies. The red-carpet hospitality at the White House ten days prior and the clanking chains of Ellabell both originated from the exact same government.

The 2026 U.S.–China summit examined in this book faces the exact same question: Do glamorous protocol and astronomical figures truly reshape the rules that govern the ground? The experience in Georgia demonstrates that they very well may not. For corporations from allied nations, investing in the United States has now become an equation where human safety must be weighed right alongside financial return.

The next chapter traces the harrowing week endured by the detained South Korean technicians. It examines the deep trauma inflicted on South Korean society when a $350 billion investment pledge was answered with handcuffs and detention.

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Chapter 21. A 480 Trillion Won Investment Rewarded with 'Handcuffs and Detention'?

The Fallout Over the Arrest of Some 300 Korean Workers

21.1 What Happened in the Span of Ten Days

On July 30, 2025, South Korea and the United States concluded tariff negotiations. The U.S. agreed to lower the reciprocal tariff it had intended to impose on South Korean products from 25% to 15%. In return, South Korea pledged to invest $350 billion in the United States. In Korean currency, that amounts to approximately 480 trillion won. Depending on exchange rates, it fluctuates between 470 trillion and 500 trillion won. It is a scale commensurate with South Korea's entire annual government budget.

On August 25, President Lee Jae-myung held his first summit with President Trump at the White House. The two leaders highlighted shipbuilding cooperation and investment in the United States as new pillars of the South Korea–U.S. alliance. South Korean business conglomerate leaders also gathered in Washington to pledge additional investment plans.

Ten days later, on the morning of Thursday, September 4, trouble erupted in Ellabell, Bryan County, Georgia. It was the construction site of the battery factory jointly built by Hyundai Motor Group and LG Energy Solution. It was a project in which the two companies held equal 50 percent shares, committing over $4.3 billion. Upon completion, the facility was designed to produce 30 gigawatt-hours (GWh) of batteries annually—enough for 300,000 electric vehicles.

Homeland Security Investigations (HSI) and Immigration and Customs Enforcement (ICE) raided the site. Multiple agencies mobilized together, including the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), and the Georgia State Patrol. Helicopters circled overhead and armored vehicles barricaded the entrances. On that day, 475 people were detained. Among them, 317 were South Koreans.

The U.S. Department of Homeland Security touted this operation as the largest single-site enforcement raid in HSI history. HSI explained that it was the culmination of a months-long investigation into unlawful employment. The operational progression of the raid was covered in Chapter 20. This chapter follows what unfolded in the aftermath.

Public outrage stemmed directly from the calendar. Barely a month had passed since South Korea pledged 480 trillion won. Only ten days had passed since the two leaders shook hands at the summit. The very people who went to build a factory for America ended up handcuffed on American soil.

The timeline is summarized as follows:

July 30, 2025	South Korea–U.S. tariff agreement; pledge of $350 billion in U.S. investments
August 25, 2025	South Korea–U.S. summit in Washington
September 4, 2025	Raid on the Georgia battery plant; 317 South Koreans detained
September 11, 2025	Release of 316 detainees; chartered flight departs (1 remains in the U.S.)
September 12, 2025	Arrival at Incheon International Airport
September 30, 2025	First meeting of the South Korea–U.S. Visa Working Group
November 14, 2025	South Korea–U.S. Joint Fact Sheet and Investment Memorandum of Understanding (MOU) finalized
January 11, 2026	Findings of the government's investigation into human rights violations against detainees become known through press reports
September 15, 2026	Detained workers initiate claims for damages against U.S. federal agencies

21.2 Handcuffs and Shackles: A Week in Folkston

The apprehended South Koreans were not people who had traveled there with the intention of staying illegally. They were engineers and partner-company technicians dispatched to install battery production facilities and run operational tests. This included 47 employees of LG Energy Solution and around 250 personnel from partner companies.

The documents they carried fell into two categories. Among the 316 who returned to South Korea, 170 had entered under the Electronic System for Travel Authorization (ESTA). ESTA is a program allowing individuals to stay in the United States without a visa for up to 90 days. The remaining 146 held B1/B2 visas. B1 is a visa used for short business trips, such as meetings, contract negotiations, or equipment installation. B2 is a tourist visa.

U.S. authorities concluded that they had performed "labor" exceeding their authorized scope. Companies and workers countered that installing machinery purchased overseas fell squarely within the scope of B1 status. Any process to determine who was right was skipped on the scene.

Agents snapped handcuffs onto the South Koreans' wrists. They also wrapped iron chains around their waists and ankles. ICE directly released video footage capturing this scene. One worker succinctly described that day in a television interview: "They pointed guns at us, put handcuffs on us, and marched us out like that."

There was another fact that came to light only belatedly. The search warrant obtained by CNN listed only four targets for the enforcement action. Those four individuals were not among the

arrested South Korean workers. While the warrant targeted four individuals, hundreds of people were hauled away in practice.

The South Koreans were moved to the ICE detention facility in Folkston, Georgia. Most spent roughly a week there. What transpired inside was confirmed four months later through a South Korean government investigation.

The Ministry of Foreign Affairs and the Ministry of Justice, in coordination with the relevant corporations, surveyed the 316 returnees. A total of 278 responded, and those who wished were interviewed individually. The results were made known on January 11, 2026. The main findings were as follows:

Not informed of the reason for arrest	99.3%
Experienced verbal abuse or threats	52.5%
Received no guidance on rights remedies or daily routine	91.4% (254 individuals)
Subjected to mocking treatment targeting Koreans/Asians	100 individuals
Administered injections or medication against their will	Around 7 individuals

More concrete testimony emerged during individual interviews. Some testified to suffering burns on their hands and feet from scalding-hot handcuffs. Testimonies also revealed that inside the detention facility, personnel were seen pulling their eyes back to make slant-eye gestures at them. Slanting one's eyes is an iconic racist gesture used to denigrate Asians.

The Ministry of Justice issued a legal assessment regarding these findings. It found grounds that the U.S. actions may have violated the International Covenant on Civil and Political Rights (ICCPR). It also judged that there may have been a failure to uphold the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD). It further pointed to potential violations of the Fourth Amendment of the U.S. Constitution, which prohibits unreasonable searches and seizures. It also noted potential breaches of ICE's own National Detention Standards.

In November 2025, the South Korean government delivered this report to the United States through high-level diplomatic channels. It requested an investigation into the detention facility and its guards, along with remedial action. To date, nothing has been made public regarding what investigation, if any, the United States conducted.

21.3 Trump's Words Changed Four Times

President Trump's statements addressing the situation varied with each passing phase.

On September 5, the day after the raid, he answered questions from reporters at the White House. "They were illegal immigrants, and ICE was just doing its job," he stated.

On September 7, he posted a lengthy message on the social media platform Truth Social. He declared that foreign corporations must respect U.S. immigration laws and bring in workers through lawful channels. Instead, he demanded that they hire and train American workers. Yet to reporters on that same day, he struck a different note. His point was that in order to conduct training, experts must be brought in to teach and allowed to stay temporarily.

Around September 10, he intervened in the release process. He instructed U.S. officials to encourage the South Korean workers to stay in the United States. The justification was that they should continue training American workers. Because of this intervention, the departure of the repatriation charter flight was delayed by a day. The South Korean government polled the workers on their preferences, but only one individual expressed a desire to remain.

In late October, aboard Air Force One during his Asian tour, he shifted his position yet again. "You know how I feel about it. I was strongly opposed," he claimed. In a New York Times interview on January 8, 2026, he remarked that he did "not like" what happened.

It took four months to move from categorically branding them illegal immigrants to insisting that he had opposed the action. In the meantime, there was neither an apology nor any reprimand of those responsible.

These shifting statements bear the unmistakable hallmarks of two conflicting policies clashing within the second Trump administration.

One was immigration enforcement. The Trump administration campaigned on a pledge to deport undocumented immigrants en masse. The Department of Homeland Security touted arrest numbers and enforcement tallies as key achievements. Workplace raids offer a method to round up large numbers of people in a single sweep. Large-scale construction sites made ideal targets.

The other was investment attraction. This policy used tariffs as leverage to draw foreign corporate factories onto American soil. South Korea's $350 billion commitment stood as a signature triumph of that policy. Yet setting up new factories requires foreign technicians who intimately understand the machinery to enter the country. In the United States, there is no viable visa pathway to bring such personnel in expeditiously.

The two policies collided head-on at the Georgia construction site. The enforcement agencies secured their numbers, while the triumphs of investment attraction suffered deep cracks. No evidence has yet surfaced to indicate that this raid was the product of meticulous White House calculation. President Lee Jae-myung also stated in a September 2025 interview with Reuters that he believed it was not intentional. Yet the absence of intent does not erase responsibility. No one

stepped in to stop the decision to bind hundreds of citizens of an allied nation in chains. That reality alone illustrates how this administration treats its allies.

Reactions across the local political landscape were also divided. Georgia Republicans lauded it as a bold action prioritizing American workers. Democratic Senator Raphael Warnock questioned the overall immigration strategy. The conduct of Governor Brian Kemp, who had devoted tremendous effort to recruiting South Korean companies, will be examined separately in Chapter 22.

21.4 Seoul's Response: Swift Repatriation, Sluggish Accountability

As news of the raid broke, the South Korean government formed an emergency response team on September 5. Officials from the Consulate General in Atlanta headed to the site and the detention facility. First Vice Minister of Foreign Affairs Park Yoon-joo expressed regret that such an incident occurred at a time demanding trust and cooperation between South Korea and the United States. President Lee Jae-myung instructed that the rights and interests of Korean nationals and the business operations of investing companies must not be compromised.

On September 7, Chief of Staff to the President Kang Hoon-sik announced that release negotiations had been concluded. Minister of Foreign Affairs Cho Hyun flew to Washington the next day. The crux of the negotiations was securing the format of "voluntary departure" rather than formal "deportation." If a deportation record remains, re-entering the United States in the future becomes exceedingly difficult. The South Korean government announced that it had received assurances from the U.S. side that returnees would suffer no disadvantage during future re-entry. It also secured a pledge that detainees would not be handcuffed during transit to the airport.

On September 11, President Lee Jae-myung addressed the crisis during a press conference marking his 100th day in office. He confessed, "To be honest, it is bewildering." He added that under such circumstances, South Korean companies would hesitate significantly before making direct investments in the United States. It was rare for a president to speak so candidly in public about the actions of an ally.

That same afternoon, the detainees departed the Folkston facility. The Korean Air chartered flight landed at Incheon International Airport on September 12. It had been eight days since their detention.

Assessments of the government's response split into two camps. One side praised the fact that everyone was brought back home within a week. Immigration cases in the United States typically drag on for weeks or months. Preserving the pathway for future re-entry under the rubric of voluntary departure was also viewed as a practical achievement.

The other side pointed to the cost hidden beneath that speed. The government concentrated its efforts on bringing the personnel back quickly. In return, determining whether the detention was

unlawful or whether human rights had been violated was pushed down the agenda. Even at the inaugural meeting of the Visa Working Group on September 30, human rights issues never made it onto the agenda. The survey findings were handed to the United States two months later, and made public only four months later. Even the Ministry of Justice concluded that the prospect of formally lodging grievances based on international conventions was low. The reasons cited were that the conventions had effectively lost teeth and that diplomatic friction was a concern.

The author believes that both evaluations capture one side of the truth. The government did what it could immediately do. Yet the reality remains that for a country pledging 480 trillion won, all it secured was a "swift return home." The United States did not apologize, and South Korea never officially demanded one. This was because investment and tariff negotiations were ongoing. The structural reality wherein the weaker party at the negotiating table concedes even the human rights of its own citizens was laid bare at that moment.

21.5 The Visa Gap

The root of this crisis lies in the visa system.

In the United States, there is no dedicated pathway for foreign companies to dispatch engineers and technicians when building factories. The H-1B specialty occupation work visa is allocated by annual lottery and takes months to obtain. The L-1 intracompany transferee visa is available only to employees who have worked at the company for over a year. Subcontractor and partner-firm personnel are ineligible. The E-2 investor visa entails lengthy reviews and stringent requirements.

Factory construction is a battle against the clock. Hundreds of workers must enter for several weeks at a time to coincide with equipment delivery schedules. As a result, South Korean corporations had long relied on B1 visas and ESTA. U.S. authorities had largely looked the other way. On September 4, 2025, that longstanding practice turned into a crime in an instant.

Following the incident, South Korea and the United States established the "Business Travel and Visa Working Group." The first meeting took place in Washington on September 30, 2025. From the United States, representatives attended from the State Department, the Department of Homeland Security, the Department of Commerce, and the Department of Labor. Deputy Secretary of State Christopher Landau also joined the session.

The agreement consisted of three points: First, it confirmed that the installation, inspection, and maintenance of equipment purchased abroad can be conducted under B1 visas and ESTA. Second, a dedicated visa desk for South Korean investing companies would be established within the U.S. Embassy in Seoul. Third, direct communication hotlines would be established between South Korean diplomatic missions in the U.S. and local ICE and CBP field offices.

South Korea demanded the creation of a new, dedicated visa category for South Koreans. The United States replied that this would be difficult given realistic legislative constraints. Bills to create dedicated specialty occupation visas for South Koreans had been introduced in the U.S. Congress multiple times. Yet none has passed into law.

Marking one year after the raid in September 2026, television reporting revisited these limitations. A B1 visa is still not a work visa. If workers engage in actual production or construction operations beyond training or equipment installation, they can be targeted for enforcement again. The visa solution remained a temporary stopgap. In the end, South Korean technicians are still building American factories while operating in a gray zone.

21.6 One Year Later: The Factory Rose, the Money Stalled, and the Bill Arrived

The factory was ultimately completed. LG Energy Solution had completely halted business trips to the United States immediately following the raid. Roughly a month later, in October 2025, it resumed dispatching essential personnel. José Muñoz, President of Hyundai Motor, announced that production would be delayed by several months. According to reports in July 2026, factory construction was virtually completed roughly ten months after the incident. The battery cells produced are slated to be supplied to Hyundai Motor's Alabama plant, Kia's Georgia plant, and other facilities.

The local Korean-American community also suffered deep scars. A Yonhap News reportage visiting Savannah to mark the one-year anniversary captured those traces. An official from a Korean-American business association said that everyone from major conglomerates to Korean restaurants and motels took a major hit. Many businesses were forced to close. He added that stability is now returning as new companies arrive.

The 480 trillion won is a different matter altogether. On November 14, 2025, the two nations finalized the investment modalities in writing. Of the $350 billion, $150 billion is allocated to shipbuilding cooperation. This takes forms such as loans, loan guarantees, and ship financing. The remaining $200 billion is to be deployed in cash toward strategic industries chosen by the United States. The annual cap was set at $20 billion. This was a safeguard to prevent a sudden outflow of dollars from destabilizing the foreign exchange market.

On January 26, 2026, President Trump pulled out the tariff card once again. His stated reason was that the South Korean National Assembly had not passed the Special Act on Investment in the United States. He declared that tariffs on South Korean automobiles, pharmaceuticals, and other items would be raised from 15% back to 25%. The text of the agreement had merely stated that tariffs would be lowered upon the "submission" of the bill. There was no deadline set for the bill's

"passage." Treasury Secretary Scott Bessent went so far as to assert that there was no trade deal until the South Korean National Assembly granted approval.

Even in September 2026, a full year after the agreement, no actual funds have been disbursed. The British Financial Times reported that frustration is mounting in the United States, while anxiety is growing in South Korea. The U.S. side complains that South Korea is moving slower than Japan. A tug-of-war has also continued over the project costs for a Texas gas-fired power plant, cited as the maiden venture. Reports also surfaced that the briefing schedule for the National Assembly was postponed because the United States made unreasonable demands for cash wire transfers within the year.

The stall in funds cannot be explained solely by the Georgia incident. Foreign exchange conditions, commercial profitability, and National Assembly legislation are all intertwined. However, the Georgia crisis fundamentally transformed the way South Korean society views this investment. An investment that was seen as a "contribution to the alliance" began to look like a "potentially losing deal." President Lee Jae-myung voiced similar concerns in an October 2025 interview with Bloomberg. He warned that unless this problem is completely resolved, engineers will be reluctant to return to the United States. The trend of South Korean battery and semiconductor corporations reconsidering their investments will be examined separately in Chapter 23.

And on September 15, 2026, the bill arrived. The South Korean workers who had been detained initiated administrative claims for damages against U.S. federal agencies. The targets span nine agencies, including the Department of Homeland Security, ICE, Customs and Border Protection (CBP), the FBI, and the Department of Justice. In the United States, filing a lawsuit against the federal government requires first completing an "administrative claim." If the government does not respond within six months or denies the claim, a lawsuit can be filed in federal district court.

The first claimant, identified as Mr. Kim, cited false imprisonment and abuse of process. He also sought accountability for intentional infliction of emotional distress. He demanded compensation for seized personal belongings, lost income from unworked days, and emotional distress. He asserted that he was forced to endure seven days of degrading conditions at the ICE facility. He stated that he still suffers from psychological trauma today.

The Korean-American attorney in Georgia representing the workers plans to submit claims for all 300-plus workers by the end of the year. He emphasized that the purpose of the claims is not money. He stated that the goal is to extract an acknowledgment of responsibility and an apology from the U.S. government. What the government failed to achieve through diplomatic channels, the workers are seeking to obtain in a court of law.

21.7 Conclusion: The Alliance's Invoice

The facts of the Georgia crisis are not complicated. South Korea promised 480 trillion won. Ten days later, the people who went to execute that promise were bound in chains. They were detained for a week, without ever being informed of the reason for their arrest. The U.S. president initially branded them illegal immigrants. Later, he claimed he had been opposed to it. In the end, there was never an apology.

This incident reveals how the United States under the second Trump administration treats its allies. It welcomes the money and the factories. Yet it refuses to properly open its doors to the people who build those factories. When problems arise, it shifts blame to the other side and wields the tariff card again in negotiations. Even when enforcement agencies and investment promotion divisions pull in opposite directions, no one steps in to reconcile them.

The lessons South Korea must draw are equally clear.

First, investment commitments and the mobility of personnel must be negotiated as a single package. The strategy of handing over the money first and resolving visas later failed completely this time. The remaining $200 billion in cash investments and $150 billion in shipbuilding cooperation carry the exact same danger. Dedicated visas or equivalent institutional safeguards must serve as a prerequisite for executing any investment.

Second, the human rights of one's own citizens must be decoupled from trade negotiations. If raising human rights violations is deferred out of fear of disadvantage at the negotiating table, the exact same tragedy will repeat itself. The fact that the workers had to step forward and launch legal action on their own also signifies that the state failed to fulfill its role.

Third, the word "alliance" alone guarantees nothing. The South Korea–U.S. alliance remains the core of South Korean security. Yet the interests of the alliance do not automatically protect South Korean citizens and corporations. That protection can only be won through written commitments and tenacious negotiation.

The factory in Georgia is now ready to produce batteries. In the plant's parking lot, no trace remains of that day. Yet the memories of the 316 individuals and the more than 300 claims for damages remain. The invoice this incident left with South Korea has not yet been paid.

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Chapter 22. Georgia Governor Brian Kemp's Duplicity and Trump's Backstabbing Trade Pressure

> The governor, who visited South Korea and styled himself a "pro-Korea" friend, and the Trump administration each handled the detention of South Korean workers according to their own political calculations. This chapter traces how those calculations tightened the vice on South Korea during the detailed South Korea–U.S. trade negotiations.

22.1 The Face of a "40-Year Friend"

Brian Kemp took office as Governor of Georgia in January 2019. His very first overseas official trip was to South Korea. In late June of that year, he arrived in Seoul leading officials from the Georgia Department of Economic Development. He met with then-Prime Minister Lee Nak-yon and visited SK Innovation, Kia, and Hanwha Qcells. At the time, SK was constructing a $2.6 billion battery plant in Commerce, Georgia.

Kemp's crowning achievement was attracting Hyundai Motor Group. In May 2022, he personally announced Hyundai Motor Group's first dedicated electric vehicle plant. The location was Ellabell in Bryan County, west of Savannah. Kemp hailed this project as the largest economic development project in the history of the state. The state and local governments put up approximately $1.8 billion in incentives. In Korean currency, it was a support package committing more than 2 trillion won in taxpayer money.

In June 2024, Kemp visited South Korea for the second time. He met with then-President Yoon Suk Yeol and toured the Demilitarized Zone (DMZ). President Yoon requested a favorable environment for South Korean businesses and the roughly 100,000 Korean Americans and Korean residents living in Georgia.

The numbers were also on his side. According to data from the Governor's Office, in fiscal year 2023 alone, South Korean companies announced over $10 billion in investments. During the same period, 12,605 new jobs were created. In 2024, merchandise trade between Georgia and South Korea surpassed $17.5 billion. South Korea became Georgia's third-largest trading partner.

On March 26, 2025, the dedication ceremony for Hyundai Motor Group Metaplant America (HMGMA) was held in Ellabell. Kemp was in attendance. The investment in the finished-vehicle manufacturing plant was $7.6 billion. Right next to it, a joint-venture battery plant between Hyundai Motor and LG Energy Solution was under construction. The investment in this joint plant amounted to $4.3 billion.

When speaking of relations with South Korea, Governor Kemp's office consistently used the same phrase: A strong and friendly relationship maintained for 40 years since opening a trade office in Seoul in 1985. South Korean business leaders believed those words. And they chose Georgia as their North American hub for electric vehicles and batteries.

22.2 Kemp's Political Coordinates: An Uneasy Cohabitation with Trump

To understand Kemp's choices, one must look at his position within the Republican Party. Right after the 2020 presidential election, Trump pressured him to overturn Georgia's election results. Kemp refused. Trump publicly condemned him and backed his challenger, David Perdue, in the 2022 gubernatorial primary. Kemp won that primary by a landslide.

After that, Kemp chose a path that avoided head-on collisions with Trump. In 2025, he decided against running for the U.S. Senate. His term as governor ends in January 2027. Due to term limits, he cannot run again. Around this time, what Kemp needed to protect were his political legacy and his influence within the party.

In the autumn of 2025, hardline immigration policy sat at the very heart of the Republican Party. The second Trump administration put forward mass deportations and workplace enforcement as core priorities. Georgia was the state where nursing student Laken Riley had been murdered by an undocumented immigrant. The immigration legislation bearing her name was passed as the first bill of Trump's second term. In this political climate, shielding the visa issues of foreign companies was a distinct liability for a Republican politician.

Tensions within the Georgia Republican Party were laid bare in the 2026 U.S. Senate primary. Kemp backed his close ally, former college football coach Derek Dooley. Two days before the runoff, Trump endorsed Representative Mike Collins, who styled himself a "MAGA warrior." In his endorsement post, Trump singled out Dooley's remark that Trump had lost the 2020 presidential election. In the runoff on June 16, 2026, Collins won with 55.5% of the vote. U.S. media assessed this result as an unambiguous political defeat for Kemp in the twilight of his term.

Kemp was caught between two forces. On one side was his painstaking record of corporate investment recruitment and his business-community base. On the other was the party's mainstream base driven by hardline immigration rhetoric. On the morning of September 4, 2025, these two forces collided at the construction site in Ellabell.

22.3 The State Government That Day: Coordination, Silence, and Distancing

On September 4, 2025, a massive raid led by Homeland Security Investigations (HSI) descended on the site. HSI is the investigative arm of Immigration and Customs Enforcement (ICE) under the Department of Homeland Security (DHS). Approximately 475 people were detained. Among them,

317 were South Koreans. Steven Schrank, Special Agent in Charge of HSI for Georgia and Alabama, announced that this was the largest single-site enforcement operation in HSI history. Authorities explained that it was the culmination of a months-long investigation into unlawful employment.

Video footage from the scene shook South Korean society. Chains were shackled around the workers' wrists, ankles, and waists. They were transferred to an immigration detention facility in southern Georgia.

The state government was not a bystander to this operation. A spokesperson for Governor Kemp's office stated that the Georgia Department of Public Safety cooperated with ICE to support the operation. The Department of Public Safety oversees the Georgia State Patrol. The statement stressed that Georgia would always enforce all state laws and federal immigration laws. There were no words of consolation or regret for the South Korean companies in that statement.

Was Kemp, then, aware of the raid in advance? The Atlanta Journal-Constitution (AJC) obtained and analyzed more than 100 pages of internal documents from the Governor's Office through open records requests. According to the AJC report, Kemp was not notified of the raid plan in advance. Only after the operation was underway did he contact Trump associates to inquire about the situation. This detail contradicts certain domestic claims in South Korea suggesting that the governor had orchestrated the raid.

The problem lay in the attitude displayed by the Governor's Office afterward. On September 5, the day after the raid, a spokesperson circulated a draft statement. The draft included a sentence stating that expectations remained high for the jobs the plant would bring. Communications Director Andrew Isenhour suggested removing the phrase "expectations remain high." He texted that they might now need to put distance between Hyundai and themselves. He went so far as to use phrasing suggesting that South Koreans had been snuck in on visas that did not permit employment. He added that Americans could have and should have been employed.

On the same day, the Governor's Office was also polishing another statement: the decision to deploy 300 Georgia National Guard troops to support Trump's law-and-order intervention in Washington, D.C. On one hand, aides were revising language to distance the Governor's Office from South Korean corporations. On the other, they were preparing an announcement bolstering the President's hardline agenda. These two scenes unfolded on the exact same day within the very same office.

On September 7, Kemp relayed a message from White House Chief of Staff Susie Wiles to his staff. Wiles informed them that the Department of Homeland Security had been preparing this operation for quite some time. She also conveyed that Trump was asking whether visas could be extended or rectified so construction would not grind to a halt. Pat Wilson, Commissioner of the Georgia Department of Economic Development, responded that he hoped for expedited visa

processing procedures. This showed that even within the state government, officials recognized that this workforce was absolutely vital to bringing the plant online.

Publicly, however, Kemp betrayed no hint of this understanding. Speaking to reporters in Savannah, he described the incident as merely "a blip on the radar." His point was that it would not affect foreign direct investment that had continued for 40 years. Not until September 16 did he state that the visa system needed reform. Even then, he drew a line, asserting that this was not unique to Hyundai but an issue confronting businesses nationwide.

The day before the South Korean workers returned home on a chartered flight, the Governor's Office released yet another statement. The statement expressed gratitude that South Korean companies had reaffirmed their commitment to complying with state and federal laws. It also stated that they would not let this unfortunate incident unravel decades of partnership. Examining the structure of the phrasing, it cast the South Korean companies as the violators of the law and the state government as the guardian of the relationship. No phrasing taking issue with the shackling in chains or the treatment at the detention facility can be found.

The moment Kemp reached out to South Korea once again was after money re-entered the picture. Two weeks after the raid, Hyundai announced an additional $2.7 billion investment to create 3,000 more jobs. Kemp immediately issued a congratulatory statement pledging continued partnership. In October 2025, he visited Seoul for the third time. The official pretext was the 40th anniversary of the opening of the Georgia Seoul Office. He met with Hyundai Motor Group Vice Chairman Chang Jae-hoon to discuss investment plans following the raid. Industry observers believed he likely promised expanded tax incentives and administrative support.

Kemp's actions can be summarized in a single sentence: He lent state police forces to the raid, distanced himself from South Korean companies on the domestic political stage, and then, the moment investments showed signs of wavering, flew to Seoul to soothe the relationship. There is no evidence that Kemp orchestrated the raid. Yet the governor who claimed to be a friend did not stand by his friend at the most critical moment. This is the duplicity of Kemp that this chapter speaks of.

22.4 The Edge of Detailed Trade Negotiations: The Timing of the Raid

The timing of the raid overlapped directly with the timetable of South Korea–U.S. trade negotiations. On July 30, 2025, South Korea and the United States agreed on the broad framework of tariff negotiations. The U.S. agreed to lower reciprocal tariffs on South Korean goods from 25% to 15%. South Korea pledged $350 billion in investments in the United States and $100 billion in energy purchases. On August 25, President Lee Jae-myung held his first summit with President Trump at the White House. The Ellabell raid occurred just ten days later.

At the time, negotiations were stalled over how the $350 billion would be delivered. The United States demanded the Japanese model. This was a structure in which the U.S. chose investment destinations, South Korea provided the funds, and the U.S. took most of the returns. Secretary of Commerce Howard Lutnick told South Korea to either accept a Japan-style agreement or pay tariffs. Addressing the Georgia raid, he also blamed Hyundai for failing to manage visas properly. The Wall Street Journal reported that Lutnick demanded an increase in total investment beyond $350 billion. Trump openly declared that he would collect the $350 billion up front.

President Lee Jae-myung's response was two-pronged. In his 100th-day press conference on September 11, he described the raid as bewildering. He then warned that South Korean companies would hesitate to pursue foreign direct investment in the United States. In a Reuters interview on September 19, he brought up the currency issue. He stated that draining $350 billion according to U.S. demands without a currency swap could trigger a crisis akin to that of 1997. At the time, South Korea's foreign exchange reserves stood at approximately $410 billion. He added, however, that he did not believe the raid had been deliberate.

This raises the central question of this chapter: Did the Trump administration orchestrate the raid to discipline South Korea in negotiations? Based on evidence revealed to date, there is insufficient basis to conclude that it did. HSI cited an investigation spanning several months. Chief of Staff Wiles's message also pointed to DHS having prepared for a long time. Trump himself inquired about ways to rectify the visas immediately following the raid.

Yet intention and effect are two different matters. The raid operated on the negotiating framework in three distinct ways.

First, the South Korean government was reduced to the position of a petitioner. The government had to make the release of its detained citizens its top priority. Conditions of release, repatriation procedures, and whether there would be any disadvantages upon re-entry all had to be resolved with U.S. authorities. At the very juncture when it needed to assert itself at the negotiating table, the government found itself seeking cooperation instead.

Second, the United States shifted blame for the crisis onto South Korean corporations. On September 7, Trump called on foreign companies to respect U.S. immigration laws. Lutnick pushed the narrative of Hyundai's culpability, while Governor Kemp's office emphasized adherence to the law. The rhetoric of the federal and state governments pointed in the exact same direction. South Korean public opinion, which had initially questioned mistreatment during detention, shifted toward the corporations that had misused visas.

Third, visas became a new agenda item in negotiations. For years, South Korea had sought dedicated professional work visas for South Koreans. Bills creating roughly 15,000 annual professional visas had been introduced multiple times in the U.S. Congress. Time and again, the legislation failed to pass. Following the raid, this issue became an item where South Korea begged

and the United States granted favors. In exchange for easing visa problems, the U.S. gained leverage to demand even more aggressive compliance with investment pledges.

Trump shifted his stance on September 14. He posted that he did not want to scare off or deter foreign investment. He added that he welcomed foreign companies bringing in experts to train Americans. Deputy Secretary of State Christopher Landau conveyed regrets to the South Korean side. He pledged that the repatriated workers would not face disadvantages regarding re-entry. Wielding the whip and then proffering a carrot is a familiar sequence in Trump's art of negotiation.

On September 30, South Korea and the United States launched the Business Travel and Visa Working Group in Washington. The U.S. confirmed that equipment installation, inspection, and maintenance could be conducted under B1 visas and the Electronic System for Travel Authorization (ESTA). Of the 316 South Koreans detained, 170 held ESTA and 146 held B1/B2 visas. This meant that a substantial portion of the work they had been performing was, in fact, permissible activity. A dedicated desk for companies investing in the United States was also established at the U.S. Embassy in Seoul. However, citing legislative constraints, the U.S. side replied that fundamental solutions—such as establishing a dedicated visa category—remained difficult.

On October 29, on the sidelines of the APEC Summit in Gyeongju, negotiations were finally concluded. Of the $350 billion, $200 billion was designated for cash investment, capped at an annual limit of $20 billion. The remaining $150 billion was allocated to shipbuilding cooperation. In November, both nations signed a Memorandum of Understanding (MOU) on strategic investment. South Korea succeeded in inserting the clause "commercial reasonableness" into the text of the agreement. It was a defensive safeguard allowing South Korea to withhold funding from non-profitable projects.

22.5 The Invoice One Year Later: Tariff Threats, Section 301 Investigation, and Renegotiating Project No. 1

Signing the agreement did not mean the end of the pressure. On January 26, 2026, Trump posted on Truth Social. Claiming that the South Korean National Assembly had failed to legislate the trade agreement, he declared he would hike reciprocal tariffs from 15% to 25%. Automobiles, lumber, and pharmaceuticals were all targeted. He demanded to know why the South Korean National Assembly had not yet approved it. The Blue House stated that it had received no official notification from the U.S. regarding a tariff increase.

On February 20, 2026, the U.S. Supreme Court struck down tariffs grounded in the International Emergency Economic Powers Act (IEEPA) in a 6–3 ruling. IEEPA is a statute empowering the president to regulate economic transactions during national emergencies. The Supreme Court ruled that this law does not grant the president the authority to impose tariffs. This ruling is covered in detail in Chapter 13 of this book.

The administration immediately unsheathed another blade. On March 11, the Office of the United States Trade Representative (USTR) initiated an investigation under Section 301 of the Trade Act of 1974. Section 301 empowers the administration to investigate foreign unfair trade practices and levy retaliatory tariffs. The targets spanned 16 economies, including South Korea, China, Japan, and the European Union. USTR cited South Korea's large and persistent trade surplus as evidence of excess capacity.

The very next day, March 12, the National Assembly passed the Special Act on Investment in the United States. The vote was 226 in favor, 8 opposed, and 8 abstaining. The legislation established the Korea–U.S. Strategic Investment Corporation to manage the $350 billion in investments. It mandated that investing in projects lacking commercial reasonableness required prior consent from the relevant standing committee of the National Assembly. The tariff threats and the Section 301 investigation had effectively accelerated the pace of legislation.

The visa issue moved forward incrementally. By November 2025, over 100 of the 317 detained South Koreans had regained their B1 visas. Some technicians returned to the Ellabell site and resumed work. At the third meeting of the Visa Working Group held in Seoul on January 28, 2026, the U.S. explained new regulations: a "specialized trainer" provision had been created under the B1 visa section of the State Department's Foreign Affairs Manual (FAM). This provision permitted activities transferring unique technology and know-how to American workers. Yet this was merely an administrative guideline, not statutory law. If an administration or enforcement policy changes, the interpretation can shift just as easily.

In September 2026, negotiations stalled once more in the details. The government was scheduled to brief the National Assembly behind closed doors on the results of Project No. 1 of the U.S. investment on September 17. The briefing was abruptly postponed the day before. The signing and announcement of the South Korea–U.S. memorandum of understanding, anticipated for September 18, were also put on hold. Media outlets pointed to Texas combined-cycle gas turbine power plants, eight large-scale nuclear reactors, and Alaska LNG as prime candidates. The Alaska LNG project cost alone was estimated at roughly $44 billion.

On September 18, President Lee Jae-myung addressed the matter directly at a press conference in the Blue House State Guest House. He stated that while an agreement was nearly reached, upon reviewing the details, there were portions that were difficult to agree to. That was why, he explained, discussions were being reopened. He emphasized that this money amounted to approximately 500 trillion won belonging to the taxpayers. He confessed that it weighed on him enough to cause sleepless nights. Media analysis indicated that disagreements persisted over profit distribution and capital recovery structures. At the same press conference, he stated unequivocally that there would be no troop deployments to war zones. The troop deployment to the Strait of Hormuz demanded by the U.S. and the U.S. investment negotiations had, in fact, been placed on the very same table.

That same month, memories of Ellabell headed to the courtroom. In mid-September 2026, some 300 detained South Koreans initiated damages claim proceedings against the U.S. government. This was an administrative claim required before filing a lawsuit against the federal government. The claimants alleged unlawful detention, denial of interpretation services, and shackling in chains. Allegations were also included that they were pressured into signing documents they could not understand. The Department of Homeland Security reiterated its position that it had conducted a criminal investigation pursuant to a search warrant issued by the court.

No reports have been identified indicating that Governor Kemp took a stance on these claims. He completes his term in January 2027. Even after he departs, the incentive contracts he promised will endure. Yet nowhere in any written document is there a promise to protect South Koreans from federal immigration enforcement.

22.6 Conclusion: Rhetoric of Goodwill and the Breakwater of Law

The Kemp case illustrates the structural limitations of American federalism. A governor can promise tax breaks, land, roads, and electric power. Visas and immigration enforcement, however, fall under the purview of the federal government. No matter how "pro-Korea" a governor may be, they possess no legal means to halt the handcuffs of federal agents. Indeed, the state police moved in a manner that cooperated with the federal raid.

South Korean corporations were not unaware of this structure. Yet they believed that the governor's hospitality and the president's praise for their investments would paper over that divide. The Ellabell raid shattered that belief. Ten days after the summit, at the tensest moment of investment negotiations, the raid struck. While there is no evidence proving intent, the outcome is unmistakable: South Korea was forced to shoulder the task of rescuing its citizens while simultaneously preserving the trade negotiations.

The Trump administration's negotiating style did not change thereafter. It pressured the National Assembly with threats of tariff hikes, and following the Supreme Court ruling, pivoted its leverage to a Section 301 investigation. And it continues to push South Korea hard over the terms of Project No. 1. While the grand framework of trade is settled by handshakes between heads of state, the actual flow of money is decided in the details. The Ellabell crisis revealed just how easily South Korea could be placed in a position of weakness during those negotiations over details.

The lessons can be summarized into three points: First, the mobility of personnel must be guaranteed by statute. Administrative guidance and dedicated desks are helpful, but they become vulnerable whenever administrations change. Enshrining dedicated professional visas for South Koreans into U.S. statutory law must be linked directly to investment negotiations.

Second, investment contracts require protective safeguards. The clause on "commercial reasonableness" was the most valuable safeguard South Korea secured. It was precisely because this clause existed that President Lee Jae-myung could choose renegotiation for Project No. 1. This principle must remain alive as concrete terms in every individual contract.

Third, the hospitality of local governments must never be mistaken for a security guarantee. A governor's promise is merely a pledge regarding that state's taxes and land. The moment federal power moves, a governor calculates their own political survival first. Kemp did so, and the next governor may do the same.

The label of "pro-Korea" provided South Korean corporations with a comforting optical illusion. When that illusion evaporated, all that remained were photographs of engineers bound in chains. The next chapter examines how those photographs altered the investment calculus of South Korean battery and semiconductor companies in the United States.

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Chapter 23. The Crisis of Halted Factory Construction in the United States

K-Battery and Semiconductor Companies Re-evaluate U.S. Investments

> Barred entry for on-site technical personnel and the fear of arrest brought factory construction lines across the United States to a standstill. Major South Korean battery and semiconductor conglomerates re-evaluated the risks of U.S. investments from square one. This chapter traces how far those reverberations spread, and what remains one year later.

23.1 Sites Brought to a Standstill: The Fear of Business Travel Spreading from Georgia

On the morning of September 4, 2025, federal agents raided a construction site in Ellabell, Georgia. It was HL-GA, a battery joint-venture plant under construction by Hyundai Motor Group and LG Energy Solution. A joint enforcement task force led by Homeland Security Investigations (HSI) arrested 475 people. Among them, 317 were South Koreans. HSI announced that this operation was the largest single-worksite raid in the agency's history.

The detained South Koreans were held for about a week in an Immigration and Customs Enforcement (ICE) detention facility in Folkston. Following negotiations between the South Korean and U.S. governments, 316 of them returned home aboard a chartered flight. Forty-seven were from LG Energy Solution alone, and around 250 were personnel from subcontractor partner firms. Rather than undocumented immigrants, these individuals were technicians who had been installing and calibrating equipment.

The shock did not end in Georgia alone. Immediately following the incident, Hyundai Motor and LG Energy Solution completely suspended all business trips to the United States. Personnel already deployed on the ground were ordered to return home. Samsung Electronics, SK Hynix, and SK On also re-examined their business travel plans.

At the time, LG Energy Solution was building four plants in the United States: the Georgia joint-venture plant, the Queen Creek plant in Arizona, the Lansing plant in Michigan, and a joint-venture plant with Honda in Ohio. All of these plants were targeting commencement of operations in the first half of the following year. More than 90% of the battery production equipment was South Korean-made. The work of bringing in and calibrating this equipment had to be handled directly by employees of South Korean subcontractor firms.

The problem was that most of them had entered the country on the Electronic System for Travel Authorization (ESTA) or short-term visitor visas. ESTA is an online travel authorization granted to nationals of Visa Waiver Program countries. Immediately after the raid, business travelers who had

entered on ESTA returned home straight away. Holders of short-term business visitor visas (B-1) stayed in their accommodations and avoided going to worksites. Only employees holding intra-company transferee visas (L-1) or specialty occupation worker visas (H-1B) kept watch over the factory gates.

Work was also temporarily suspended at the Hyundai Motor joint-venture plant that SK On was constructing in Bartow County, Georgia. Reports emerged that at least 22 factory construction sites across the United States had ground to a halt. When one business newspaper surveyed 14 companies, 10 responded that they were considering adjustments to their U.S. projects. This was not an issue confined to the battery industry alone. Entire sectors that had pledged investments in the United States, including semiconductors and shipbuilding, were confronted with the very same question.

The fear on the ground was far more tangible than mere numbers. At an equipment supplier in Changwon, South Gyeongsang Province, not a single employee volunteered for a business trip to the United States. The company ultimately decided whom to dispatch by drawing lots. Among employees of large conglomerates, another anxiety circulated: the concern that if a record of enforcement was left on their profile, they would be barred from re-entering the United States for years to come.

23.2 Factories That Cannot Run Without South Korean Technicians

A battery factory is not a facility that is finished simply by erecting a building. Only after the structural framework and exterior walls go up does the core process begin. Dry rooms and clean rooms to control dust and humidity must be installed, and hundreds of pieces of equipment brought in. Coaters that produce electrodes and equipment that assemble cells must mesh together with high precision. The cells also undergo the formation (化成) process, where electricity is first introduced into the completed cells to stabilize their performance.

Flipping on the equipment does not instantly yield usable products. At first, defects are numerous, requiring a period to ramp up the yield rate (收率). The yield rate is the proportion of acceptable, defect-free products relative to the raw materials fed in. Industry practice dictates that this initial stabilization must be handled by technicians from the companies that manufactured the equipment. They are the ones who best understand its design and control systems.

It is difficult to replace this work immediately with local U.S. workers. Most American construction laborers and new hires have never operated South Korean-made equipment. The industry pleaded the realities facing advanced manufacturing sectors like semiconductors and batteries: owing to concerns over technology leakage, experienced personnel had to be dispatched directly from headquarters.

Delay was directly equated with money. HL-GA was a plant into which $4.3 billion—approximately 6 trillion won—had been invested. It has the capacity to produce 30 GWh of battery cells per year, enough for roughly 300,000 electric vehicles. The industry projected that once the plant stabilized, it would generate approximately 600 billion won annually in earnings before interest, taxes, depreciation, and amortization (EBITDA). Calculations showed that for every single day operations were delayed, approximately 1.6 billion won in opportunity profit vanished.

José Muñoz, President of Hyundai Motor Company, stated that the operation of the battery plant would be delayed by at least two to three months. He publicly remarked that personnel with specialized technical skills were essential to factory construction. Hyundai Motor decided to continue procuring its shortfall of battery cells from SK On's plant in Commerce, Georgia. Hyundai had originally been sourcing 60% to 70% of its U.S. battery demand from SK On.

Here, a certain point requires clarification. Rumors circulated that the shutdown of South Korean-affiliated battery plants caused a chain reaction that brought U.S. finished-vehicle assembly lines to a halt. The production halt of Ford's electric pickup, the F-150 Lightning, was frequently cited as an example. However, Ford ended production of this vehicle in December 2025 due to its own strategic revisions. Ford pivoted after booking a $19.5 billion loss in its electric vehicle business.

Ford decided to shift away from pure battery electric vehicles toward extended-range electric vehicles (EREVs). An EREV is a vehicle where an internal combustion engine functions solely as an onboard generator while the wheels are driven entirely by electric motors. In the background lay sluggish sales and the expiration of federal electric vehicle tax credits. There is no confirmed evidence that the Georgia raid directly brought the U.S. auto industry to a standstill. The blow of the raid fell primarily upon the schedules, costs, and credibility of South Korean enterprises.

The broader workforce situation across the United States is equally daunting. Analyses suggest that in the process of expanding U.S. semiconductor fabs, a shortfall of up to 157,000 skilled technical personnel will emerge by 2030. Taiwan's TSMC also postponed the launch of its Arizona Fab 1 by roughly a year due to a shortage of skilled labor. The United States invited factories onto its soil, but failed to prepare the people to run them. The Georgia raid exposed that void in the crudest possible manner.

23.3 The Reality of the Re-evaluation: Pacing and Reshuffling Rather Than Freezing

Immediately following the incident, voices within the business community called for re-evaluating investments from square one. The reasoning was that cuts to subsidies coincided with construction delays and added costs. Did South Korean conglomerates actually halt their U.S. investments, then? What can be observed one year later is far from an across-the-board freeze.

Rather than stopping, corporations adjusted their pace and fundamentally reshuffled their business boards.

For the battery sector, market shifts played a far greater role in the re-evaluation than visas. The U.S. federal purchase tax credits for electric vehicles expired on September 30, 2025. As EV demand fell short of expectations, finished-vehicle automakers were the first to scale back their plans. South Korean battery makers absorbed the fallout through contract cancellations and the dissolution of joint ventures.

On December 11, 2025, SK On and Ford agreed to unwind their joint venture, BlueOval SK. Ford took the Kentucky 1 and 2 plants, while SK On took the Tennessee plant. The process was finalized in May 2026, and the Tennessee plant became a standalone corporate entity known as SK On Tennessee. SK On stated that this restructuring relieved it of approximately 5.4 trillion won in debt liabilities. It estimated that annual interest expenses would also decrease by around 270 billion won.

On December 17 of that same month, LG Energy Solution publicly disclosed the cancellation of a 9.6 trillion won supply contract with Ford. On December 26, a 3.9217 trillion won contract with another client was also terminated. In the span of a single month, roughly 13.6 trillion won worth of contracts evaporated. This amounted to more than half of the company's 2024 revenue of 25.62 trillion won. The company chose to acquire outright one GM joint-venture plant and hand over its North American joint venture with Honda to Honda.

Filling that void was the energy storage system (ESS). An ESS is a large-scale battery installation that stores electricity and releases it when needed. LG Energy Solution converted portions of its EV battery production lines to ESS production. As of July 2026, the company produces ESS batteries across four production hubs in North America. Samsung SDI similarly redirected its joint-venture plant in Indiana toward the same course.

The semiconductor trajectory was different. Samsung Electronics did not stop work on its Taylor, Texas foundry fab. It began installing equipment in earnest in July 2026 and prepared for pilot production in September. Operational launch by the end of the year and expansion of mass production the following year formed the timeline presented by the company. Having increased the dispatch of expatriates since June, its local expatriate personnel alone reached roughly 100 people.

Samsung Electronics plans to produce Tesla's AI chips using a 2-nanometer process at the Taylor fab. Groundbreaking on the Taylor Fab 2 is also slated for the end of the year, targeting mass production by 2030. SK Hynix broke ground on its first advanced packaging facility in Indiana. Kwak Noh-jung, CEO of SK Hynix, introduced this facility as the first hub to supply U.S.-manufactured High Bandwidth Memory (HBM). HBM is high-performance DRAM attached to artificial intelligence accelerators.

Hyundai Motor Group did not scale back its U.S. investments either. In March 2025, Executive Chair Euisun Chung announced at the White House an investment of $21 billion in the United States over four years. In August of that same year, on the occasion of the South Korea–U.S. summit, that scale was expanded to $26 billion. The raid occurred barely ten days after the summit concluded. Investment pledges and enforcement actions overlapped almost simultaneously.

In sum, the focus of the re-evaluation was not "Shall we pull out of the United States?" It was "How shall we dispatch personnel?" and "What shall we manufacture?" Companies re-audited visa requirements for business travelers and increased local hiring and training. Samsung Electronics included the Taylor plant as a target worksite for internships for the first time. Cultivating a local American workforce had now become a formal item within investment blueprints.

Early background materials for this chapter contained assertions that the four major conglomerates simultaneously froze new investments in the United States. Based on corporate announcements and reporting published to date, no such collective decision has been confirmed. Individual corporate contract terminations and pacing adjustments were indeed real. However, their primary causes were the slowdown in EV demand and shifts in U.S. policy. It is most accurate to view the Georgia raid as yet another risk factor stacked on top of them.

23.4 The Visa Bottleneck: Working Group, KIT Desk, and Expert Trainers

Following the raid, the first issue addressed by the two governments was visas. Minister of Foreign Affairs Cho Hyun traveled to Washington to lodge a protest with Secretary of State Marco Rubio. On that occasion, he secured commitments regarding assistance for returns, protection against adverse penalties, prevention of recurrence, and activation of a bilateral visa working group.

President Trump's response contained mixed signals. He stated that when foreign companies come to manufacture complex products, he wants them to bring their own expert personnel. His meaning was that he wanted that personnel to train Americans for a certain period of time. He also noted that otherwise, investments in fields such as semiconductors, shipbuilding, and rail would not materialize. The head of the government that carried out the raid had effectively acknowledged the indispensable need for the very personnel who had been targeted.

On September 30, 2025, the South Korea–U.S. Visa Working Group held its inaugural meeting. The two nations reaffirmed that installing, inspecting, and servicing equipment was permissible under B-1 visas and ESTA. A dedicated desk to handle visa issues for South Korean corporations was established at the U.S. Embassy in Seoul. This window is the Korean Investment in the U.S. Desk (KIT Desk). Communication channels were also established between local ICE and Customs and Border Protection (CBP) field offices and South Korean diplomatic missions.

Enterprises moved forward on the basis of this confirmation. LG Energy Solution resumed business trips to the United States starting with essential personnel after the Chuseok holiday. Employees who had been detained returned to work on October 13 after a one-month paid leave. The company polled returnees regarding their willingness to travel and gradually expanded dispatched numbers. SK On had already returned B-1 visa holders, who had been kept waiting in lodging, back to the job site earlier.

On January 28, 2026, the 3rd Working Group meeting took place in Seoul. The U.S. side conveyed that it had newly incorporated "specialist trainers" into the B-1 visa provisions of the State Department's Foreign Affairs Manual (FAM). This provision formally recognizes activities involving the training of American workers and the transfer of specialized skills and know-how. The requirements are threefold: The applicant must possess specialized knowledge not commonly found in the United States, and the assignment must concern projects involving equipment or processes brought in from abroad. A condition was also attached stipulating that no remuneration may be received from within the United States.

While this measure offered some breathing room, the root problem remained. A B-1 visa is still a short-term visitor visa, and discretionary on-site determinations remain in the hands of border inspection officers and enforcement agents. The fundamental solution that the South Korean government has consistently demanded is a dedicated professional visa for South Koreans. A bill granting 15,000 E-4 professional specialty visas annually to South Koreans remains pending in the U.S. House of Representatives. This is the Partner with Korea Act, introduced in July 2025 by Representative Young Kim and others.

This legislation has been reintroduced in nearly every congressional session since around 2013, yet has never passed. Australia and Singapore secured similar dedicated visas on the back of their respective free trade agreements. President Lee Jae-myung met with U.S. senators in April 2026 to urge expedited visa reform. However, around that same period, U.S. immigration authorities repeatedly reiterated their policy of enforcing even stricter vetting and screening. The creation of a new professional visa category still hinges upon the political calendar of the U.S. Congress.

23.5 Re-evaluating U.S. Risk and the $350 Billion Safeguard

The Georgia raid shattered the long-standing belief that the United States is a safe investment destination. American risk takes a different shape from traditional country risks such as war or coups. The rule of law remains intact, yet policies shift abruptly, and the severity of regulatory enforcement is difficult to forecast. From the vantage point of corporations, this risk boils down to three dimensions:

First is policy reversal. The electric vehicle tax credits pledged under the Biden administration were terminated prematurely under the Trump administration. For companies constructing

factories intended to operate for more than a decade, such swings upend profitability calculations.

Second is enforcement unpredictability. While the scope of permissible activities under a B-1 visa existed in regulatory guidelines, it was interpreted differently on the ground. Anxiety mounted over the reality that a technician carrying the exact same documentation might clear immigration one day and be arrested the next.

Third is the risk of trade negotiations becoming entangled with corporate job sites. The raid took place precisely when South Korea and the United States were locked in a tug-of-war over tariffs and specific investment conditions. No direct link between the raid and the negotiations has been confirmed. Nevertheless, corporations came to feel that the heat of negotiations could spill over into hazards on the ground.

The South Korean government sought to erect institutional defenses against this anxiety. In November 2025, South Korea pledged an investment of $350 billion in exchange for lowering tariffs from 25% to 15%. Of this amount, $150 billion was allocated to shipbuilding cooperation, and $200 billion to strategic investments. On March 12, 2026, the National Assembly passed the Special Act on Investment in the United States. It established "commercial reasonableness"—selecting only projects where the recovery of principal and interest is assured—as a mandatory prerequisite.

An annual execution cap of $20 billion was imposed. Exceeding this ceiling requires the consent of the National Assembly. An obligation was also inserted requiring the administration to report to the relevant standing committee before consulting on projects. Yet the fact that ultimate project selection authority resides with President Trump remains a structural vulnerability.

In February 2026, the U.S. Supreme Court ruled the Trump administration's reciprocal tariffs unlawful. Even so, the South Korean government did not halt the investment procedures. This was because sectoral tariffs on items such as automobiles and steel remained firmly in place. On September 22, 2026, the government reported its first project to the National Assembly: the construction of the Encinal combined-cycle natural gas power plant in Texas. Regarding this 6.3 GW project, the opposition party is demanding that profitability be verified before proceeding.

Companies are broadening their horizons beyond the United States. The battery sector is once again targeting the European market, where growth continues. However, because European markets are already dominated by Chinese manufacturers, assessments suggest that achieving short-term breakthroughs will be difficult. Domestically, Samsung Electronics is expanding its domestic manufacturing base, including moving up groundbreaking on a new plant in Pyeongtaek. Rather than an exodus from the United States, this trend resembles a diversification of weight that had previously been concentrated in America alone.

23.6 The Report Card One Year Later: Factories Running, but Trust Under Repair

The HL-GA plant, halted after the raid, completed construction in July 2026, roughly ten months later. Preparations for mass production are currently underway, with cell manufacturing expected to begin as early as within the year. The original plan was completion in 2025 accompanied by immediate mass production. The raid effectively set the clock back for this factory by nearly a year.

The process of demanding legal accountability has only just begun. On September 4, 2026, the first anniversary of the raid, one arrested worker filed a claim for damages. The legal basis is the Federal Tort Claims Act (FTCA). The FTCA is a statute allowing individuals harmed by the wrongful acts of federal employees to seek compensation from the government. If the government does not accept the administrative claim, it can escalate into a lawsuit in federal court.

On September 15, South Korean workers also initiated administrative claims. The targets are nine federal agencies, including the Department of Homeland Security, ICE, CBP, the Federal Bureau of Investigation (FBI), and the Department of Justice. The Korean-American attorney in Georgia representing them plans to complete claims for approximately 300 individuals by the end of the year. The initial claimant asserted that they still suffer psychological trauma from the seven days of detention. Workers stated that they were handcuffed and shackled without interpreters and coerced into signing documents they did not understand.

A full year after the raid, not a single criminal indictment had been brought against the corporations that employed the workers. An investigation launched under the banner of rooting out illegal employment passed the one-year mark without holding any corporation accountable. In forthcoming litigation, the legal basis for arresting individual workers and the scope of warrant execution are expected to become central points of contention. There are also allegations that even workers asserting they possessed valid visas were swept up and arrested indiscriminately.

The lessons left behind by the Georgia incident can be distilled into three points: First, human mobility systems are not an ancillary appendix to investment agreements, but part of the core foundation itself. Even a multibillion-dollar manufacturing facility will grind to a halt if a few hundred technicians needed to calibrate equipment cannot travel.

Second, investing in the United States requires applying a discount rate that factors in policy and enforcement volatility. When assessing the profitability of U.S. plants, companies now factor in visa risks alongside subsidy risks. The South Korean government carved institutional defensive lines into statute in the form of commercial reasonableness and annual execution caps.

Third, the indispensability of South Korean technical personnel can be converted into negotiating leverage. The United States wants factories, yet lacks sufficient personnel of its own to operate them. President Trump himself acknowledged that he wants foreign expert personnel to come and

teach Americans. Herein lies the justification for South Korea to place demands such as the E-4 visa on the negotiating table as a condition for investment.

The September 2025 raid exposed the weakest link in South Korea–U.S. economic relations. Although the factories have begun to run again, the anxieties of on-site technicians have not fully vanished. The pace at which trust is restored depends on how quickly and decisively the United States reforms its visa regime. What South Korea demands and secures throughout that process remains a task for the negotiations ahead.

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PART 5

The Ordeal of Universities and Academia: Harvard, Stanford, and the Brain Drain

Chapter 24. The $2.2 Billion Federal Funding Freeze and Revocation Executive Order Against Harvard University

> Academic suppression in which the Trump administration froze $2.2 billion in federal research grants to Harvard University following its failure to handle antisemitic protests and its refusal to dismantle DEI policies

Introduction

On the afternoon of April 14, 2025, an official letter arrived at a tuberculosis laboratory at Harvard Medical School. It was a stop-work order sent by the federal government. The research team was in the midst of preparing the next phase of its work on a new tuberculosis vaccine. From the very day the document was received, laboratory equipment was shut down and disbursements of research funds were halted.

This laboratory had done nothing wrong. Earlier that morning, Harvard's president had publicly rejected the White House's demands. Just hours later, the administration froze $2.2 billion in research funding bound for Harvard. That amounted to roughly 3 trillion Korean won.

This chapter covers what transpired over the year and a half that followed that day. It is the account of how the U.S. government sought to bring the world's most renowned university to its knees. It is also the account of how that university pushed back in court. As of September 2026, this fight is far from over. A federal appeals court is hearing the case, and the administration is mounting fresh offensives.

24.1 Universities Targeted in the Culture Wars

President Trump began his second term on January 20, 2025. Immediately upon taking office, he signed an executive order abolishing DEI policies across the federal government. DEI stands for Diversity, Equity, and Inclusion. It refers to recruitment, educational, and support systems designed to reduce inequalities based on race and gender.

The Trump administration viewed such programs as reverse discrimination, arguing that they categorized individuals by race and gender rather than merit. The executive order affected not only federal agencies but also any entity receiving federal funds. Most American universities receive federal research funding, meaning universities naturally fell within the blast radius of this policy.

The second pretext used to target universities was antisemitism. On October 7, 2023, Hamas launched a surprise attack on Israel. Israel waged war in the Gaza Strip, resulting in escalating civilian casualties. Across American college campuses, pro-Palestinian demonstrations and tent

encampments broke out one after another. During some protests, Jewish students voiced concerns that they felt threatened and intimidated. Harvard was among those institutions.

The legal instrument wielded by the government was Title VI of the Civil Rights Act of 1964. This provision prohibits discrimination based on race, color, or national origin in programs and activities receiving federal financial assistance. Institutions that tolerate discrimination can forfeit federal support. The administration took the view that universities had turned a blind eye to the harassment of Jewish students. By that logic, it had established grounds to cut off research funding.

The administration assembled a joint interagency body comprising the Department of Justice, Department of Education, Department of Health and Human Services, and the General Services Administration (GSA). It was dubbed the Joint Task Force on Combating Antisemitism. On March 10, 2025, the Department of Education sent warning letters to 60 universities. The letters cautioned that failure to curb antisemitic harassment could trigger sanctions.

The first target was Columbia University. In early March, the government cancelled approximately $400 million in research grants and contracts bound for Columbia. Columbia conceded to a substantial portion of the government's demands. That July, it signed a settlement agreement obligating it to pay more than $200 million. Cornell University had roughly $1 billion frozen, and Brown University saw around $500 million suspended. The University of Pennsylvania also reached a settlement with the government after its research funding was frozen. One by one, elite universities sat down at the negotiating table.

Yet the administration's primary target was Harvard. Founded in 1636, Harvard is the oldest institution of higher learning in the United States. As of 2025, its endowment—funds accumulated by the university—exceeded $53 billion, making it the wealthiest university in the world. If Harvard were brought to its knees, no other university would have the resolve to resist. This was precisely why the administration sought to make Harvard an example.

24.2 The April 11 Demand Letter and President Garber's Refusal

The pressure was formalized on March 31, 2025. The Joint Task Force announced a review of all federal funding flowing to Harvard and its affiliated hospitals. The target encompassed multi-year committed grants and contracts totaling approximately $9 billion, an amount equivalent to roughly 12 trillion Korean won.

On April 3, the government sent its initial demand letter to Harvard. Then, on Friday, April 11, a second letter arrived, bearing far more stringent demands. It was difficult to find any precedent for the U.S. government intervening so deeply in the governance of a private university. The letter's demands could be broadly grouped into four categories.

First was the dismantling of DEI. The administration ordered Harvard to eliminate all DEI programs, offices, and related personnel evaluation criteria across the university.

Second was an overhaul of admissions and hiring. It demanded that selection be based purely on merit rather than race or national origin, that results be reported to the government, and that Harvard submit to external audits. There was also a mandate for external bodies to audit whether individual departments maintained viewpoint diversity—a so-called viewpoint diversity audit. If the audit revealed an ideological tilt to one side, Harvard was instructed to hire additional faculty to restore balance.

Third was the disciplining of protest participants. The letter demanded that Harvard derecognize student organizations that had led campus protests since 2023. It also included demands to sanction students, faculty, and staff who had violated regulations.

Fourth was the oversight of international students. Harvard was told not to admit international students deemed hostile to American values, and to report information on foreign students who violated regulations to the Department of Homeland Security and the Department of State.

The government warned that failure to comply would result in the loss of federal funding. Harvard's governing boards met over the weekend to deliberate on their response.

On Monday morning, April 14, Harvard President Alan Garber issued an open letter. Garber, an economist and physician, had assumed the presidency following the resignation of former President Claudine Gay in 2024.

The crux of the letter was unmistakable. Garber stated that the government's demands far exceeded the scope of combating antisemitism, amounting to an attempt by the state to dictate whom Harvard teaches and what it researches. President Garber wrote: "No government—regardless of which party is in power—should dictate the governance of a private university." It was an assertion that what is taught, who is admitted and hired, and what is researched are matters solely for the university to determine. He drove the point home: "The university will not surrender its independence, nor will it forfeit its constitutional rights."

Garber did not deny the existence of antisemitism. He acknowledged that Harvard still had work to do. However, he insisted that such work had to be determined and carried out by the university itself. Harvard's legal counsel also delivered a formal reply to the government that same day, arguing that the demands violated the First Amendment and Title VI of the Civil Rights Act.

The First Amendment guarantees freedom of speech and the press. U.S. courts have long interpreted this provision to protect academic freedom as well. Harvard placed this constitutional guarantee at the very core of its defense.

24.3 The $2.2 Billion Freeze and Ensuing Retaliation

The government's retaliation came within hours. On the afternoon of April 14, the Joint Task Force announced an immediate freeze on Harvard's federal funding. The action targeted $2.2 billion in multi-year research grants and $60 million in contracts. The task force lambasted Harvard's reply as displaying an attitude of entitlement, contending that an institution accepting federal tax dollars was shirking its legal duty to comply with civil rights laws.

The retaliation did not stop at a single blow. President Trump publicly declared that Harvard's tax-exempt status should be revoked, reasoning that Harvard ought to be treated like a political entity and taxed accordingly. In the United States, non-profit universities are largely exempt from corporate income and property taxes. Losing tax-exempt status would shake a university's finances to their very foundation.

On April 21, Harvard filed a lawsuit in the U.S. District Court for the District of Massachusetts in Boston. It was a frontal legal challenge by an American university against the federal government. Harvard argued that the government's punitive actions constituted retaliation against protected speech in violation of the First Amendment. It also took issue with the administration's circumvention of the mandatory investigation and administrative hearing procedures prescribed by Title VI, and claimed violations of the Administrative Procedure Act (APA), which governs the processes federal agencies must follow when taking administrative action.

As litigation commenced, the administration expanded the scope of its offensive. On May 13, eight federal agencies cut off an additional $450 million. On May 22, the Department of Homeland Security revoked Harvard's certification to enroll international students. (This issue is examined in detail in Chapter 25.)

On May 26, President Trump posted on Truth Social, vowing to strip $3 billion in research grants from "antisemitic Harvard" and redistribute those funds to vocational and trade schools across the nation. The following day, the GSA dispatched an official directive to federal agencies ordering them to review whether remaining contracts with Harvard could be terminated. The contracts at stake totaled approximately $100 million.

On June 30, the Joint Task Force issued a formal notice of Title VI violation to Harvard, concluding that the university had exhibited deliberate indifference toward the harassment of Jewish and Israeli students. This notice would later serve as the launchpad for the Department of Justice lawsuit discussed below.

Congress moved as well. On July 4, 2025, President Trump signed into law a massive tax package officially titled the "One Big Beautiful Bill Act." This legislation dramatically increased the tax rate on net investment income from endowments at wealthy universities. Institutions with endowment assets exceeding $2 million per student were subjected to an 8% tax rate. The prior rate, in effect

since 2017, had been 1.4%. The tax rate was thus hiked nearly sixfold. While the initial House draft proposed a rate as high as 21%, it was dialed back to 8% in the Senate. The new tax rate was slated to take effect in 2026.

The American Enterprise Institute (AEI) estimated Harvard's annual tax liability under the new law at roughly $370 million. Harvard would have to pay this tax out of its endowment investment returns, shrinking the resources available for student financial aid and scientific research by that exact amount.

This tax increase did not single out Harvard alone; Yale, Princeton, MIT, and Stanford faced the exact same levy. Nevertheless, Harvard was saddled with the largest dollar amount. It delivered a second punishing blow to a university already reeling from the loss of its research funding.

24.4 Stalled Laboratories and Harvard's Austerity

The shockwaves of the freeze were felt first in laboratory facilities. A substantial share of Harvard's federal research funding flows into medicine and public health, with the National Institutes of Health (NIH) serving as the single largest funding source. Harvard Medical School and the Harvard T.H. Chan School of Public Health bore the heaviest brunt.

Stop-work orders began arriving the day after the freeze was announced. Professor Sarah Fortune at Harvard Medical School is a renowned scholar leading tuberculosis research. Tuberculosis is an infectious disease that claims over one million lives worldwide each year. Professor Fortune's team received a stop-work order the very day after the freeze was enacted. The laboratory's stored *Mycobacterium tuberculosis* specimens and experimental timelines were brought to a sudden halt all at once.

The fallout was by no means limited to tuberculosis. Funding was cut for ongoing research into cancer, diabetes, obesity, and autoimmune diseases. HIV/AIDS research and global public health initiatives at the Chan School of Public Health were similarly disrupted. Clinical trials testing therapies on patients were thrown into disarray. Once a clinical trial is halted, re-enrolling participants is exceptionally difficult, and datasets painstakingly gathered over several years risk being rendered useless.

Individual researchers suffered direct harm. Postdoctoral fellows funded by research grants lost their positions. International conferences and collaborative research projects were cancelled. Some scholars began seeking opportunities to relocate to European institutions or other universities. (The brain drain issue is examined further in Chapter 28.)

Conservative critics pushed back, asking: Why should an institution sitting on a $53 billion endowment rely on taxpayer money? Their argument was that Harvard should simply draw on its endowment to plug the research deficit.

An endowment, however, is not a checking account from which money can be withdrawn at will. Harvard's endowment is divided into more than 14,000 individual distinct funds. The overwhelming majority consists of donor-restricted gifts legally bound to specific purposes, such as endowed professorships, designated scholarships, or particular academic departments. Professor Phillip Levine, an economist at Wellesley College, highlighted this very reality: a massive endowment does not mean an elite university can effortlessly absorb such losses.

Harvard instituted stringent austerity measures. It froze new faculty and staff hiring and froze salaries for non-union personnel. Non-essential capital construction and renovation projects were postponed. Throughout the summer and autumn of 2025, layoffs rolled through multiple units across campus. Headcounts were cut at the Harvard Kennedy School, the School of Engineering and Applied Sciences (SEAS), and central administrative offices.

Admissions targets for doctoral programs were also drastically slashed. The Faculty of Arts and Sciences (FAS) announced plans to curtail graduate admissions beginning in the fall of 2025. According to reports, science and engineering departments cut intakes by as much as 75%. Humanities programs saw reductions of roughly 60%, while social science admissions dropped by 50% to 70%. Doctoral students represent the vital human backbone sustaining university research. These severe cutbacks threaten to create a major talent vacuum in the American scientific community in the years ahead.

Harvard also issued bonds to shore up cash reserves. Reports emerged indicating that Harvard Management Company sold off portions of its private equity holdings. The university had entered an emergency fiscal footing.

24.5 The Burroughs Ruling: "Antisemitism Was a Smokescreen"

The lawsuit was assigned to Judge Allison Burroughs of the U.S. District Court in Boston. Judge Burroughs was appointed by President Barack Obama in 2014. (She also presided over the international student enrollment revocation case.)

Oral arguments were held on July 21, 2025. The government argued that the case was fundamentally a contract dispute, and therefore belonged not in a federal district court, but in the Court of Federal Claims— a specialized court that handles monetary claims against the U.S. government. Government counsel asserted that Harvard had shown deliberate indifference toward antisemitism. Judge Burroughs expressed sharp skepticism, remarking that the government's legal logic was difficult to fathom.

On September 3, 2025, Judge Burroughs handed down an 84-page ruling. The verdict was a resounding victory for Harvard. The crux of the decision rested on three core findings:

First, the orders freezing and terminating research grants were declared null and void. The government was ordered to reinstate the suspended research funds and contracts.

Second, the government's actions violated the First Amendment. The funding had been cut off immediately after Harvard refused the administration's demands. The judge viewed this chronological sequence as clear evidence of unconstitutional retaliation, penalizing the university for speech protected by the Constitution.

Third, the government failed to comply with the statutory procedures mandated by Title VI of the Civil Rights Act. The statute prescribes several formal steps prior to cutting off federal assistance: the agency must notify the institution of the violation and afford it an opportunity for voluntary compliance, conduct administrative hearings, and submit a formal report to Congress. The administration had followed none of these required procedural safeguards.

Yet the most frequently cited passage of the opinion lay elsewhere: The judge determined that the administration had used antisemitism as a "smokescreen." In reality, the court found, the administration had launched a targeted assault on America's top universities, an offensive rooted in political ideology. Judge Burroughs scrutinized the demands laid out in the government's letters, noting that a substantial portion had nothing to do with combating antisemitism, citing viewpoint diversity audits and the restructuring of admissions as prime examples.

The ruling was not an uncritical endorsement of Harvard, however. Judge Burroughs pointed out that Harvard had long neglected hateful conduct on its campus, writing that the university must reckon with and acknowledge its shortcomings. Indeed, in late April 2025, Harvard released its own internal task force reports, documenting that Jewish and Israeli students had suffered discrimination and harassment. A companion report released that same day detailed discrimination experienced by Muslim and Arab students. President Garber apologized on behalf of the university.

The line drawn by the judge was sharp and clear: Combating antisemitism is a legitimate and compelling objective. However, that objective does not grant the government license to flout legal due process, nor does it permit the state to cut off financial lifelines simply because it disapproves of a university's speech.

Following the ruling, the government resumed the disbursement of research funds, and Harvard recovered the vast majority of the money owed. That autumn, Judge Burroughs issued a final judgment permanently enjoining further government retaliation: she barred the administration from issuing new grant terminations or stop-work orders rooted in speech, and prohibited any funding cutoffs that bypassed Title VI administrative procedures.

The White House immediately announced its intention to appeal. A White House spokesperson denounced Burroughs as an "activist judge." On December 18, 2025, the government filed an appeal with the U.S. Court of Appeals for the First Circuit. The consolidated lawsuit brought by the

American Association of University Professors (AAUP) alongside Harvard was elevated to the appellate court as well.

24.6 Pressure Beyond the Courtroom: Negotiations, Pentagon Rupture, and DOJ Lawsuit

Even after the ruling, the administration refused to back down. Its offensive unfolded along three distinct fronts: negotiations, executive actions, and fresh litigation.

First were the negotiations. Throughout the autumn of 2025, reports circulated suggesting that the two sides were closing in on a settlement. In late September, President Trump claimed that Harvard had agreed to pay $500 million, proposing that the money be used to fund vocational schools. Harvard declined to confirm this claim. Talks dragged past year's end without resolution.

On February 2, 2026, The New York Times published a report revealing that the administration had dropped its demand for a $200 million settlement payout from Harvard. The very next day, President Trump posted a flurry of messages on Truth Social, denouncing the report as false. He declared that he would now demand $1 billion in damages from Harvard, vowed to sever all ties with Harvard going forward, and went so far as to assert that the matter should be treated as a criminal case rather than a civil dispute. The negotiations had effectively collapsed.

Next came the Department of Defense severing ties. On February 6, 2026, Secretary of Defense Pete Hegseth issued a formal statement. (The Trump administration had adopted the moniker "Department of War" for the Pentagon.) Secretary Hegseth announced that the military would terminate all military education cooperation with Harvard. The cutoff covered graduate-level professional military education, fellowships, and certificate programs. No new enrollments would be permitted starting in the 2026–2027 academic year, though service members currently enrolled were allowed to complete their studies.

Hegseth claimed that officers sent to Harvard returned home molded in Harvard's image, their heads filled with globalism and radical ideologies. Hegseth himself had earned a master's degree from the Harvard Kennedy School; in 2022, he had staged a publicized television stunt in which he packaged up his diploma to send back to the school.

This decision carried profound symbolic weight. The relationship between Harvard and the U.S. military traces back to the Revolutionary War: in 1775, George Washington's Continental Army had quartered troops in Harvard buildings. Roughly 8% of students enrolled in degree programs at the Harvard Kennedy School were military-affiliated personnel. In late February, the Pentagon expanded the scope of its policy, severing fellowships with institutions including MIT, Yale, Princeton, and Columbia, and adding prominent think tanks like the Brookings Institution to the list.

The third front was a new lawsuit filed by the Department of Justice. On March 20, 2026, the DOJ filed a civil rights lawsuit against Harvard, led by the Civil Rights Division headed by Assistant Attorney General Harmeet Dhillon. The DOJ alleged that Harvard had turned a blind eye to the harassment of Jewish and Israeli students, failing to adequately discipline protesters even when they occupied campus buildings. The complaint also sought the clawback of federal funding disbursed to Harvard since October 2023.

Harvard countered that this lawsuit was a blatant attempt to relitigate a case the government had already lost, arguing that it merely recycled the exact factual record addressed in the Burroughs decision.

On August 13, 2026, U.S. District Judge Richard Stearns dismissed the lawsuit. Judge Stearns, appointed by President Bill Clinton in 1993, issued a concise four-page opinion.

In Judge Stearns's view, the case hinged on a single decisive point: The government had issued its formal notice of violation on June 30, 2025. Title VI authorizes sanctions only when non-compliance persists after notice has been given. Yet the government's complaint relied almost entirely on incidents from the 2023–2024 academic year, offering no concrete allegations that Harvard had violated the law following the notice.

Judge Stearns concluded that the incidents cited by the government, whether viewed individually or collectively, were far too piecemeal to support an inference that systematic, institutional violations were ongoing at Harvard. He added an observation regarding the fundamental purpose of Title VI: Congress designed the statute not as a punitive bludgeon, but as a remedial mechanism to prompt non-compliant institutions into voluntary self-correction.

The Department of Justice expressed strong disagreement with the ruling. On August 27, it appealed Stearns's dismissal. Within a single year, Harvard had won two decisive victories before the very same district court; yet both cases were now headed before the court of appeals.

24.7 The Appellate Battles and New Fronts: As of September 2026

As of September 2026, the central battleground lies in the U.S. Court of Appeals for the First Circuit. On April 15, 2026, the government filed its opening appellate brief. The administration's arguments boiled down to three main points:

First, it asserted that the federal district court lacked subject-matter jurisdiction. Because the termination of research funding is fundamentally a contractual matter, it argued, the case belongs before the Court of Federal Claims. In support, the government cited a recent U.S. Supreme Court ruling. In August 2025, the Supreme Court had issued a decision in a dispute over an NIH research grant termination, holding that monetary disputes arising from grant terminations fall under the purview of the Court of Federal Claims— a decision handed down by a narrow 5–4 split.

Second, the government maintained that Title VI is not the sole authority under which federal financial assistance may be terminated, arguing that the executive branch possesses independent grounds to cut off research funding.

Third, it contended that no constitutional violation had occurred. While conceding that portions of its demand letters may have impinged upon university autonomy, the government insisted that the overwhelming core was a legitimate inquiry into antisemitism. It argued that even absent any questionable provisions, the administration would have reached the exact same termination decision.

Support rallied behind Harvard. By July 22, 2026, a multitude of universities and civic organizations had submitted amicus curiae ("friend of the court") briefs. Roughly thirty-six universities signed on to amicus briefs backing Harvard. Among them were Columbia University and Cornell University— the very institutions that had previously reached settlements with the government. Both the American Civil Liberties Union (ACLU) and the libertarian Cato Institute also filed supporting briefs, uniting progressive and conservative advocacy groups on the same side of the courtroom.

The same appellate court is simultaneously presiding over the international student enrollment revocation case. Oral arguments in that matter are scheduled for October 2026. Depending on the appellate court's rulings, both cases could eventually reach the U.S. Supreme Court, with a final resolution likely not arriving until 2027.

In the meantime, the administration opened a fresh front. According to a September 2026 Bloomberg report, the Department of Justice shifted its strategic focus, pivoting from antisemitism investigations to sweeping DEI probes. The DOJ launched fresh inquiries targeting more than 100 elite universities. Harvard's financial aid and scholarship programs were placed squarely under investigation, probing whether racial considerations factor into scholarship allocation.

Harvard's finances have regained a degree of stability. For fiscal year 2025, the endowment expanded to approximately $56.9 billion, bolstered by a buoyant stock market that yielded an 11.9% investment return. In the spring of 2026, several schools across the university resumed merit-based pay raises. However, the 8% endowment excise tax began taking full effect in July 2026, and the repercussions of slashed doctoral admissions and hiring freezes will reverberate for years. In 2025, Harvard expended over $1 million on federal lobbying— its highest lobbying expenditure in more than two decades.

24.8 Conclusion: What Is at Stake in This Fight

Perspectives on the Harvard crisis are sharply divided into two camps.

The argument advanced by the administration and its supporters runs as follows: Elite universities flourished on the back of federal taxpayer dollars. Yet they neglected the protection of Jewish students and leaned heavily toward partisan ideology. So long as they accept taxpayer funding, they must adhere to federal standards. Even Harvard itself conceded that it was late in confronting the issue of antisemitism.

The opposing argument runs as follows: If issues exist, they must be addressed through established legal due process. The government bypassed mandatory investigations and hearings, moving straight to cutting off research funding. A substantial portion of its demands had nothing to do with antisemitism, amounting instead to an attempt to reshape faculty hiring and departmental operations to suit the government's ideological palate. Two separate federal judges, presiding over two different cases, reached conclusions pointing in the same direction.

The facts established in this chapter can be summarized in several points: On the very day Harvard rejected its demands, the government froze $2.2 billion in funding. The freeze immediately brought medical research on tuberculosis, cancer, and HIV to a halt. A federal district court ruled that this measure violated both the Constitution and the Civil Rights Act. The administration subsequently maintained its pressure through negotiations, punitive taxation, the severance of Pentagon ties, and fresh litigation. That new lawsuit was also dismissed, and both cases now sit before the court of appeals.

Most other elite universities chose to settle, paying financial settlements and adopting the institutional changes demanded by the government. Harvard chose litigation and prevailed in back-to-back district court rulings. Yet the costs it bore were steep: research was disrupted, talent departed, and doctoral admissions were slashed.

This crisis goes far beyond the budgetary struggles of a single institution. American scientific leadership is built upon a longstanding partnership between academia and the federal government. Following World War II, the United States entrusted research to universities while the government provided the funding. This architecture transformed the United States into a global scientific powerhouse. When the federal government weaponizes research grants as an instrument of political coercion, that foundational structure begins to crack. Researchers become captive to political whims, and premier talent seeks opportunities abroad.

This dynamic connects directly to the broader theme of this book. The United States is engaged in fierce strategic competition with China in artificial intelligence, semiconductors, and biotechnology. The root of that competitive prowess lies within university laboratories. Yet even as Washington vies with Beijing for technological hegemony, it shuttered the doors of its own domestic research facilities. Universities across China and Europe are actively welcoming researchers who depart the United States. This glaring contradiction illustrates a defining paradox of Donald Trump's second term in both foreign and domestic policy.

Harvard's motto is the Latin word *Veritas*—Truth. The pursuit of truth is not something undertaken by permission of political power. Whether Harvard can hold fast to that principle to the end will be decided in the federal appellate courts. The next chapter turns to another crucial front in this war: the fierce courtroom clash over the visas of more than 7,000 international students at Harvard.

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Chapter 25. Threat to Revoke Visas of 7,000 International Students and the Federal Court's Counterblow

On the afternoon of Thursday, May 22, 2025, the Harvard campus was bustling with preparations for commencement. The commencement ceremony was scheduled for one week later, on May 29. That day, a letter arrived for Harvard President Alan M. Garber. The sender was Secretary of Homeland Security Kristi Noem. The core of the letter consisted of a single sentence: Harvard was "immediately" losing its authorization to enroll international students.

At the time, 6,793 international students were studying at Harvard. They accounted for 27.2% of the total student body—more than one out of every four students. Students preparing to graduate were left worrying first and foremost about whether they would even be permitted to receive their degrees. Currently enrolled students faced the prospect of losing their lawful status unless they transferred to another university. Incoming freshmen who had received admission offers and were awaiting matriculation suddenly found themselves with nowhere to go.

If the $2.2 billion research funding freeze discussed in Chapter 24 was financial strangulation aimed at cutting off funds, this measure directly targeted people. In the brawl between the university and the federal government, the legal status of thousands of international students was put on the line. This chapter traces the legal battlefield that unfolded in the aftermath. It is the account of how a single federal judge intervened twice to bring the administration's actions to an abrupt halt.

25.1 From the April Demands to the May 22 Revocation of Certification

First, it is necessary to examine the institutional framework targeted by this measure. For an American university to enroll international students, it must hold federal certification. This certification system is known as the Student and Exchange Visitor Program. Its English abbreviation is SEVP. SEVP is administered by an entity within U.S. Immigration and Customs Enforcement (ICE). Only SEVP-certified institutions can issue the documentation required for the issuance of student visas (F-1). Likewise, exchange visitor visas (J-1) require designation by the U.S. Department of State for host institutions to issue invitations. If certification is lost, the school cannot enroll new international students. Furthermore, currently enrolled students lose the underlying legal basis for their stay sponsored by the university.

The origin of the clash dated back one month. On April 11, 2025, a federal task force dispatched a letter demanding that Harvard thoroughly overhaul its governance, admissions, and hiring practices. Harvard publicly rejected these demands on April 14. That evening, the freeze on $2.2 billion in research grants was announced.

Two days later, on April 16, Secretary Noem sent a second demand letter to Harvard. It directed Harvard to submit, by April 30, all records of "unlawful and violent activity" by students holding student visas. It was accompanied by a warning that failure to comply would result in the loss of SEVP certification. On April 30, Harvard submitted partial records within the scope mandated by applicable regulations. The Department of Homeland Security declared this insufficient and demanded additional materials. Through mid-May, the two sides exchanged emails, sparring over the legal scope of the disclosure obligations.

The May 22 letter was designed to put a definitive end to that tug-of-war. Secretary Noem wrote that Harvard's SEVP certification was suspended "immediately." As a consequence, Harvard would be barred from enrolling F or J visa students for the 2025–2026 academic year. In a press release, the Department of Homeland Security stated that currently enrolled international students would lose their lawful status unless they transferred to another school.

The letter also contained a conditional off-ramp: if Harvard provided the requested materials within 72 hours, it would be granted an "opportunity" to regain certification prior to the new academic year. The list of demands was sweeping. First among them were records over the past five years of unlawful, dangerous, or violent activities—both on and off campus—involving nonimmigrant students affiliated with Harvard. Records of threatening other students or faculty and staff, or infringing on their rights, were also included. Disciplinary records for all international students were demanded as well. The request further encompassed all audio and video recordings capturing international students participating in protests. This was a demand to gather five years of documentation scattered across 13 separate schools and faculties within 72 hours. From Harvard's perspective, the demand was practically impossible. Senator Elizabeth Warren and others later sent a letter to Secretary Noem. They pointed out that this assignment was impossible to execute and carried serious legal flaws.

In her announcement, Secretary Noem cited three rationales for the measure. She asserted that Harvard had fostered violence and antisemitism and had collaborated with the Chinese Communist Party (CCP) on campus. The Department of Homeland Security also claimed that Harvard had invited and trained members of a Chinese paramilitary organization through 2024. In an interview with Fox News, Noem characterized this action as a warning shot directed at all other universities. When asked about the possibility of Harvard filing a lawsuit, she responded in effect: "Let them try."

Harvard issued a statement on the same day. The university pushed back, declaring that the measure constituted unlawful retaliation and inflicted profound harm on both the university community and the nation. In a message to the Harvard community, President Garber condemned the measure as illegal and unjustified. He wrote that the action jeopardized the futures of thousands of students and scholars at Harvard. He added that it was also an alarming signal sent to countless international students nationwide who had crossed oceans to study in the United States.

25.2 One in Four: The Weight of Harvard's International Student Community

What the administration had taken hostage was one-fourth of Harvard's entire community. According to data released by Harvard, its international students hailed from 147 countries. China was the largest source country, followed by Canada, India, South Korea, and the United Kingdom. Harvard hosts more than 4,000 international scholars each year—the largest cohort among American universities. When postdoctoral researchers and visiting scholars are included, Harvard's international academic population approaches 10,000.

This proportion grows even larger at the graduate level. At the Harvard Kennedy School, the graduate school of public policy, international students make up roughly half of the student body. Large concentrations of international students also populate the Harvard Business School, the Harvard T.H. Chan School of Public Health, and graduate programs in engineering and the applied sciences. The research laboratories across these graduate institutions can scarcely function without international talent.

The financial flow must also be considered. A substantial majority of international students are ineligible for federal financial aid and pay virtually full tuition. This revenue feeds back into the financial aid pool distributed as scholarships to American students. Measures barring international students do not increase spots for American students; rather, they destabilize a fundamental pillar of university finances.

The student body mobilized rapidly. The Harvard Undergraduate Association (HUA), the undergraduate student government, is led by two co-presidents. One of them was Abdullah Shahid Sial, an international student from Lahore, Pakistan. His name is rendered in English as Abdullah Shahid Sial. He was elected co-president in the April 2025 election. During the campaign debates, he remarked that students were terrified to speak out because they did not know when an international student living next door might be arrested. Immediately after the April demand letter became public, a rally was held in Harvard Yard. The rally was titled "Stand Up for Internationals."

In an op-ed published in the campus newspaper *The Harvard Crimson*, Sial summarized the choice facing the university community: would they turn their backs on one another, or stand together to confront the threat? He wrote that international students were currently the most vulnerable members of the community whom everyone needed to defend. He voiced the same argument in public broadcasting interviews after May 22. Students felt acutely that they had been reduced to bargaining chips in a showdown between the White House and Harvard.

President Trump met with reporters in the Oval Office on May 28. He asserted that the proportion of international students at Harvard should be "around 15%, not 31%." He offered the rationale that American students were being shut out of admissions because of international

students. He also demanded that Harvard disclose its roster of international students, explaining that he wanted to know where these international students came from and whether they were troublemakers. Harvard's official data showed the actual proportion was 27.2%, and Trump provided no evidentiary basis for the 31% figure.

25.3 A Lawsuit Within 24 Hours and Judge Burroughs's First Injunction

Harvard did not wait even a single day. On Friday morning, May 23, Harvard filed a complaint in the U.S. District Court for the District of Massachusetts in Boston. The named defendants were the Department of Homeland Security, the Department of Justice, the Department of State, Immigration and Customs Enforcement, and the heads of each agency.

The complaint advanced three core legal claims. First, the revocation of certification was unlawful retaliation for Harvard's resistance to the government in the research funding dispute and other matters. This violated the First Amendment, which protects freedom of speech. Second, the government skipped the regulatory procedures requiring advance notice and an opportunity to respond. This violated the Fifth Amendment, which guarantees procedural due process. Third, the administrative agency's decision was arbitrary and capricious, violating the Administrative Procedure Act (APA). The Administrative Procedure Act is the federal statute governing the procedures that federal agencies must follow when establishing rules and issuing administrative orders.

Along with the complaint, Harvard filed an application for a temporary restraining order (TRO). A temporary restraining order is an emergency order issued by a court for a brief duration to prevent irreparable harm before the merits of the case can be adjudicated. In the Korean legal system, it functions similarly to a provisional injunction granted under urgent circumstances. A longer-lasting order is a preliminary injunction. A preliminary injunction typically preserves the status quo until a final judgment on the merits is rendered.

The case was assigned to U.S. District Judge Allison D. Burroughs. Judge Burroughs was appointed to the federal district court by President Barack Obama in 2014. She had already presided over multiple high-profile cases closely intertwined with Harvard. In 2019, she ruled that Harvard's race-conscious admissions program was lawful. That ruling was overturned by the U.S. Supreme Court in 2023. In 2020, she presided over the lawsuit brought by Harvard and MIT against Immigration and Customs Enforcement. The issue in that case was an administration policy barring international students from remaining in the country if they took only online classes. That litigation ended when the federal government rescinded the policy.

On the afternoon of May 23, Judge Burroughs granted Harvard's application. It came just hours after the complaint had been docketed. Under this order, Harvard regained its legal status as an institution authorized to sponsor international students. The government was barred from

enforcing the revocation of certification until further order from the court. The judge scheduled a remote status conference for May 27 and a preliminary injunction hearing for May 29.

The administration adopted the posture of taking a step backward. On the night of May 28, the Department of Homeland Security served Harvard with a Notice of Intent to Withdraw (NOIW) certification. This was a formal document granting Harvard 30 days to submit rebuttal evidence. It effectively represented a retreat to standard regulatory procedures from its stance six days earlier declaring "immediate" revocation. The international academic organization Scholars at Risk also noted this shift, viewing it as a step back by the government from its original announcement. However, in a press release issued the following day, the Department of Homeland Security declared that it would continue to aggressively pursue Harvard.

At the May 29 hearing, Judge Burroughs unequivocally affirmed the preservation of the status quo. Her ruling kept the temporary restraining order in place while the administrative withdrawal proceedings were pending. Both sides agreed to confer and submit proposed agreed-upon language for a preliminary injunction.

That same morning, Harvard held its commencement ceremonies. Introducing the graduating class, President Garber noted that they had come from down the street, across the nation, and from every corner of the world. He then added: "from around the world, as it should be." A prolonged standing ovation resonated through the commencement grounds.

25.4 The June 4 Proclamation and the Second Injunction

When the SEVP avenue was closed off by court order, the White House opened another door. On June 4, President Trump signed a Presidential Proclamation. The proclamation barred foreign nationals from entering the United States to study or participate in exchange programs at Harvard. It applied to holders of student visas (F, M) and exchange visitor visas (J) for a duration of six months. The proclamation also directed the Secretary of State to review whether to revoke existing visas already issued to Harvard international students.

The statutory basis invoked was Section 212(f) of the Immigration and Nationality Act (INA). This provision authorizes the president to suspend the entry of any aliens if the president finds that their entry would be detrimental to the interests of the United States. In 2018, the Supreme Court recognized broad presidential discretion under this provision in the so-called "Muslim travel ban" case. The administration leaned heavily on that precedent. Its calculation was that while SEVP certification was bound by rigid administrative regulations and procedures, presidential authority to suspend entry was subject to extremely narrow judicial review.

The justification put forward by the proclamation was national security. At its core was the allegation that Harvard had failed to turn over records regarding international students to the

federal government. It also incorporated allegations regarding ties to foreign funding and increases in campus crime. Harvard vehemently denied the claim that it had refused to provide records.

Around this time, the Department of State also went into action. On May 30, the State Department cabled diplomatic posts abroad. The cable instructed consular officials to subject visa applicants seeking to visit or study at Harvard to enhanced scrutiny of their online and social media activity. This measure served as a prelude to the worldwide social media vetting policy for international students examined in Chapter 26.

Harvard's response, once again, did not take more than 24 hours. On June 5, Harvard filed an amended complaint adding legal challenges against the Presidential Proclamation. The university argued that the President was attempting an unlawful end-run around the court's prior order. On the same day, Harvard filed a new application for a temporary restraining order. Judge Burroughs issued an order enjoining enforcement of the proclamation that very day. It was a decision rendered the day after the proclamation was signed, on the very day the motion was submitted.

On June 16, oral arguments between the parties were held in open court. The government argued that the judiciary had no authority to intrude upon the President's constitutional and statutory powers over immigration and foreign affairs. Harvard countered that the true target singled out by the proclamation was not foreign nationals, but Harvard University itself.

On June 20, Judge Burroughs entered a preliminary injunction against the SEVP certification revocation. Government agencies were barred from enforcing or giving legal effect to the May 22 revocation notice. The judge ordered the government to restore international students and visa applicants to their prior legal status. She also ordered that guidance be issued within 72 hours instructing overseas consular posts, border ports of entry, and field offices to disregard the revocation notice. At the same time, the order did not preclude the government from issuing routine regulatory requests for information in accordance with standard rules.

On June 23, the judge issued a preliminary injunction against the Presidential Proclamation, accompanied by a comprehensive 44-page memorandum of decision. The decision concluded that the proclamation exceeded the scope of authority delegated to the President under the Immigration and Nationality Act. She also found that it infringed upon core constitutional rights, including freedom of speech and academic freedom. Judge Burroughs wrote in her decision: "This case is about core constitutional rights that must be protected." The judge listed freedom of thought, freedom of speech, and freedom of the press. She noted that these three freedoms are the fundamental pillars sustaining democracy and the essential bulwarks guarding against authoritarianism.

The judge also sternly rebuked the government's conduct. She observed that the Department of Homeland Security, Immigration and Customs Enforcement, the Department of Justice, and the Department of State had acted with reckless haste. The judge concluded that the agencies gave

virtually no consideration to the profound repercussions their actions would have on international students and the nation as a whole. The ruling characterized the government's endeavor as a misguided effort to assert control over a venerable academic institution. It concluded that this campaign to suppress diverse perspectives posed a grave threat to constitutional rights.

Thus, two distinct injunctions stood firm. One blocked the Department of Homeland Security's revocation of certification. The other blocked the President's entry ban proclamation. Harvard's international students had reclaimed their path to register and enroll normally for the Fall 2025 semester.

25.5 The Battle Moves to the Court of Appeals and Academia Rallies

The government refused to back down. On June 27, the Department of Justice filed a notice of appeal challenging the preliminary injunction against the proclamation. The case ascended to the U.S. Court of Appeals for the First Circuit in Boston. The appellate docket number was 25-1627. In its grounds for appeal, the government contended that presidential authority over immigration and foreign affairs was non-justiciable and shielded from judicial scrutiny.

The legal clash continued in the district court as well. On August 8, the government filed a motion to dismiss the lawsuit in its entirety. Its logic was that the proclamation constituted a legitimate exercise of presidential authority, and that the court should apply only the most deferential rational-basis review. Harvard filed its brief in opposition on September 5. In the court of appeals, Harvard submitted its principal response brief on January 12, 2026.

During this period, academia and state governments rallied decisively to Harvard's side. In August 2025, a bipartisan group of former senior national security and foreign policy officials filed an amicus curiae brief in the court of appeals. An amicus curiae brief is a legal document submitted to a court by an outside third party who is not a direct litigant in the case. These former officials argued that banning international students would directly benefit America's strategic competitors and adversaries. They cited as evidence the fact that the Hong Kong University of Science and Technology had announced on May 23 that it was prepared to admit affected Harvard students.

On January 20, 2026, two massive amicus briefs were submitted to the court. One was an amicus brief from higher education organizations led by the American Council on Education (ACE). This brief urged the court of appeals to uphold the preliminary injunction against the proclamation. The brief pointed out that the administration viewed Harvard students as excessively "activist." It also noted that the administration believed faculty were inculcating improper "ideologies." It argued that these judgments were the true motive behind the proclamation. In February 2026, individual institutions such as Swarthmore College also signed on to this brief.

The other amicus brief was led by Massachusetts Attorney General Andrea Joy Campbell. A total of 21 state attorneys general joined the brief. They argued that barring Harvard international students inflicted direct harm on the universities, economies, and scientific competitiveness of their respective states. The brief quoted an international student who observed: foreign students were being treated like "poker chips" in the political war between the White House and Harvard. The brief viewed this offensive as inextricably linked with the research funding freeze and threats to revoke tax-exempt status— part of a single, coordinated campaign of political pressure that could not be viewed in isolation.

Elder statesmen of the American legal academy also raised their voices. Renowned constitutional scholar Laurence Tribe is a professor emeritus at Harvard Law School. In international broadcast interviews, he sharply criticized the administration. He remarked that the administration's stated rationale of combating antisemitism was nothing more than a "fig leaf" designed to conceal its true intentions. He argued that the administration's primary objective was not securing courtroom victories, but rather instilling widespread fear across higher education and society.

As of September 2026, this appeal remains unresolved. Three government appeals concerning Harvard are currently pending before the U.S. Court of Appeals for the First Circuit: The first is this international student visa case. The second is the $2.2 billion research funding freeze case, which Harvard won at the district court level in the autumn of 2025. On August 27, 2026, a third appeal was added to the docket. After U.S. District Judge Richard G. Stearns dismissed the Justice Department's Title VI antisemitism lawsuit against Harvard on August 13, the Department of Justice appealed. Judge Stearns had ruled that the isolated incidents cited by the government were far too sporadic to establish a systemic or continuing violation of federal law.

25.6 Victory in the Courtroom, Costs Beyond It

The courts ruled in Harvard's favor on both occasions. Judge Burroughs's injunctions preserved the legal space necessary for international students to remain on campus. Yet the costs exacted outside the courtroom were by no means negligible.

Looked at strictly through numbers, Harvard weathered the storm. According to data released by Harvard in January 2026, international student enrollment in the fall of 2025 stood at 6,749. This represented approximately 28% of the total student body—the highest proportion since at least 2002. Although the absolute number dipped by about 50 students compared to the prior year, their overall percentage actually rose.

Looking beneath the surface, however, reveals a starkly different picture. Among incoming undergraduate freshmen, the proportion of international students dropped from 18% to 15%. Total undergraduate international enrollment declined by 2.6% year-over-year. An increase in graduate international students offset that deficit. The number of students from India fell to 545, with media

outlets reporting a decline of roughly 31% compared to the previous year. In contrast, students from China increased to 1,452, remaining by far the largest single national cohort.

Across the United States as a whole, the broader trend was considerably darker. According to a survey by the Institute of International Education (IIE), new international student enrollments nationwide plummeted by 17% in the fall of 2025. The drop among international graduate students was even steeper than that among undergraduates. While Harvard was able to withstand the onslaught thanks to its global prestige and deep endowment, other universities lacked comparable armor. This nationwide crisis is examined in detail in Chapter 28.

Negotiations between Harvard and the White House also remained deadlocked. In September 2025, President Trump claimed that a $500 million settlement was within reach. Harvard was reported to have offered vocational training programs in lieu of direct cash payments. On the night of February 2, 2026, President Trump took to Truth Social to announce that he was rejecting the proposal. He stated that he was now demanding $1 billion in damages and wanted nothing more to do with Harvard going forward. This outburst came just hours after *The New York Times* reported that the White House had dropped its demand for cash. As of September 2026, no settlement has been reached.

Moreover, measures targeting international students expanded well beyond Harvard. The Department of Homeland Security drafted a new regulation overhauling the duration of stay framework for international students and exchange visitors. Historically, F and J visa holders were admitted for the entire duration of their academic studies. This policy was known as "Duration of Status" (D/S). The new rule sought to eliminate this system and establish fixed periods of stay. Facing an effective implementation date of September 15, 2026, higher education coalitions filed suit. On September 14, the U.S. District Court in Boston issued a preliminary injunction enjoining the rule from taking effect. The Harvard International Office immediately notified students of the development. The office cautioned, however, that the government could appeal and that the rule could still take effect following an extended legal battle.

This episode connects directly to the overarching theme of this book: U.S.–China relations. Among the justifications Secretary Noem cited for revoking SEVP certification was Harvard's alleged collaboration with the Chinese Communist Party. On May 28, Secretary of State Marco Rubio announced that the U.S. would aggressively revoke Chinese students' visas. The target was students with ties to the CCP or those studying in critical fields. Yet just three months later, the President said the exact opposite. On August 25, 2025, President Trump took questions from reporters during a White House bilateral meeting with South Korean President Lee Jae-myung. He stated that although he often heard people say Chinese students should not be admitted, he intended to welcome them. He then tossed out the figure of 600,000. That was more than double the number of Chinese students then studying in the United States. At a Cabinet meeting the following day, President Trump remarked that without international students, the American higher

education system would instantly collapse. Figures from his base, such as Representative Marjorie Taylor Greene and Steve Bannon, pushed back. The Chinese government responded favorably, stating it hoped the United States would welcome even more Chinese students.

Earlier that May, the Chinese Ministry of Foreign Affairs had stated regarding the Harvard measure that it opposed the politicization of educational cooperation. It also said that such measures would only damage America's international image and credibility. It took less than three months for Chinese students, described as a security threat, to become a gift in trade negotiations. This meant that student policy was following the state of negotiations rather than principle. The status of Harvard's 7,000 international students was also shaken by that calculation. The clash surrounding Harvard was never merely an isolated dispute involving a single university; it was a microcosm of U.S.–China technological competition and the global struggle to recruit top talent. Homeland Security sought to slam the gates shut, the university fought to retain global intellect, and the White House wavered erratically. In the crossfire, international students began to question the integrity of America's fundamental promises. The long-term toll exacted by this erosion of trust will extend far beyond lost tuition revenue at Harvard.

For Korean readers, this is far from an abstract issue. South Korea consistently ranks among the top five countries sending international students to Harvard. Chapters 20 and 21 examined the federal crackdown at the Georgia battery plant. Just as in that incident, South Koreans residing lawfully can have their status threatened overnight. Families preparing for study abroad must now weigh the stability of visa policy just as much as admission offers.

Judge Burroughs's two orders brought the administration's actions to a halt. Her decisions reaffirmed the foundational principle that executive power, too, must follow the procedures prescribed by the Constitution and the law. Yet those orders remain merely provisional measures prior to a judgment on the merits. The final outcome could proceed through the court of appeals all the way to the Supreme Court. In the meantime, students around the world continue to receive acceptance letters from American universities—accompanied by an inescapable cloud of uncertainty.

The administration's next offensive came from beyond America's borders. The State Department halted international student visa interviews at U.S. embassies and consulates worldwide and rolled out mandatory social media vetting. Chapter 26 turns to that unfolding crisis.

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Chapter 26. The State Department's Global Pause on International Student Visa Interviews and Social Media Vetting

Secretary of State Marco Rubio brought international student visa interviews to a halt across U.S. diplomatic missions worldwide. He then pushed through social media vetting designed to screen out anti-Israel and anti-government posts. This chapter traces the full story of those developments.

26.1 Secretary of State Rubio's Cable: Global Halt to International Student Visa Interviews

On May 27, 2025, U.S. State Department headquarters dispatched a cable to diplomatic missions around the world. A cable is an official diplomatic document exchanged between headquarters and overseas posts. The signatory was Secretary of State Marco Rubio.

Its contents were brief: an instruction to immediately halt all new appointment bookings for international student and exchange visitor visa interviews. The target comprised three visa categories: F, M, and J. F-1 is the visa for international students pursuing degree programs at undergraduate and graduate levels. M-1 is for vocational training students, while J-1 is for researchers and exchange scholars.

The State Department cited the expansion of social media vetting as the reason for the pause. Missions were instructed not to accept new bookings until a follow-up cable containing new guidance was issued. Interviews that had already been scheduled proceeded as planned. It was new bookings that could no longer be made.

The timing was the crux of the problem. May and June mark the peak visa season ahead of the U.S. academic fall semester. This is the window when students who have received acceptance notices rush to secure consular interviews all at once.

The situation in Seoul was no different. Student visa appointment dates vanished from the booking portal of the U.S. Embassy in Seoul. An official at a visa agency told the media that interview dates were simply not appearing on the screen. The embassy replied that application submissions were still being accepted, adding that interview schedules remained fluid depending on the time required for vetting.

This measure was not an isolated incident. Five days earlier, on May 22, the Department of Homeland Security (DHS) had stripped Harvard University of its authorization to enroll

international students. It had revoked Harvard's Student and Exchange Visitor Program (SEVP) certification—an event covered in Chapter 25.

Just one day later, on May 28, Secretary Rubio made another announcement: The United States would aggressively revoke the visas of Chinese students who had ties to the Chinese Communist Party (CCP) or were studying in critical fields.

The assault on Harvard, the suspension of visa interviews, and the targeting of Chinese students unfolded in rapid succession within a single week. The global international education market interpreted this as a unified signal: A signal that the United States had resolved to narrow its doors to international students.

Late May 2025: Developments Over the Course of a Single Week

May 22	Department of Homeland Security notifies Harvard of SEVP certification revocation
May 27	State Department cable halts new interview bookings for student and exchange visitor visas
May 28	Secretary Rubio announces policy of aggressively revoking visas of Chinese students
June 18	State Department follow-up cable resumes interviews and mandates public social media disclosure

The pause on visa interviews was lifted after approximately three weeks. Yet those three weeks were right in the middle of peak season. The backlogged appointments created bottlenecks throughout the summer.

Halting student visa bookings worldwide all at once for reasons other than a global pandemic was virtually unprecedented. During the COVID-19 pandemic in 2020, diplomatic missions had halted consular operations, but the rationale then was epidemic disease control. The 2025 suspension had nothing to do with disease control. It was a preparatory period designed to scrutinize applicants' online speech.

26.2 Inside the Social Media Vetting: Mandatory Public Profiles and the "Hostile Attitude" Standard

On June 18, the State Department sent a second cable. It instructed missions to reopen interview appointments, but to evaluate all applicants under new criteria. There were three core components:

First, F, M, and J visa applicants had to set all their social media accounts to "public." Diplomatic missions, including the U.S. Embassy in Mexico, posted this requirement verbatim on their websites. The requirement came with an explanation that it was necessary to verify identity and eligibility for entry.

Second, consular officers had to conduct a comprehensive and thorough review of an applicant's entire online presence. In a press release, the State Department declared that every visa adjudication is a national security decision. Third, refusing to make accounts public could be interpreted as an attempt to conceal information.

Submitting social media accounts was not itself a new requirement. Since May 2019, the U.S. visa application form (Form DS-160) had required applicants to list the social media handles they had used over the preceding five years. Form DS-160 is the document submitted online when applying for a nonimmigrant visa.

What changed in 2025 was the method of inspecting those accounts. The process moved from merely listing handles to being forced to unlock accounts for inspection. A private account could now, in and of itself, serve as grounds for suspicion.

What, then, were consular officers looking for? The cable instructed officers to examine applicants for a "hostile attitude" toward U.S. citizens, culture, government, institutions, or founding principles. Traces of support for antisemitic harassment or violence were also explicitly designated for scrutiny. Support for terrorist organizations and advocacy of unlawful antisemitic activities were also cited as grounds for refusal.

The problem lay in the sheer breadth of the phrase "hostile attitude." Support for terrorism has a relatively clear boundary; a hostile attitude does not. Whether a post criticizing airstrikes in the Gaza Strip fell under this category was a question the cable did not answer. Whether posts critical of U.S. foreign policy qualified was likewise left to the discretion of individual consular officers. Students had no way of knowing the standard. Without knowing it, they had no choice but to exercise preemptive self-restraint.

Key Elements of the State Department Guidance of June 18, 2025

Target	All F, M, and J visa applicants
Disclosure	Set all social media accounts to "public"
Scope of Review	Applicant's entire online activity
Content	Hostile attitude toward U.S. citizens, culture, government, institutions, or founding principles; Support for terrorism, endorsement of antisemitic harassment or violence
Private Accounts	May be interpreted as an attempt to conceal information
Capacity	Consular posts may reduce the number of appointments in view of the vetting burden
Priority	Incoming students admitted to institutions where international students comprise less than 15% of the student body

The cable contained two additional administrative directives worthy of close attention. One was permission to reduce the number of interview appointments. Because vetting would take longer, consular posts were allowed to schedule fewer interviews to match their operational capacity.

The other was an instruction to prioritize appointment scheduling for incoming students admitted to universities where international students make up less than 15% of total enrollment. According to a 2023 Associated Press analysis, approximately 200 universities have international student populations exceeding 15%. All eight Ivy League universities fall into this category. The structure was designed so that the more prestigious the research university a student was admitted to, the further back they were pushed in line for an interview.

As justification for tightening international student vetting, the State Department cited warnings from the Federal Bureau of Investigation (FBI). These warnings cautioned that foreign adversaries were attempting to exfiltrate technological intelligence through American universities. Preventing technology theft is a longstanding national security objective. However, screening social media posts and preventing technology theft are fundamentally different matters. In effect, a mechanism designed to filter political speech was dressed up under the guise of technological security.

This standard did not stop with students. Starting December 15, 2025, the same vetting was attached to specialty occupation work visas (H-1B) and dependent family visas (H-4). On March 30, 2026, more than ten additional visa categories were added, including fiancé(e) visas (K-1) and religious worker visas (R-1). A regime tested on students expanded within less than a year across the vast majority of nonimmigrant visas.

South Koreans were not spared either. On December 10, 2025, U.S. Customs and Border Protection (CBP) published a proposed revision to the Electronic System for Travel Authorization (ESTA) in the Federal Register. ESTA is the online travel authorization obtained by citizens of countries with visa waiver agreements with the United States, such as South Korea.

The proposed rule sought to make social media information from the preceding five years a mandatory requirement. Authority to collect ten years of email addresses, family details, and biometric data was included alongside it.

The public comment period closed on February 9, 2026. CBP announced that it was reviewing approximately 2,000 public comments, adding that the rule would not take effect prior to the World Cup in June. Social media scrutiny that began with international students had reached all the way down to the doorstep of ordinary tourists.

26.3 Peak-Season Chaos: Indian, Chinese, and South Korean Students in "Visa Limbo"

The interview pause lasted three weeks, but its repercussions stretched across the entire year. International students were plunged into an indefinite holding pattern—a state English-language media termed "limbo." They were admitted but had no visas, with no certainty as to when or

whether they would receive them. Airline tickets, dormitory contracts, and student loans all hung in the balance, tied to that elusive date.

The heaviest blow fell upon India. According to the Institute of International Education (IIE), there were 363,019 Indian international students in the United States during the 2024–2025 academic year. India had overtaken China in the 2023–2024 academic year to become the number-one sending country.

In that same academic year, Chinese students numbered 265,919. Combined, students from these two countries accounted for 53% of the total 1,177,766 international students in the United States. Graduate programs in science and engineering at American universities have long relied heavily on students from these two nations.

The figures came to light in the summer of 2026. According to State Department data, issuances of new student and exchange visitor visas in 2025 fell by 23% compared to the previous year. F-1 visas for degree-seeking students dropped by approximately one-third. By nationality, issuances declined by 28% for Chinese nationals and 57% for Indian nationals.

Inside Higher Ed reported that the issuance trajectory broke sharply in May. Issuances that had tracked close to the previous year's levels in the early months plummeted in tandem with the interview pause.

The Center for Immigration Studies (CIS) conducted a separate comparison isolating the peak season of May through August. During this window in 2025, 22,149 F-1 visas were issued to Indian nationals. That was 62% fewer than the 58,694 issued during the corresponding period in 2024. For Chinese nationals, the count stood at 40,034, down 34% from 61,075 the previous year. CIS is an organization that advocates for immigration reduction. Even an institution of that orientation did not contest the scale of the drop.

Decline in U.S. Student Visa Issuance in 2025

Category	Rate of Decline
Total New F, M, and J Visas (2025)	23%
F-1 Visas (2025)	Approx. 33%
Chinese Nationals (2025)	28%
Indian Nationals (2025)	57%
Indian Nationals F-1 (May–August, YoY)	62%
Chinese Nationals F-1 (May–August, YoY)	34%

Source: U.S. Department of State statistics; analysis by Inside Higher Ed and ICEF Monitor (August 2026); Center for Immigration Studies (August 2026).

Numbers from university campuses pointed in the exact same direction. In an IIE survey for the fall 2025 semester, new international student enrollment dropped by 17%. NAFSA: Association of International Educators projected that the decline would carry forward into the 2026–2027 academic year. In that scenario, NAFSA estimated the economic loss to the United States at $3.4 billion.

On the Indian side, visa refusals also surged. ICEF Monitor reported that 61% of Indian student visa applicants were rejected in 2025. In an IIE survey in the spring of 2026, 61% of participating institutions reported a decrease in Indian applicants.

China exhibited a somewhat different dynamic. Secretary Rubio's announcement on May 28 sent shockwaves through the Chinese student community. Yet in August 2025, President Trump stated that he would accept 600,000 Chinese students. It was a statement made on the eve of trade negotiations. Portions of the Republican base reacted with immediate fury.

The Secretary of State declared he would weed out Chinese students, while the President announced he would take 600,000 of them. It was a scene laying bare how international student policy was steered not by enduring principles, but as a transactional bargaining chip. It followed the exact same dynamic as the dealmaking at the 2026 U.S.–China summit explored throughout this book.

South Korean international students were impacted as well. According to IIE tallies, there are approximately 40,000 South Korean students in the United States. Following China and India, South Korea has long held a top-tier ranking. When student visa bookings at the U.S. Embassy in Seoul ground to a halt in late May 2025, an emergency erupted for students preparing for the August start of classes. International affairs offices at South Korean universities reported delays in visa documentation and an inability to secure interview appointments.

The Embassy of the Republic of Korea in the United States had already urged students to exercise heightened caution in April of that year. It advised students to check their enrollment status frequently, citing cases of visa cancellations and SEVIS status terminations. SEVIS is the electronic network through which the U.S. government tracks the immigration status of international students. A notable number of enrolled students postponed trips home to South Korea during vacation, fearful that they might be denied re-entry into the United States.

In September of that year, approximately 300 South Koreans were arrested at a battery plant in Georgia. This was the incident covered in Chapters 20 and 21. The calculus for South Korean households considering study in the United States grew significantly more complicated.

26.4 Spokesperson Tammy Bruce and "Catch and Revoke"

Even in the face of mounting criticism, the State Department did not back down. Tammy Bruce, then spokesperson for the State Department, reiterated a hardline stance during briefings. The crux of her message was that the administration would use every tool at its disposal to screen anyone seeking entry into the United States, whether students or otherwise.

State Department officials frequently repeated the phrase that a visa is a privilege, not a right. Their argument was that granting or revoking a visa is entirely a matter of government discretion.

New applicants were not the only ones affected. Students already inside the United States also became targets. In March 2025, American media outlet Axios reported on a new State Department operation. Its name was "Catch and Revoke"—meaning "catch and revoke." The initiative reportedly deployed artificial intelligence (AI) tools to scrutinize the social media accounts of international student visa holders for signs of support for Hamas.

Secretary Rubio told reporters that same month that visas were being revoked on a daily basis. He even used the word "lunatics" to describe student protesters.

Incidents followed in rapid succession during the same period. On March 8, Mahmoud Khalil, a permanent resident who had completed graduate studies at Columbia University, was arrested. He had served as a student negotiation representative during pro-Palestinian campus protests.

On March 25, Rümeysa Öztürk, a doctoral student at Tufts University, was detained on the street. She had previously co-authored an op-ed in a student newspaper criticizing Israel. The State Department revoked her visa. A federal judge ordered her release in May.

In April, SEVIS records were erased en masse. Across more than 280 universities, over 1,800 international students and graduates lost their lawful status. This figure was more than six times the initial estimate of roughly 300 cited by Secretary Rubio.

The justifications were often murky. Reports surfaced of students having their legal status terminated solely over dismissed traffic violations or years-old minor police records. As lawsuits from students mounted, the government announced on April 25 that it would reinstate those statuses en masse.

Timeline of State Department Announcements on Student Visa Revocations

Timeline	Announcement Details
March 2025	Secretary Rubio cites approximately 300 revocations
April 2025	University tallies indicate status changes for over 1,800 students
August 2025	Over 6,000 student visas revoked (approx. 4,000 for legal violations, 200–300 for terrorism-related grounds)

January 2026	8,000 student visas and more than 100,000 visas in total revoked
August 2026	Cumulative visa revocations exceed 175,000

Source: State Department announcements (as reported by CNN, CBS, and Inside Higher Ed); university notices.

In August 2025, the State Department disclosed that it had revoked more than 6,000 student visas. It explained that approximately 4,000 cases were due to legal violations such as assault, driving under the influence (DUI), and theft. Between 200 and 300 cases were justified under terrorism-related provisions of the Immigration and Nationality Act (INA). The State Department did not disclose whether these figures represented arrests, indictments, or convictions.

A distinction must be made here. Not all 4,000 cases were revoked due to political speech. According to the State Department's explanation, a substantial portion involved criminal infractions and visa overstays. However, the criteria defining the 200 to 300 cases classified as "support for terrorism" were never made public. Cases like Öztürk's—where a visa was stripped over a single op-ed—fell within this category.

In January 2026, the State Department posted on X that it had revoked 8,000 student visas. Across all visas, the total exceeded 100,000—double the level seen in the final year of the Biden administration. Fox News, quoting State Department explanations, reported that roughly half were due to DUIs. By late August 2026, the cumulative number of visa revocations exceeded 175,000.

The State Department refers to this as "continuous vetting." It is the concept that even after a visa is issued, an individual's status continues to be verified, and if a problem comes to light, the visa will be revoked. To students, these words sounded very different: it meant that even after receiving a visa, one's legal status could be upended at any moment over a single social media post.

26.5 Freedom of Speech and Self-Censorship: The Courts Apply the Brakes

As the scope of vetting expanded, campuses grew quieter. International students deleted their social media posts or closed their accounts. They avoided protest sites and held their words during classroom discussions. English-language media described this as students choosing to "keep their heads down."

The First Amendment to the U.S. Constitution guarantees freedom of speech. In 1945, the U.S. Supreme Court held that noncitizens also enjoy this right. Yet before a government holding the power over their visas, that right became practically unusable in reality. One might theoretically have the right to speak, but if speaking means risking deportation, it becomes hard to speak.

In legal terminology, this condition is known as a "chilling effect." It is the phenomenon where expression is curtailed merely by the possibility of punishment, even without actual penalties being

imposed.

One organization took this chilling effect to court: The Stanford Daily, the student newspaper of Stanford University. The newspaper filed a lawsuit on August 6, 2025, against Secretary of State Rubio and other officials. A student holding an F-1 visa joined as a co-plaintiff. Their claim was that articles had diminished because international student reporters and sources feared government retaliation.

On August 28, 2026, Judge Noël Wise issued a ruling. Judge Wise is on the U.S. District Court for the Northern District of California. The opinion spanned 90 pages. The newspaper prevailed on six of its eight claims.

Judge Wise held that the State Department and the Department of Homeland Security had violated the First and Fifth Amendments. The judge also found that two provisions of the Immigration and Nationality Act relied upon by the government were unconstitutional insofar as they were applied to protected speech: Specifically, the deportation provision based on foreign policy grounds and the visa revocation provision.

The judge characterized the government's measures as a pattern of retaliation aimed at chilling speech. The opinion further noted that democracy is weakened when members of a society feel compelled to "toe the line" to avoid government retaliation.

Editor-in-Chief George Porteous also issued a statement. He asserted that journalists should never have to fear deportation over their reporting.

Yet the ruling had its limitations as well. The judge declined to grant a preliminary injunction to prospectively halt speech-based visa revocations and deportations. The reasoning was that such relief was not appropriate at this stage. The administration is highly likely to appeal. Conservative legal circles criticized the ruling, arguing it conflicted with Supreme Court precedent.

A similar ruling had been issued earlier in Boston. In September 2025, the U.S. District Court for the District of Massachusetts issued a ruling. Senior District Judge William Young presided over a lawsuit brought by the American Association of University Professors (AAUP). He held that an ideological deportation policy was unconstitutional. That case is awaiting further adjudication before the U.S. Court of Appeals for the First Circuit. The detailed narrative of The Stanford Daily case is explored in Chapter 27.

What must be noted here is the scope covered by both rulings. Both decisions addressed deportation and visa revocation targeting individuals already present inside the United States. The refusal of visa issuance at overseas consular posts based on an applicant's social media is a different matter entirely.

U.S. courts rarely review a consular officer's decision to deny a visa. This is known as the doctrine of "consular nonreviewability." There is also established precedent holding that constitutional rights scarcely extend to noncitizens outside U.S. borders. Consequently, social media vetting continues to operate in a realm where judicial checks can hardly reach. Students inside the United States may receive some protection from the courts; students seeking to come to the United States remain standing outside that shelter.

26.6 The Post-Graduation Career Ladder: OPT Reexamination and Fixed Duration of Stay

Visa vetting is an issue at the entrance. The administration also took aim at the exit. One major reason international students choose the United States is the opportunity for post-graduation employment. The primary conduit for this is Optional Practical Training (OPT).

OPT allows F-1 students to work in a field directly related to their major for up to 12 months after graduation. Graduates in science, technology, engineering, and mathematics (STEM) fields can add an additional 24 months, allowing them to work for up to 36 months. OPT is grounded in administrative regulations rather than statute, meaning it can be altered without going through Congress.

According to IIE figures, there were 294,253 OPT participants in the 2024–2025 academic year. Indian nationals accounted for 143,740 and Chinese nationals for 61,981, together representing roughly 70% of the total.

In November 2025, Senator Eric Schmitt made his move. The Republican senator called on the Department of Homeland Security to review OPT. DHS placed a proposed revision of OPT on its regulatory agenda. The stated justifications were protecting American workers' jobs and addressing fraud and security risks.

Then-Secretary of Homeland Security Kristi Noem sent a reply on January 9, 2026. She stated that the department was reassessing the appropriateness of OPT in terms of the labor market, taxation, and national security. As of September 2026, the proposed revision to OPT has not yet been officially announced.

In the meantime, another rule was finalized first. On July 17, 2026, DHS finalized its rule regarding the duration of stay for international students. Historically, international students entered under the "duration of status" (D/S) framework. Under this system, students were permitted to remain without filing separate applications for extensions as long as they continued their studies.

The new rule replaced this with a fixed expiration date. Once the designated period ends, students must file a separate application with immigration authorities to extend their stay. The rule

took effect on September 15, 2026.

This rule does not eliminate OPT. However, it placed another vetting hurdle along the path toward OPT. Graduates may now need to obtain approval for an extension of stay separately from their employment authorization. Legal experts warned of the risk of delayed start dates or interrupted employment.

Hardliners inside and outside the administration had long claimed that foreign students siphon off high-end jobs from Americans. Right-wing commentators such as Steve Bannon mounted fierce attacks against specialty occupation visa programs. In September 2025, a proclamation was issued imposing a $100,000 fee on new H-1B applications.

Social media vetting at the entrance; visa cancellations during studies; fixed duration of stay and OPT reexamination at the exit. Although each measure was announced separately, they all converged in the same direction: narrowing the entire pipeline for international students. Whether this was someone's meticulous grand design or simply the coincidental convergence of policy outcomes cannot yet be definitively concluded. What is clear is the result: at every single stage, the hurdles foreign students must clear to study and work in the United States have been raised.

Tightened Regulations Across the International Student Pipeline

Stage	Measure	Timing
Pre-entry	Mandatory public social media disclosure; online activity vetting	June 2025
During studies	Expansion of continuous vetting and visa revocations	March 2025 onward
Around graduation	Fixed duration of stay; mandatory extension applications	Effective September 2026
Post-graduation	Comprehensive review of OPT and STEM OPT	Rulemaking notice scheduled for 2026
Employment phase	$100,000 fee on new H-1B petitions	September 2025

NAFSA estimated that international students contributed $43.8 billion to the U.S. economy during the 2023–2024 academic year. This is the combined sum of tuition, rent, and living expenses spent in the cities where they lived. When international student numbers decline, the first to suffer are mid-sized and smaller universities that have relied on these revenues to run their graduate programs. This issue will be examined in detail in Chapter 28.

26.7 Conclusion: From a Gateway of Freedom to a Gateway of Scrutiny

The single cable sent on May 27, 2025, did not end as a mere three-week administrative measure. It marked the beginning of a fundamental transformation in the character of the U.S. visa system.

Visa adjudication was originally a procedure to verify identity, criminal background, and the intended purpose of stay. Now, what an applicant has posted and what they have "liked" have become subjects of scrutiny. The standard is couched in the expansive phrase "hostile attitude." The authority to interpret those words rests in the hands of an individual consular officer, and it is exceedingly difficult for courts to review that determination.

The State Department insists that all of this is done in the name of security. Every country acts to keep out supporters of terrorism and instigators of violence. However, when the boundary between security screening and speech scrutiny blurs, the standard inevitably shifts according to the political stances of the administration in power. This was the exact problem Judge Wise pointed out in her ruling.

For decades, the United States was the country where the world's brightest talent most wanted to go. The freedom to question and speak without fear was at the very heart of that appeal. Through its visa policies of 2025 and 2026, the United States dealt a self-inflicted blow to that very magnetism.

The statistic showing that student visa issuances to Indian nationals dropped by more than half demonstrates that result. During the same period, Canada, the United Kingdom, Australia, Germany, Japan, and Singapore poured efforts into attracting international students. Standing before the door closed by the United States, students are seeking other doors.

At the 2026 U.S.–China summit as well, the international student issue was placed on one side of the negotiating table. The Secretary of State's vow to weed out Chinese students and the President's declaration that he would admit 600,000 of them were never reconciled. Unprincipled barriers cause the most talented students to leave first. That loss will manifest itself in American laboratories and corporations in the years to come.

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Chapter 27. The Stanford Daily Ruling: Declaring Unconstitutional Secretary of State Rubio's Deportation Provisions Against Pro-Palestinian International Students

On Friday, August 28, 2026, the U.S. District Court for the Northern District of California issued a 90-page memorandum of decision. The case is titled Stanford Daily Publishing Corporation v. Rubio. The plaintiffs were the Stanford University student newspaper and an anonymous international student holding an F-1 student visa. The defendants were Secretary of State Marco Rubio and the Secretary of Homeland Security.

At the very outset of the opinion, Judge Noel Wise wrote: "To be clear, freedom of speech belongs to the people in the United States. It is not the government's to take."

This occurred 26 days before President Xi Jinping landed on the tarmac at Joint Base Andrews. Around the time Washington was preparing state guest protocol, a federal court put the brakes on an executive branch practice: the practice of revoking visas and seeking deportation on account of speech uttered by foreign students. The court held that the immigration statute provisions deployed for this practice violated the Constitution.

This chapter first examines the course of events leading up to the ruling. Next, it analyzes the legal doctrine of the decision and its limitations. Finally, it outlines what this ruling signifies for the United States and for South Korean international students in an era of U.S.–China strategic rivalry.

27.1 Students Hauled Away for Their Words: Khalil and Öztürk

The starting point was two executive orders issued in January 2025. On his first day in office, President Trump signed Executive Order 14161, directing the maximum possible tightening of screening for foreign nationals. On January 29, Executive Order 14188 was issued under the banner of combating antisemitism. These two orders served as the legal authority for a crackdown targeting pro-Palestinian demonstrations across college campuses.

The crackdown's first target was Mahmoud Khalil of Columbia University. Khalil was a U.S. permanent resident and a graduate student at the university. He had stepped forward as the student lead negotiator during protests against the war in Gaza. On March 8, 2025, immigration enforcement agents arrested him at his apartment in New York without prior notice. Khalil was soon transferred to an immigration detention facility in Louisiana.

The next day, Secretary of State Rubio posted on social media that the administration would revoke visas or green cards from Hamas sympathizers within the United States and deport them. On March 10, President Trump stated that Khalil's arrest was merely the first of many arrests to

come. Khalil was released on June 20 only after a federal court order, in which the court cited constitutional grounds.

The second widely publicized case was that of Rümeysa Öztürk at Tufts University. Öztürk was a doctoral student of Turkish nationality holding an F-1 visa. In March 2024, she and fellow students co-authored an op-ed published in the campus newspaper, The Tufts Daily. The article criticized the university administration for refusing to adopt resolutions passed by the student senate. The resolutions included demands to recognize the ongoing events in Gaza as genocide and to divest from companies tied to Israel.

Internal government records cited in the judicial opinion clearly reveal the nature of this case. On March 17, 2025, Homeland Security Investigations (HSI) drafted an analytical report on Öztürk. The report noted that she had no criminal record. Attached as exhibits were a single op-ed article and a post from Canary Mission, a pro-Israel website. A State Department official wrote in an internal memorandum that the Department of Homeland Security had failed to produce evidence substantiating antisemitic activities or statements supporting terrorist organizations by Öztürk. Nevertheless, on March 21, the State Department approved the revocation of her visa.

On March 25, agents arrested Öztürk outside her home in Somerville, Massachusetts. She, too, was transferred to the immigration detention center in Louisiana. Although released on May 9 pursuant to a federal court order, the government did not discontinue deportation proceedings. In April 2026, after completing her doctoral degree, Öztürk decided to return to Turkey voluntarily. Following her departure, the government and Öztürk's legal team reached an agreement to terminate deportation proceedings.

These two were far from the only targets. Badar Khan Suri, an Indian postdoctoral researcher at Georgetown University, was arrested. Mohsen Mahdawi of Columbia University was apprehended at a citizenship interview office in Vermont. South Korean-born permanent resident Yoonseo Jeong, who had immigrated with his family at age seven, was also targeted. Jeong, a Columbia University student, became the subject of attempted detention by immigration authorities after participating in campus demonstrations.

Where did this list originate? In the AAUP trial, senior Homeland Security Investigations official Peter Hatch provided the answer. He testified that the vast majority of the names of students analyzed came from Canary Mission. When asked whether at least 75 percent originated from the site, he answered in the affirmative. Canary Mission is an anonymously operated website that publishes the personal profiles and identities of students and professors whom it deems to be spreading hatred against the United States, Israel, and Jewish people.

In March 2025, the American news outlet Axios reported on the State Department's new initiative to scrutinize international students' social media using artificial intelligence. The label used in the

report was "Catch and Revoke." The broader social media vetting across international student visa adjudications was addressed in Chapter 26.

27.2 The Discretion of a Single Secretary of State: Two Statutory Provisions

The legal grounds upon which the executive branch relied were two provisions of the Immigration and Nationality Act (INA). In the court's decision, these are referred to separately as the deportation provision and the visa revocation provision.

The deportation provision forms part of Title 8, Sections 1182 and 1227 of the United States Code (8 U.S.C. §§ 1182, 1227). Under this provision, the Secretary of State may deport an alien whenever he determines that the alien's presence would compromise potentially serious foreign policy interests of the United States. Originally, this provision carried a safeguard: an exception specifying that it could not be invoked solely on the basis of lawful beliefs, statements, or organizational affiliations. However, this exception can be bypassed if the Secretary of State personally determines that the individual's presence would compromise serious foreign policy interests. It was precisely this bypass mechanism that the plaintiffs challenged in the litigation.

The visa revocation provision is codified at 8 U.S.C. § 1201(i). It authorizes a consular officer or the Secretary of State to revoke an issued visa "at any time, in his discretion." In principle, there is no avenue to challenge such revocations in court. Once a visa is revoked, the government may place the individual into removal proceedings.

FIRE (Foundation for Individual Rights and Expression) summarized how the two provisions were deployed: the deportation provision was used against Khalil, while the visa revocation provision was used against Öztürk. One had protested; the other had written an op-ed.

The total number of visas revoked by the government varies depending on the accounting metrics used. In August 2025, the State Department announced that it had revoked more than 6,000 student visas. According to the State Department's explanation, approximately 4,000 of those were due to legal violations. Revocations under terrorism-related provisions accounted for between 200 and 300 cases. It was never publicly disclosed how many among them were revoked on account of political speech. White House Deputy Chief of Staff Stephen Miller declared that the State Department had revoked tens of thousands of visas and that this was "only the beginning." This statement was incorporated verbatim into the court's findings of fact.

The scope of the crackdown did not stop at pro-Palestinian speech. On September 10, 2025, conservative activist Charlie Kirk was shot and killed. The State Department publicly announced that it had revoked the visas of foreign nationals who mocked or celebrated his death, detailing their nationalities and specific statements one by one.

Statements foreshadowing the executive branch's intentions had surfaced much earlier. On May 14, 2024, during a campaign rally while running for president, Donald Trump declared that he would throw protesting students out of the country. He added that once foreign students heard that, they would "behave." Judge Wise quoted this remark twice in her opinion.

27.3 Silence Descends upon the Newsroom

The Stanford Daily is an independent student newspaper founded in 1892. The newspaper had previously etched its name into the history of American press freedom. In 1971, police raided and searched its newsroom in an attempt to locate photographs of a hospital sit-in demonstration. The newspaper filed suit, and the dispute went all the way to the U.S. Supreme Court in 1978. By a 5-to-3 vote, the Supreme Court ruled that the search did not violate the Constitution. In response, Congress enacted the Privacy Protection Act of 1980 to restrict newsroom searches. Half a century later, the newspaper once again initiated litigation against the federal government.

In the spring of 2025, the atmosphere within the newsroom changed markedly. On April 7, the editorial board published a "Letter from the Editors on the Freedom of the Press" addressed to readers. It detailed how students were increasingly reluctant to write for the paper or agree to interviews out of fear of retaliation. Judge Wise referenced this letter in her judicial opinion.

Looking at the stipulated facts agreed upon by both parties and submitted to the court, the changes were concrete. Several international student reporters refused to take on assignments covering campus pro-Palestinian protests. Many reporters avoided topics related to the Gaza war altogether. One international student editor resigned from the newspaper, citing visa concerns. One reporter chose not to run an article covering a Gaza memorial event. Another reporter requested the retraction of previously published articles on pro-Palestinian activism, stating that they would no longer edit articles concerning Israel or Palestine. An opinion editor asked to have an article about the Israeli military deleted. International student sources refused to be quoted on the record by name, and international contributors stopped submitting opinion columns.

In legal doctrine, this phenomenon is termed the "chilling effect"—a dynamic where individuals censor and curtail even lawful expression out of fear of punishment. It is among the gravest injuries recognized by courts in First Amendment litigation.

The circumstances of the pseudonymous plaintiff, Jane Doe, were even more concrete. She was an F-1 student enrolled at a university other than Stanford. Online, she had consistently criticized Israel as committing genocide and apartheid. She was a member of a campus pro-Palestinian student organization, and her personal information had been posted on Canary Mission. After witnessing the cases of Khalil and Öztürk, she stopped participating in demonstrations. She ceased wearing the keffiyeh and refrained from holding Palestinian flags. She deleted the primary social media accounts she had routinely used. According to the court's ruling, only a single form of public

expression remained available to her: wearing a pair of watermelon-shaped earrings that could be removed at a moment's notice. The watermelon is utilized as a symbol of solidarity because its colors match those of the Palestinian flag.

This chilling effect was by no means confined to Stanford. An amicus brief coordinated by the Student Press Law Center (SPLC) was signed by 55 student newsrooms and editorial leaders from across the country, documenting that numerous student newspapers were grappling with the exact same reality.

27.4 The Path of Litigation: From Preliminary Injunction to Trial on the Papers

On August 6, 2025, The Stanford Daily and two pseudonymous students filed suit. They were represented pro bono by the Foundation for Individual Rights and Expression (FIRE). The plaintiffs' legal arguments were spearheaded by FIRE attorney Conor Fitzpatrick. Both pseudonymous students were enrolled at universities unaffiliated with Stanford. Among them, John Doe was voluntarily dismissed from the action on July 27, 2026, pursuant to a mutual stipulation by the parties.

On the day the lawsuit was initiated, the plaintiffs also moved for a preliminary injunction. A preliminary injunction is an interim order issued by a court prior to an adjudication on the merits to prevent urgent and irreparable injury. The parties soon agreed to convert this motion into cross-motions for summary judgment. The government likewise cross-moved for summary judgment. On November 19, 2025, the court denied both motions as premature.

In December 2025, the plaintiffs filed an amended complaint setting forth eight claims for relief in total. They sought four forms of relief with respect to each of the deportation provision and the visa revocation provision: declaratory judgments and injunctive relief anchored in the First and Fifth Amendments.

The government moved to dismiss the complaint, asserting that the plaintiffs lacked standing to sue. On January 16, 2026, the court denied the government's motion. On March 6, the parties agreed to proceed to a bench trial conducted exclusively on a stipulated record without witness testimony. Oral arguments were presented on May 27, and the decision was handed down on August 28.

During the course of the litigation, one of the defendants was substituted. The Department of Homeland Security was initially headed by Secretary Kristi Noem. Following Noem's departure, Markwayne Mullin was confirmed as the new Secretary on March 24, 2026. Pursuant to the Federal Rules of Civil Procedure, Secretary Mullin was automatically substituted as a party defendant.

Toward the final stages of the trial, the government advanced a novel rationale: it argued that enforcement under the two challenged provisions had dropped sharply over the preceding year. It claimed that enforcement against individuals who engaged in the specific type of speech concerning the plaintiffs had been even rarer, and that any assertion that the plaintiffs would be targeted in the future was purely speculative.

Judge Wise found the foundational premise of this argument entirely flawed. The judge posed a pointed question: Had there been any anti-Israel student protests over recent months that the government had simply ignored without incident? The reason no such examples existed in the record, she observed, was that such speech had vanished from college campuses. The relevant passage from the ruling reads:

"The Government sent a chilling message regarding protected speech: criticize Israel or express support for Palestine, and the Government will revoke your visa and deport you. Behave. Foreign students heard and heeded that warning. As the saying goes, the silence is deafening."

The court determined that the reduction in enforcement did not stem from government restraint, but rather from the fact that students had been silenced. The court concluded that the plaintiffs possessed standing.

27.5 Legal Doctrine of the 90-Page Ruling: Do Foreign Nationals Have Freedom of Speech?

The judicial decision opens with Benjamin Franklin. In 1737, Franklin published an essay in the newspaper titled "On Freedom of Speech and the Press." Its opening line observed that freedom of speech is a principal pillar of a free government, and that when this support is taken away, the constitution of a free society is dissolved and tyranny is erected on its ruins. The judge then examined the phrasing of the First Amendment: "Congress shall make no law... abridging the freedom of speech." This text, the judge explained, does not reflect a structure wherein the government bestows liberties upon the citizenry; rather, freedom inherently resides with the people, and the Constitution commands the government not to curtail it.

The first issue was whether this right extends to foreign nationals. The government contended that foreign nationals' freedom of expression grows incrementally based on their immigration status—arguing that student visa holders receive lesser protection than citizens. The judge firmly rejected this contention, observing that the government failed to present a single precedent applying such a graduated standard to lawfully present foreign nationals.

The judge anchored her reasoning in two key precedents. The first was the 1945 U.S. Supreme Court ruling in Bridges v. Wixon, which held that freedom of speech and press is guaranteed to aliens residing in the United States. The second was the 1995 Ninth Circuit Court of Appeals ruling

in American-Arab Anti-Discrimination Committee v. Reno (AADC). That decision held that foreign nationals must be accorded First Amendment protections at the deportation stage; otherwise, their rights in all other domains would be rendered entirely meaningless, since the mere threat of deportation could silence them for life. The judge also cited the Ninth Circuit's 2012 decision in Ibrahim, a case involving a Stanford student whose visa had been revoked while she was abroad.

The second issue concerned the nature of the restrictions embodied in the two provisions. The government conceded that the challenged portions operated as restrictions based on the viewpoint and content of speech. Viewpoint discrimination refers to treating expression differently based on the specific opinion or stance being voiced. In American constitutional jurisprudence, viewpoint discrimination is treated as the most egregious form of speech regulation.

Such regulations are subject to "strict scrutiny"—the most demanding standard of constitutional review employed by courts. The government must establish two elements: that the regulation serves a compelling governmental interest, and that it is narrowly tailored to achieve that objective.

Judge Wise concluded that the government failed to meet this burden of proof. The government merely asserted that it must possess the ability to take speech content into account whenever foreign policy needs require it. The judge held that repeatedly invoking the mantra of "compelling foreign policy interests" does not constitute legal proof. She reached the identical conclusion regarding the visa revocation provision. While noting that Congress could have drafted narrower statutory language, the judge emphasized that crafting new, narrower statutory provisions is not the function of the judiciary.

The court held that the challenged portions of both provisions violate the First Amendment to the extent they are enforced on account of protected speech. It is critical to bear in mind the qualification: "to the extent they are enforced on account of protected speech." The court did not invalidate the two provisions in their entirety. The government may still apply these provisions against conduct that the Constitution does not protect, such as providing support for terrorism or inciting violence.

27.6 "Seriously Discriminatory Enforcement": The Perils of a Vague Law

The court also evaluated both provisions under the Fifth Amendment. Derived from the Due Process Clause of the Fifth Amendment is the "void-for-vagueness doctrine." Under this principle, if a statutory enactment is so vague that people of common intelligence cannot discern what is prohibited, the law is void. The same holds true if the law delegates matters to enforcement officials in a way that invites arbitrary and erratic application.

Established precedent governs how strictly this doctrine applies in the immigration context. In its 2018 ruling Sessions v. Dimaya, the U.S. Supreme Court recognized deportation as an exceptionally

grave penalty, characterizing it as close to "a lifetime of banishment or exile." Consequently, the Court applied the strict clarity standards of criminal law to immigration statutes.

Judge Wise scrutinized the deportation provision against this standard. The core language consists of the phrases "the Secretary of State personally determines" and "compromise a compelling [potentially serious] foreign policy interest." The judge found that it is impossible to ascertain from the text alone what constitutes a compelling foreign policy interest, or what actions would compromise it. In the end, the meaning of the statute becomes whatever the Secretary of State decides it to be at any given moment. In this analysis, the judge also drew upon the reasoning of the U.S. District Court for the District of New Jersey in the 2025 Khalil case, which had likewise found the deportation provision unconstitutionally vague.

Her ruling on the visa revocation provision was even more blunt. During the hearing on January 6, 2026, the government conceded a crucial point: that this provision confers upon the Secretary of State "unfettered and unreviewable discretion." The judge observed with dry irony that the statutory text was indeed crystal clear on that score—precisely because it meant the Secretary of State could do whatever he pleased regarding visa cancellations.

The judge juxtaposed the visa revocation cases that had unfolded over the preceding eighteen months: a campus newspaper op-ed criticizing university policy toward Israel; social media posts welcoming the assassination of Charlie Kirk; and pro-Palestinian commentaries. In contrast, Secretary Rubio had publicly stated that participating in a protest against paper straws would not lead to visa revocation. The judge summarized the single, unmistakable pattern emerging from this record:

"The record reveals a clear pattern of Government visa revocation since March 2025. The Secretary revokes visas when aliens criticize the Government or causes and people it champions. That is 'seriously discriminatory enforcement.'"

"Seriously discriminatory enforcement" is a term drawn from the U.S. Supreme Court's 2012 decision in FCC v. Fox Television Stations, Inc. It constitutes a core element of the void-for-vagueness doctrine: when a law lacks standards and thereby permits or encourages discriminatory enforcement, it is unconstitutionally vague. This phrase was not an offhand remark about general administrative fairness, but a formal standard of constitutional vagueness review.

The government mounted a defense claiming that Volume 9 of the State Department's Foreign Affairs Manual (FAM) constrains its discretion. The manual includes guidance stating that a visa may be revoked upon receipt of "derogatory information" from another government agency. The judge rejected this defense as well. The FAM does not define what constitutes derogatory information, nor does it specify what threshold of information is sufficiently derogatory to justify revocation. It provides foreign nationals with zero guidance regarding what conduct must be

avoided to safeguard their visas. The judge noted that such vague guidelines ultimately leave outcomes to the ad hoc, subjective determinations of individual officials.

The court concluded that the challenged portions of both provisions are void for vagueness to the extent they are applied to protected speech.

27.7 A Victory Without an Injunction

The court ruled in favor of the plaintiffs on six of their eight claims. At the heart of the decision were four declaratory judgments. A declaratory judgment is an official judicial declaration confirming that a specific law or governmental action is unconstitutional or unlawful. It does not directly command the opposing party to take or refrain from any specific affirmative action. The court declared that both the deportation provision and the visa revocation provision violate the First and Fifth Amendments.

Injunctive relief, however, presented a different situation. An injunction is a direct judicial order compelling the government to refrain from specific conduct. The plaintiffs' two claims for injunctive relief regarding the deportation provision were dismissed pursuant to Section 1252(f)(1) of the Immigration and Nationality Act (8 U.S.C. § 1252(f)(1)). This statutory provision mandates that only the Supreme Court has the authority to enjoin or restrain the operation of provisions governing deportation procedures. For a federal district court judge, this stood as an insurmountable legal wall.

As for injunctive relief concerning the visa revocation provision, it was effectively placed on hold. The sticking point was anonymity. Jane Doe and the reporters of The Stanford Daily had withheld their names out of fear of retaliation. In order to issue an injunction shielding specific individuals, the government must know who those individuals are. The judge ruled that having officially established the unconstitutionality of the provisions through declaratory judgment, there was no need to adjudicate individual injunctive relief at that stage.

Instead, the judge put two safeguards in place. In a footnote, she stated that had declaratory relief not been granted, she would have found all prerequisites for injunctive relief satisfied. She also prepared for the contingency that the declaratory judgments might be overturned on appeal: in that event, the plaintiffs were directed to submit the identities of Jane Doe and the reporters under seal within 48 hours, enabling the court to immediately issue individualized relief.

The practical impact of this decision can be summarized as follows: It did not immediately tie the State Department's hands with a direct prohibitory order starting the following day. However, a federal judge officially confirmed constitutional violations across 90 pages. Should the government attempt to deploy the same statutory provisions again on account of protected speech, this ruling immediately serves as precedential authority in individual lawsuits. Some draft reference materials

for this chapter asserted that the court had issued a permanent injunction; when cross-checked against the text of the ruling, that assertion is factually incorrect.

The reaction from the plaintiffs was succinct and unambiguous. George Porteous, Editor-in-Chief of The Stanford Daily, welcomed the ruling, stating that student journalists would no longer have to fear deportation simply for reporting the news. FIRE attorney Conor Fitzpatrick declared that freedom of speech in America does not belong solely to those who agree with the government. Gary Green, Executive Director of the Student Press Law Center, also issued a statement, characterizing the decision as confirmation that the government cannot weaponize immigration laws to punish disfavored speech.

27.8 The AAUP Ruling in Massachusetts and the Path to Appeal

The Stanford Daily ruling was not the first judicial decision addressing this controversy. One year earlier, a federal court in Massachusetts confronted the identical issue. On March 25, 2025, the American Association of University Professors (AAUP) and the Middle East Studies Association (MESA) filed suit against Secretary Rubio and other officials. They were represented by Columbia University's Knight First Amendment Institute.

Senior District Judge William G. Young, an appointee of President Ronald Reagan, presided over the case. In July 2025, Judge Young conducted a two-week bench trial. Fifteen witnesses took the stand, and 250 exhibits were admitted into evidence. It was the first major full bench trial held during Trump's second term. Judge Young observed that this case might well be the most important matter ever heard in his courtroom.

On September 30, 2025, Judge Young issued a 161-page decision. He found that the government had pursued a policy of arresting, detaining, and deporting foreign students and faculty who engaged in pro-Palestinian speech, and that the purpose of this policy was to chill such expression. Concluding that the policy constituted viewpoint discrimination in violation of the First Amendment, he issued a remedial order on January 22, 2026, vacating the policy itself under both the First Amendment and the Administrative Procedure Act (APA). On February 9, the government appealed to the First Circuit Court of Appeals. The plaintiffs cross-appealed, seeking broader relief. In August, the California Attorney General and other state attorneys general filed an amicus brief in support of the plaintiffs.

The two rulings are closely interconnected. Both parties in The Stanford Daily case accepted the testimony and exhibits from the AAUP trial as stipulated facts. The internal government documents concerning the Khalil and Öztürk cases were also first disclosed during that trial. The critical difference lies in the target of attack: The AAUP ruling targeted the executive branch's policy. The Stanford Daily ruling targeted the statutory provisions used to carry out that policy. Even if a policy

is vacated, as long as the statutory provisions remain intact, the same actions can be repeated. The Stanford Daily plaintiffs challenged the statutory weapons themselves.

Counterarguments also exist. Attorney Mark Goldfeder of the pro-Israel legal group National Jewish Advocacy Center (NJAC) published a critical op-ed in The Hill shortly after the ruling. He argued that the 1995 Ninth Circuit precedent relied upon by Judge Wise has an important backstory: when that same case reached the Supreme Court in 1999 (Reno v. American-Arab Anti-Discrimination Committee), the Supreme Court ruled in favor of the government, citing statutory provisions of the INA that restrict judicial review. Goldfeder pointed out that the opinion failed to address the 1952 Supreme Court ruling in Harisiades v. Shaughnessy regarding alien deportations. He also noted that Khalil was issued a separate deportation order in September 2025 on the grounds that he had failed to disclose certain background information on his permanent residency application.

The British legal publication Law News offered a similar appraisal, noting that while the decision aligned with Ninth Circuit precedent, that was not the only way to interpret the legal authorities. This debate will ultimately be decided on appeal.

Khalil's legal proceedings continue separately. According to the court's opinion, proceedings before the Board of Immigration Appeals (BIA) have concluded. Khalil's counsel has appealed to the Fifth Circuit Court of Appeals. In his habeas corpus proceedings, the Third Circuit Court of Appeals issued a decision, leaving a petition for certiorari to the U.S. Supreme Court as the next step.

Whether the government will appeal The Stanford Daily case remained unconfirmed as of late September. In an op-ed published on September 22, The Stanford Daily wrote that it expected the government to appeal to the Ninth Circuit Court of Appeals. If the First and Ninth Circuits arrive at conflicting conclusions, the likelihood that the Supreme Court will take up the case increases significantly. Legal analysts note that even if the plaintiffs prevail in only one circuit, Supreme Court review becomes a realistic possibility.

27.9 Washington's Two Faces and South Korean International Students

In her concluding section, Judge Wise traced how the targets of enforcement had steadily broadened. In March 2025, the target was pro-Palestinian, anti-Israel speech. In September 2025, individuals who criticized Charlie Kirk were swept into the dragnet. By May 2026, even voicing opinions regarding peace negotiations with Iran—diplomatic negotiations surrounding the Strait of Hormuz—could render someone a target. The judge observed that tomorrow, or perhaps even today, anyone who expresses an opinion disfavored by the government could become a target.

This passage connects directly with other chapters of this book. As seen in Chapters 7 and 8, the war with Iran and the blockade of the Strait of Hormuz did not merely roil global oil prices. In the

judge's estimation, even speaking about the war could be drawn under the dark shadow of immigration enforcement.

The final paragraph of the judicial opinion reads: "Even if one hates the speech, one can love the country that allows it. Fiercely defending the First Amendment is a defiant act that demonstrates the United States is fearless." The judge then concluded with an anecdote about Benjamin Franklin. Emerging from the Constitutional Convention of 1787 after signing the Constitution, Franklin was asked by a woman whether the delegates had created a republic or a monarchy. Franklin famously replied: "A republic, if you can keep it."

When this ruling is placed alongside the overarching theme of this book—the U.S.–China summit—a striking contrast emerges. This represents the author's analysis: The United States has long criticized China's censorship and suppression of speech. The magnetic power that drew the world's brightest minds to American universities lay in open campuses and uninhibited debate. Yet the Trump administration weaponized immigration law to police the speech of international students. At the very moment the White House was preparing honor guards and aerial flyovers to welcome President Xi Jinping, a U.S. federal court had to reaffirm the Constitution's foundational promises against its own government. Outside the negotiating room, America's appeal and moral standing were being eroded from within.

For South Korean international students, this is far from an abstract concern. According to the Institute of International Education's (IIE) Open Doors report, there were more than 43,000 South Korean students studying in the United States during the 2023–2024 academic year—the third largest national contingent after India and China. As demonstrated by the aforementioned case of Yoonseo Jeong, students of South Korean origin were indeed targeted. A federal court in New York issued a temporary restraining order preventing Jeong's detention.

This ruling does not mean the danger has disappeared. In the absence of an injunction, the State Department can legally deploy the same statutory provisions immediately. In the course of contesting government actions, individual students may still endure arrest and detention first. Although Khalil and Öztürk ultimately prevailed in court, they spent three months and six weeks, respectively, in immigration detention centers. The social media vetting examined in Chapter 26 operates separately at the visa issuance stage. Furthermore, as shown by the raid on the Georgia battery plant in Chapters 20 and 21, even South Koreans who entered lawfully could become targets of enforcement crackdowns.

Addressing these realities requires far more than individual caution. Universities, educational consulting agencies, and the government must establish legal counseling desks dedicated to immigration status issues. Students must be informed in advance of designated contact points and procedures should they receive notices of arrest or visa revocation. The scope and responsiveness of consular assistance must also be systematically reviewed.

The Stanford Daily ruling marks the second time the federal judiciary has halted the executive branch's ideological crackdowns. The first check, the AAUP ruling, brought the policy itself to a halt. The second check, this decision, established the constitutional boundaries of the statutory provisions deployed to execute that policy. Both rulings still face the appellate process. In the meantime, students contemplating studying in the United States have begun exploring alternative destinations. Chapter 28 examines the invoice that this exodus has presented to American higher education and the U.S. economy.

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Chapter 28. The $50 Billion Education Trade Balance Collapse and the Mass Exodus of International Students to Europe and Asia (Talent Drain)

On August 11, 2026, NAFSA: Association of International Educators released a single projection report. Its finding was that international student enrollment at U.S. colleges and universities would drop by 9.5% that fall. Translated into numbers, that meant approximately 111,000 students would vanish from American campuses. NAFSA calculated that this drop would strip $3.4 billion from local economies surrounding university campuses. It also estimated that up to 40,000 jobs were at risk.

The previous fall, new international student enrollment had dropped by 17%. In the spring of 2026, incoming undergraduate international students decreased by an average of 20%, and incoming graduate students by 24%. The margin of decline was widening year by year, and its scope was broadening as well.

For nearly eighty years, the United States had served as a magnet drawing in talent from across the globe. The brightest minds of India and China took studying in America as their natural path. That pathway is now faltering. This chapter traces how visa instability and the dread of deportation eroded the export model of American higher education. It also examines how departing talent dispersed across Germany, Japan, Hong Kong, Singapore, and Canada.

28.1 $50 Billion a Year: Higher Education as an American Export Industry

Educating international students is one of America's premier service exports. The tuition and living expenses that foreign students pay upon coming to the United States are officially categorized in trade statistics as exports. Although spent inside the United States, it is money earned abroad and brought into the country.

The benchmark is the Open Doors 2025 report released in November 2025 by the Institute of International Education (IIE) and the U.S. Department of State. In the 2024–2025 academic year, there were 1,177,766 international students enrolled at U.S. colleges and universities. This represented a 5% increase over the previous year, reaching an all-time high. International students made up 6% of the entire U.S. college student population.

The U.S. Department of Commerce calculated that these students contributed approximately $55 billion to the U.S. economy in 2024 alone. NAFSA, measuring solely the impact on local economies surrounding universities, estimated it at roughly $43 billion. While calculations differ across institutions, by either measure it constitutes an industry of around $50 billion annually. In Korean currency, that amounts to roughly 70 trillion won.

Looking at the countries of origin, India and China accounted for more than half. In the 2024–2025 academic year, India ranked first with 363,019 students. China ranked second with 265,919 students. Together, the two nations accounted for 53% of the total. Third was South Korea.

Fifty-seven percent of these international students were studying in science, technology, engineering, and mathematics—the STEM fields. Graduate students comprised about 40% of all international students. Furthermore, the number of international students working under Optional Practical Training (OPT)—a post-graduation practical training employment system—reached 294,253. OPT is a mechanism that allows graduating international students to work in their field of study. The baseline is one year, with STEM graduates eligible to work for up to three years.

This flow of capital forms the structural backbone of American university finances. U.S. citizens and permanent residents receive federal financial aid such as Pell Grants. International students are ineligible for such federal support. The vast majority pay full tuition without any discount. At public state universities, they pay out-of-state tuition rates—the single most expensive tuition tier.

Universities used this revenue to fund scholarships for low-income American students. They purchased laboratory equipment and subsidized faculty research. Since 2010, domestic college enrollment in the United States had dropped by roughly 2 million students. Universities filled that void with international students. Over the same period, international student enrollment surged by more than 60%. Reliance on international students was a deliberate financial strategy chosen by the universities themselves.

Inside research laboratories, that dependency ran even deeper. A substantial share of science and engineering doctoral programs at major American research universities is filled by foreign nationals. Leon Botstein, president of Bard College in New York, highlighted this structural reality during an appearance on Bloomberg's Wall Street Week. He noted that the American graduate system in the sciences leans heavily on foreign talent. He added the diagnosis that U.S. primary and secondary education alone fails to cultivate sufficient precision research personnel. It was a pointed critique: a nation that had risen to become the world's preeminent power by drawing in foreign talent was now shutting its own doors.

28.2 Visas Weaponized

The second Trump administration weaponized visas as an instrument of control. A visa is not a legal entitlement, but a government-granted privilege. The administration operated on the premise that it could rescind that privilege at any moment. Caught in this vulnerability, international students experienced the anxiety of precarious legal status in full force.

The first shock arrived in the spring of 2025. The government abruptly erased thousands of active stay records all at once from the Student and Exchange Visitor Information System (SEVIS). Among

them were students whose only infraction was a single traffic ticket. When several federal district courts stepped in to halt the measure, the administration reinstated some records. Yet the terror etched into students' minds could not be undone.

The second shock unfolded at consular visa windows. On May 27, 2025, Secretary of State Marco Rubio dispatched a diplomatic cable to U.S. missions around the world. The directive instructed posts not to accept new interview appointment bookings for student visas. It hit during the busiest time of the year for students preparing to matriculate for the fall semester. The State Department reopened interview bookings on June 18. In return, however, applicants were required to set their social media accounts to public view. Consular officers combed through these accounts, scrutinizing them for any traces of hostility toward the United States and its institutions. This process was examined in detail in Chapter 26.

The very next day, on May 28, Secretary Rubio made another targeted announcement aimed at Chinese students. He declared that the United States would aggressively revoke the visas of Chinese students with ties to the Chinese Communist Party or those studying in critical fields. The entire nation that represented the second-largest sender of students to the United States shuddered.

Visa revocations also spiked rapidly. In August 2025, the State Department disclosed that it had revoked more than 6,000 student visas since the start of that year. That was roughly four times the number revoked during the same period in the prior year. The State Department explained that approximately 4,000 of these cases involved legal violations such as assault, DUI, and theft. Another 200 to 300 were attributed to the "support for terrorism" provisions of the Immigration and Nationality Act. By January 2026, the administration announced that cumulative revocations had reached 8,000. The State Department explained that the majority of revocations were grounded in criminal offenses or support for terrorism. Yet it never publicly disclosed how it delineated the boundaries of "support for terrorism."

The case of Tufts University doctoral student Rümeysa Öztürk illuminated this ambiguity. She had co-authored an op-ed in the student newspaper criticizing Israel. Subsequently, her visa was revoked, and she was arrested on the street by federal agents. In May 2025, a federal court ordered her release. International students learned the sobering reality that a single published article could serve as grounds for deportation.

The third shock came in the form of measures barring entry altogether. On December 16, 2025, President Trump expanded his entry restriction proclamation. Effective January 1, 2026, visa issuance for nationals of 39 countries was completely or partially suspended. Exceptions previously applied to student visas were largely stripped away this time. Countries that traditionally sent substantial numbers of students, such as Iran and Nigeria, were swept onto the list.

The fourth shock struck directly at post-graduation pathways. For international students, the value of an American degree is intimately intertwined with the opportunity to gain work experience

in the United States after graduation. The first rung of that ladder is OPT; the next is the H-1B specialty occupation visa.

In September 2025, President Trump signed a proclamation imposing a $100,000 fee on new H-1B petitions. Soon after, the administration pursued regulatory changes to prioritize high-wage, highly experienced workers in the H-1B lottery. The system was engineered specifically to disadvantage recent international graduates.

OPT itself was placed on shaky ground. During his 2025 confirmation hearing, Joseph Edlow, Director of U.S. Citizenship and Immigration Services (USCIS), voiced his desire to abolish OPT. His vision was to deny employment authorization to F-1 students once their period of academic study concluded. In the fall of 2025, the Department of Homeland Security placed a proposed rule on "Practical Training" onto the Unified Regulatory Agenda. In January 2026, a letter under the name of Secretary Kristi Noem confirmed that DHS was reviewing the scope and duration of OPT. The underlying rationale was that OPT was established by administrative regulation rather than statute, making it easy prey for executive revision.

On July 17, 2026, the administration published its final rule eliminating the "Duration of Status" (D/S) framework. D/S had been a long-standing practice permitting international students to remain in the country until their course of study was complete. The new rule tethered authorized stay strictly to the program end date listed on the Form I-20, capping it at a maximum of four years. Anyone remaining beyond that term must file a separate application for an extension of stay with immigration authorities. Graduates intending to pursue OPT must also undergo this extension process. The rule took effect on September 15, 2026. Because doctoral programs typically require five years or more, PhD students were placed in a position where they must endure discretionary adjudication by immigration authorities at least once before receiving their degrees.

Voices from Indian student organizations were filled with desperation. Sudhanshu Kaushik, representative of the North American Association of Indian Students (NAAIS), appeared on Indian news channel CNN-News18 to describe the crisis. He emphasized that international students had contributed $50 billion annually to the American economy. He recounted how students who had incurred massive debt to come to the United States were living in constant terror of being deported before graduating. A large proportion of Indian students secure educational loans by mortgaging family homes or farmland. Visa revocation, in effect, could spell financial ruin for an entire family.

28.3 The Exodus Confirmed by Numbers

The impact of the policies registered immediately in admissions statistics.

In the fall of 2025, IIE and the State Department surveyed more than 800 colleges and universities. New international student enrollment had plunged 17% compared to the prior year.

New graduate student enrollment fell by 12%. Total international student headcount dropped by only 1%, sustained by students already in the country and those participating in OPT. Yet NAFSA estimated that this initial drop alone represented an economic loss of $1.1 billion and the disappearance of approximately 23,000 jobs.

By the spring semester of 2026, the downward spiral accelerated. In a survey released by NAFSA in May 2026, 62% of responding institutions reported declines in international enrollment. Incoming undergraduate international students fell by an average of 20%, and incoming graduate international students dropped by an average of 24%. Many students who matriculated in the fall of 2025 had submitted their applications before the policy shifts took place; the spring semester numbers thus reflected the genuine impact of the new policies far more accurately.

The pipeline of future students thinned as well. Common App, the platform used for college applications in the United States, released its applicant statistics for the 2026–2027 academic year. While overall applications increased, international applicants dropped by 10%—the steepest single-year decline since Common App began tracking the data. Applicants from India fell by 14%.

Data from the Indian government pointed in the same direction. On April 2, 2026, India's Ministry of External Affairs cited SEVIS data before the Rajya Sabha (parliament). In February 2025, there were 378,787 Indian students in the United States. By February 2026, that figure had dropped to 352,644—a 6.9% decrease within a single year.

The contraction was particularly steep at the doctoral level. According to the Association of American Universities Data Exchange (AAUDE), foreign applications for doctoral programs for the fall of 2026 fell by 21%. Doctoral admissions offers extended to international applicants dropped by 17%. This meant that the future talent pool fueling American scientific research was shrinking.

Then, in August 2026, came the projection noted at the beginning of this chapter. NAFSA and the research firm JB International forecast a 9.5% decline in total international student enrollment for the upcoming fall. That translated to a drop from roughly 1.17 million students in 2025–2026 to about 1.06 million in 2026–2027. Nearly two-thirds of surveyed institutions anticipated further declines. Certain universities reported that graduate enrollment could plummet by as much as 40%. NAFSA estimates that every three international students generate one American job. When 110,000 international students disappear, tens of thousands of jobs are shaken.

One point requires clarification here. The $50 billion did not vanish overnight in a single blow. As of the fall of 2026, the immediate revenue shortfall was on the order of several billion dollars. However, when incoming freshman classes shrink, the compounding effect accumulates over four to five years. If new enrollments remain depressed for several consecutive years, the total international student population cascades downward like stair-steps. The collapse of the educational trade balance is not an isolated event, but an ongoing process.

28.4 Cracks in University Finances and Research Laboratories

The drop in international student enrollment immediately blew holes in university budgets. Because the blow arrived concurrently with federal research funding cuts, the reverberations were profound.

Harvard was at the very center of this battle. In May 2025, the Department of Homeland Security announced it would revoke Harvard's authorization to enroll international students. At the time, roughly 6,700 students—approximately 27% of Harvard's student body—were international students. U.S. District Judge Allison Burroughs blocked the measure, a legal clash detailed in Chapter 25. The administration also froze more than $2 billion in federal research funding destined for Harvard. Research laboratories executing grants from the National Institutes of Health (NIH) received stop-work orders.

In October 2025, Harvard's Faculty of Arts and Sciences (FAS) decided to sharply curtail doctoral admissions cohorts. The campus newspaper The Harvard Crimson reported the scale of the reductions: science programs were slashed by more than 75%, and humanities divisions by roughly 60%. The Department of Molecular and Cellular Biology planned to admit a mere four new doctoral students. This decision prompted a protest letter signed by 100 faculty members. When federal research funds were restored in October 2025, the university moderated the cutbacks to approximately 50%. In May 2026, Harvard announced it would expand doctoral admissions for the following year. Nevertheless, the void created by the one- to two-year disruption in the PhD talent pipeline remained an indelible scar in campus laboratories.

Institutions without Harvard's massive endowment were forced into far more agonizing choices. DePaul University in Chicago saw its international student enrollment drop by 30% in the fall of 2025. The university contemplated hiring freezes, executive pay cuts, and limits on discretionary spending. The University of Southern California (USC) cited the decline in international graduate students as a primary driver of its fiscal crisis. USC laid off hundreds of staff members after July 2025. Northwestern University eliminated 425 positions amid a budget shortfall caused by compounding pressures.

The specialized education outlet The Hechinger Report identified American students as the ultimate victims of this trend. Domestic students might not pay more out of pocket immediately; instead, they receive less education. Course offerings are curtailed, academic majors merged or eliminated, and financial aid budgets squeezed. The shortfall in international student revenue was also a decisive factor driving numerous universities to hike tuition rates in the fall of 2026.

Federal Reserve Chair Jerome Powell publicly reflected on the value of American universities as well. On May 25, 2025, he delivered remarks at the Baccalaureate ceremony of his alma mater, Princeton University. Powell described America's great universities as national treasures envied by

the entire world. He urged the graduating class never to take them for granted. He remarked that fifty years hence, when looking back, they should be able to say they did their part to defend and nurture democracy. The address came immediately after the Trump administration escalated its offensive against Harvard. Given the central bank chief's strict tradition of avoiding politically charged commentary, the speech carried extraordinary weight.

28.5 Germany: The Tuition-Free Alternative

While the United States narrowed its gates, other countries swung theirs wide open. The nation attracting the largest influx of students was Germany.

As a general rule, German public universities do not charge tuition fees. Students pay only a semester contribution (Semesterbeitrag) amounting to a few hundred euros per term. Compared to elite American universities charging upwards of $60,000 a year in tuition, the contrast is stark.

The annual report Wissenschaft weltoffen 2025, published by the German Academic Exchange Service (DAAD), documents this trend. In the winter semester of 2024–2025, the number of international students and doctoral candidates enrolled at German universities reached approximately 402,000. This was a roughly 6% increase from the previous year, setting an all-time record. Newly enrolled first-year international students also hit a peak of 116,600. DAAD evaluated Germany as the single largest study destination outside the English-speaking world. Forty-three percent of international students were enrolled in engineering disciplines.

Indian students spearheaded this growth. Citing data from the Federal Statistical Office of Germany, the DAAD India office published updated figures. In the winter semester of 2025–2026, Indian student enrollment hit 69,816. That represented a 17.5% jump—an increase of approximately 10,400 students—over the prior year. India became the number one sender of international students to Germany. Indian students accounted for 13.5% of all international students enrolled in Germany.

German universities had steadily expanded English-taught master's degree programs. The pathway to earning a master's in engineering without knowing German had widened significantly. Following graduation, international alumni can remain in Germany for 18 months while seeking employment. Facing shortages of skilled labor, the German government welcomes international students as an indispensable future workforce.

Nonetheless, it is difficult to conclude that Germany serves as a seamless replacement for the United States. It is far from cost-free. Before receiving a visa, an Indian student must deposit €11,904 into a blocked account in a German bank as proof of living expenses. The state of Baden-Württemberg levies a tuition fee of €1,500 per semester on non-EU students. Private universities of applied sciences charge their own distinct tuition. In March 2026, German public broadcaster

Deutsche Welle (DW) aired a documentary following an Indian international student who worked in restaurants to afford tuition and rent. Without German language proficiency, employment hurdles after graduation remain formidable. Germany represents a low-tuition option, but by no means an easy one in every respect.

28.6 Japan, Hong Kong, and Singapore: Asia's Absorption Strategy

Asian universities acted with equal swiftness. When the Trump administration moved to strip Harvard's authorization to enroll international students in May 2025, reactions followed in rapid succession.

In Japan, the University of Tokyo stepped up first. The University of Tokyo announced that it would examine measures to temporarily accommodate international students unable to continue their studies at Harvard. Kyoto University made a similar pledge the following day. Japan's Ministry of Education, Culture, Sports, Science and Technology (MEXT) issued a formal request for cooperation to universities across the country, asking them to explore ways to admit or support students facing disruption to their academic pursuits in the United States. The University of Tokyo already possessed a working model: the program established following Russia's 2022 invasion of Ukraine, which offered affected students and researchers free laboratory space and housing.

Japan's attention centered even more intensely on researchers than on students. In May 2025, Osaka University announced plans to accept 100 young medical researchers from the United States. Tohoku University unveiled an initiative to recruit 500 scholars over five years, primarily from the United States. In June 2025, the Japanese Cabinet Office announced the "J-RISE" initiative designed to build world-class research environments. Japan's strategy focused on offering stable research funding and positions to researchers seeking to leave the United States.

However, contrary to reports in some media, the University of Tokyo did not guarantee full scholarships and admission to every Harvard international student. Its announcement remained strictly at the level of "considering" temporary accommodation. Japan's language barrier and comparatively modest research salaries also remain enduring hurdles.

Hong Kong moved most aggressively of all. On May 23, 2025, the Hong Kong University of Science and Technology (HKUST) issued an open invitation letter. It pledged streamlined procedures and unconditional admission to current or admitted Harvard international students. Provost Guo Yike declared that diversity breeds creativity and progress, stating the university stood fully prepared to welcome Harvard students. On the same day, the Hong Kong Education Bureau instructed all local universities to actively facilitate student transfers. HKUST offered funded admissions packages to six Harvard graduate students, five of whom accepted.

In raw numbers, these figures were modest. Yet the underlying trend was undeniable. The University of Hong Kong (HKU) handled more than 500 inquiries from students in the United States and processed approximately 200 transfer applications. HKUST saw its international undergraduate applicant pool expand by 40% in a single year. Preferences among mainland Chinese students underwent a profound realignment. The 2026 overseas study report from New Oriental (新東方), China's largest educational consulting firm, captured this shift: among Chinese students and parents, the United Kingdom ranked first and Hong Kong second as the most desired study abroad destinations. The United States tumbled to third place. It marked the first time in twelve years that Hong Kong had claimed the number two spot. The report cited U.S. policy uncertainty as the primary reason for America's decline.

Singapore did not let the opportunity slip either. In April 2025, the president of Nanyang Technological University (NTU) delivered remarks at a public forum, declaring that the present moment constituted a "golden opportunity" for Asian institutions to recruit premier American talent. The National University of Singapore (NUS) and NTU leveraged generous government research grants to attract top scholars. Close ties with industry served as another powerful draw for researchers from the United States. Both Hong Kong and Singapore offer English-language instruction and bountiful research funding. Geographical proximity to mainland China and Southeast Asia is another distinct strength.

Still, Asian universities cannot readily supplant top-tier American institutions. Since the enactment of the National Security Law in 2020, Hong Kong has faced persistent questions regarding academic freedom. Singapore's sheer physical scale imposes strict ceilings on the number of students it can absorb. Asia's absorption strategy is geared not toward filling every vacancy left by the United States, but toward cherry-picking the most exceptional tier of global talent.

28.7 Canada and Europe: Buying Up Researchers

The exodus was not limited to students; researchers also made their move. While academic researchers migrate in smaller numbers, the gravity of each individual departure is immense. When a single laboratory relocates, doctoral students, postdoctoral fellows, research funding, and patents all follow in tow.

On May 5, 2025, the European Union unveiled the "Choose Europe for Science" initiative at the Sorbonne in Paris. European Commission President Ursula von der Leyen pledged €500 million between 2025 and 2027. French President Emmanuel Macron, speaking at the same event, vowed to actively recruit international researchers. Their target was unmistakable: American scientists reeling from grant cancellations and political pressure.

Canada achieved even more tangible results. In December 2025, the Canadian government announced a $1.2 billion innovation investment plan. Its cornerstone was the Eddie Goldenberg

Research Chairs of Canada program. Of the initial cohort of 64 chairholders announced in August 2026, 48 were recruited directly from American universities. The recruits included scholars from Harvard, Yale, and MIT. Canada pledged more than $350 million in research funding over eight years to support these scholars across strategic disciplines such as climate change, molecular biology, transportation, and artificial intelligence. An additional 63 chairs will be selected the following year.

On September 22, 2026, The Harvard Crimson featured the stories of three Harvard scholars among the departures. Curtis Huttenhower, a professor at the Harvard T.H. Chan School of Public Health, chose to leave Harvard after seventeen years. He plans to establish a new microbiome research center at the University of British Columbia (UBC). Jennifer Spence, who led the Arctic Initiative at the Harvard Kennedy School, and Peter Caravan, a professor at Harvard Medical School, also headed to Canada. Huttenhower and Spence cited the deteriorating research climate and political volatility in the United States under the second Trump administration as their reasons for relocating. Huttenhower observed that graduate students and postdocs suffered the heaviest casualties as the federal research funding system buckled.

Three days later, on September 25, The Harvard Crimson editorial board published an editorial. The editorial warned that America was "losing its minds." According to the Association of American Universities (AAU), applications from Chinese and European scholars seeking faculty positions at U.S. universities plummeted. The editorial noted that while the administration suffered multiple defeats in court and Congress pushed back against research funding cuts, the relentless and recurring assaults had already begun destabilizing the American research enterprise. Above all, it argued, nothing is more corrosive to scientific inquiry than pervasive uncertainty.

28.8 The U.S.–China Summit and the Paradox of the "600,000 Students" Remark

The international student dilemma was inextricably bound up with U.S.–China relations. This was because China was the second-largest sender of students to the United States.

President Trump's stance was fraught with contradiction. In May 2025, Secretary Rubio declared that the United States would aggressively revoke the visas of Chinese students. Yet in August 2025, President Trump announced that he would welcome 600,000 Chinese students. Behind that remark lay a calculation that it would yield leverage in trade negotiations with China. It also reflected a pragmatic recognition that American university finances could not function without Chinese students. Backlash erupted immediately from within his core political base. Actual policy execution moved in the exact opposite direction of his rhetoric. In fact, Chinese student enrollment had already dropped by 4% in the 2024–2025 academic year.

At the 2026 Washington summit, the two nations haggled over numbers involving Boeing passenger jets, soybeans, and beef. The cross-border movement of students and researchers never attained centerpiece status on the agreement agenda. From Beijing's vantage point, there was little reason to rush. China was already retaining top domestic talent through premier universities in Hong Kong and on the mainland. Furthermore, waves of Chinese scientists conducting research in the United States were steadily returning home. The tighter the United States barred its gates, the greater justification China gained for cultivating its scientific talent domestically.

Human talent cannot be bartered like commercial commodities across a negotiating table. An order for 200 Boeing aircraft can change hands with the stroke of a pen. A single student, by contrast, weighs a complex web of conditions before making a life decision. Delays in visa interview appointments, social media scrutiny, caps on authorized stay, and uncertainty over post-graduation employment all factor into the calculation. Once a student chooses another country, their career takes root there. Subsequent cohorts of juniors follow in their footsteps. It is an institutional drift that cannot be reversed by casual rhetoric at a summit.

28.9 The Erosion of Soft Power and Lingering Questions

America's 20th-century hegemony was not secured by military firepower and the U.S. dollar alone. The world's premier talent gathered at American universities. They experienced firsthand America's culture of research inquiry, the rule of law, and free debate. They then returned to their homelands to become leaders across government, industry, and academia. Through this process, the United States forged an organic network of goodwill across every corner of the earth. This was the very essence of what political scientist Joseph Nye termed "soft power"—influence won through attraction rather than coercion.

Professor Fernando Reimers of the Harvard Graduate School of Education warned in a CNN interview that this priceless asset was in danger of unraveling. He denounced student enrollment bans and research grant freezes as self-inflicted wounds. He cautioned that if this trajectory continued, Harvard could regress—sliding from the world's intellectual epicenter back into an isolated 19th-century provincial college. While rhetorical hyperbole, his warning carries profound resonance regarding the fate of universities abandoned by talent.

Several qualifications must be kept in mind regarding the assessments in this chapter.

First, the contraction in international student enrollment is not unique to the United States. Canada, the United Kingdom, and Australia also tightened student visa policies under the banner of curbing net migration. In the spring of 2026, 69% of Canadian universities, 42% of UK universities, and 44% of Australian universities experienced declines in international undergraduate enrollment. The entire English-speaking "Big Four" narrowed their doors simultaneously. The ascendance of

Germany and Asian institutions is therefore the composite result of American missteps and a synchronized tightening across the Anglosphere.

Second, the United States remains the world's largest destination for international students. Even in the 2025–2026 academic year, more than 1.1 million international students studied in the United States. The research capabilities and industrial ecosystems of top-tier American institutions cannot easily be eclipsed. Actual enrollment figures for the fall of 2026 will not be confirmed until IIE completes its autumn census. NAFSA itself noted that realized outcomes could diverge from its projected ranges.

Third, the trajectory of this momentum is nonetheless undeniable. Freshman cohorts are shrinking, doctoral applications are falling, and senior researchers are leaving. Meanwhile, Germany admitted record numbers of international students, and Hong Kong overtook the United States as the preferred destination for Chinese students. Canada poached 48 high-caliber scholars from U.S. institutions in a single stroke. Such movements compound year after year. A decade from now, the vacant chairs in American research laboratories will expand by the exact number of doctoral students who never matriculated today.

Nor is this an abstract issue for South Korea. South Korea ranks as the third-largest sender of students to the United States. For South Korean students and families contemplating study in the United States, the matrix of considerations has expanded. Consular visa vetting, rigid limits on duration of stay, and the looming curtailment of OPT must all be factored in. For South Korean universities and policymakers, however, this crisis presents an inverse opportunity. It is time to ask whether Korea is equipped to welcome students and researchers departing the United States. Germany, Japan, Hong Kong, Singapore, and Canada have already made their moves.

The Trump administration framed international students as security liabilities and job competitors. In exchange, the United States wagered a $50 billion annual export industry and forfeited the trust of global talent. Money can be regained when economic cycles turn. Reversing the footsteps of talent that has chosen a different path can take an entire generation. Chapter 29 explores the various ways the academic and cultural communities inside and outside Harvard resisted this onslaught.

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Chapter 29. Ronny Chieng's Harvard Satire and Conan O'Brien's Scathing Wit

The Resistance of Academia and the Cultural Sphere

In the final week of May 2026, Harvard Yard was bustling with commencement festivities. For more than a year, the university had been locked in a confrontation with the federal government. Freezes on research funding, the revocation of international student enrollment certification, and a Department of Justice lawsuit had followed in rapid succession. Yet the words delivered from the commencement podium were not declarations of fury. They were jokes that brought laughter to the audience.

On May 27, Class Day, comedian Ronny Chieng took the stage. Class Day is an event held the day before Commencement for the graduating undergraduate class. On the same stage, graduating senior Hamza Masoud delivered a humorous address. The following day, at Harvard's 375th Commencement, Conan O'Brien gave the keynote address. All three turned the Trump administration's pressure campaign against universities into an object of mockery.

This chapter chronicles that laughter. Chapters 24 through 28 addressed executive orders, judicial rulings, and the brain drain—a narrative framed in institutions and numbers. This chapter views the very same events through the prism of culture. It examines how a besieged community responded in its own words, and assesses what that laughter could—and could not—accomplish.

29.1 A Chronology of Pressure and the Place of Laughter

First, a brief summary of the pressures Harvard endured. Detailed accounts appear in Chapters 24 and 25.

In April 2025, Harvard rejected a list of demands submitted by the administration. The list included audits of admissions and hiring, tightened disciplinary controls over protests, and the dismantling of DEI. DEI refers to policies designed to foster Diversity, Equity, and Inclusion. The administration immediately froze more than $2.2 billion in research grants. In May, the Department of Homeland Security revoked Harvard's certification to enroll international students. The legal status of roughly 7,000 foreign students was thrown into jeopardy. Threats to strip the university of its tax-exempt status soon followed.

The courts sided with the university. In September 2025, U.S. District Judge Allison Burroughs ruled the research grant freeze to be unconstitutional retaliation. Her written opinion stated that antisemitism had served merely as a smokescreen to conceal an ideological assault. The administration appealed the ruling in December. The case is currently before the U.S. Court of Appeals for the First Circuit.

In 2026, the pressure did not abate. In early February, President Trump demanded $1 billion in restitution from Harvard—double the $500 million discussed in earlier negotiations. On February 6, Secretary of Defense Pete Hegseth severed the military's educational partnership with Harvard. The directive halted graduate education programs and fellowships for military officers beginning in the 2026–2027 academic year. Hegseth himself had earned a master's degree from the Harvard Kennedy School.

On March 20, the Department of Justice filed a lawsuit against Harvard, alleging violations of Title VI of the Civil Rights Act. This statute prohibits discrimination on the basis of race, color, or national origin by any entity receiving federal financial assistance. The Justice Department alleged that Harvard had turned a blind eye to the harassment of Jewish students. It also sought the clawback of roughly $1 billion in federal research funds already disbursed.

During this same period, the American cultural landscape was facing heavy pressure as well. In July 2025, CBS announced that it would end Stephen Colbert's The Late Show. The announcement came just two days after Colbert criticized parent company Paramount's settlement of a lawsuit with Trump. Paramount had agreed to pay Trump $16 million to resolve the legal dispute. CBS maintained that the cancellation was a financial decision, but observers widely interpreted it as political retaliation.

In September 2025, ABC briefly pulled Jimmy Kimmel's late-night show off the air immediately after the chairman of the Federal Communications Commission (FCC) issued comments pressuring broadcasters. Kimmel returned after six days. Colbert's final broadcast aired on May 21, 2026—just one week prior to Harvard's commencement festivities.

The comedians who took the Harvard podium that year stood precisely where these two battlegrounds converged. The university was fighting over research grants and student bodies. Broadcast comedy was losing its very stages. As satire was driven off network television, commencement podiums became among its last remaining public stages.

The way satire confronts power differs from legal warfare. Rulers can delay court decisions through appeals. They can redraft executive orders with revised wording and reissue them. But laughter that erupts before tens of thousands of people cannot be revoked. Satire accepts the logic of power at face value and pushes it to its ultimate, absurd conclusion—thereby naturally laying bare its fatal flaws. Most of the humor highlighted in this chapter follows this very dynamic.

A similar scene had unfolded at the previous year's Commencement. In May 2025, President Alan Garber acknowledged students hailing from every corner of the world as he introduced the graduating class. It came immediately after the federal government revoked Harvard's authority to enroll foreign students. The audience responded with an extended standing ovation. If the response of 2025 was applause, the response of 2026 was laughter.

29.2 Conan O'Brien: "I'm Suing Harvard, Too"

Conan O'Brien graduated from Harvard in 1985, majoring in History and Literature. During his undergraduate years, he served two terms as president of the humor magazine The Harvard Lampoon. He subsequently worked as a writer for Saturday Night Live and The Simpsons, and beginning in 1993, hosted late-night talk shows on NBC. In 2025, he was awarded the Mark Twain Prize for American Humor, the highest honor in American comedy. In March 2026, he hosted the Academy Awards.

Harvard announced him as its principal Commencement speaker in March 2026. On May 28, at Tercentenary Theatre, he received an honorary Doctor of Arts degree and stepped up to the podium. Tercentenary Theatre is the open-air commencement venue situated in Harvard Yard.

From his opening salutation, the audience erupted in laughter. He welcomed the fellows, deans, faculty, graduates, and families in turn—slipping "spies from the Department of Justice" onto the end of the list. Coming in the wake of the DOJ's lawsuit against Harvard, the audience understood the reference instantly.

Next, he praised President Garber. He remarked that while Garber rightfully deserved an A-plus, in accordance with the new Harvard policy about to take effect, he would have to downgrade him to a C-minus—adding that Garber should trust it was for the good of the school. Just one week earlier, the Harvard faculty had voted to place a cap on the percentage of A grades. This joke was directed first and foremost at the university itself.

He also punctured Harvard's legendary pride. He observed that Harvard had produced more Nobel laureates than any other university in the United States—adding that it had also produced the most white-collar criminals. Whether you walk the path of righteousness or the path of evil, he concluded, you are unequivocally the best of the best.

Midway through the address, he confronted the lawsuit head-on. He noted that the single greatest challenge facing the university was that the federal government was suing Harvard. Boos erupted from the crowd. He remarked that people assumed he had come to defend Harvard, but told them that assumption was mistaken. In fact, he announced, he was joining the lawsuit to sue Harvard himself.

The grounds he cited for his lawsuit were as follows: First was the cast-iron bunk bed in Holworthy 16 assigned to him during his freshman year. He also cited being allowed to schedule a 10:00 a.m. class all the way across the athletic fields immediately following a 9:00 a.m. class at the Science Center. He even listed "Captain Ben's Fish Spaghetti," served at the Adams House dining hall, among his actionable grievances. He declared with mock confidence that his lawsuit rested on far firmer legal footing than the one brought by the President of the United States.

The structure of this joke was unmistakable: it placed the federal government's lawsuit side by side with grievances over dorm room beds and dining hall food. In an instant, litigation brought by the full majesty of state power was demoted to the exact same tier as trivial complaints. Throughout the speech, he never once uttered the name Trump. Yet every person in the audience knew precisely whom he meant.

His next quip targeted the international student controversy. He noted that the current administration believed Harvard had far too many foreign students. Then, stepping back with faux concession, he admitted they might have a point. What, he asked, had foreigners ever contributed to American culture anyway? He then reeled off a sweeping catalogue: music, literature, art, cuisine, fashion, architecture, dance, scientific discovery—and finally, the very foundations of morality and ethics. Apart from those things, he deadpanned, absolutely nothing.

He pushed the premise one step further: without the contribution of foreigners, Americans today would probably be listening to Calvinist reggae, eating Episcopalian baked ziti, and dancing the Lutheran lambada. It was a biting caricature of how utterly bland American culture would be if reduced solely to its Puritan and Protestant heritage. By taking the logic that treats immigrants as a threat and pushing it to its extreme, he engineered its self-destruction through irony. In a single paragraph, he turned the entire international student policy analyzed in Chapters 25 through 28 completely on its head.

While discussing his travel show, he also brought up Greenland—recounting how he had dropped by a real estate office there to negotiate purchasing the entire country. It was a deft jab at Trump's scheme to buy Greenland, a topic examined in Chapters 17 and 18.

The central theme of the commencement address was humility. He told the graduates he hoped their Harvard degree would eventually become the least interesting thing people knew about them. He emphasized that no one accomplishes anything entirely on their own, urging them to acknowledge the decisive role that luck plays in life. He also poked fun at himself, describing his appearance as someone dressed like a 12th-century pope collecting an unearned honorary doctorate.

Amid that thematic progression came the speech's most serious passage. He diagnosed the contemporary era as one of extreme narcissism. He observed that the current leadership in Washington treats empathy as a weakness and clings to the belief that America must stand completely alone. He added to this the reality of smartphone algorithms that flatter each user into believing they are the heroic protagonists of their own private narratives. His prescription was for graduates to let go of feeling special and instead look out for one another.

In short, Conan's address was not a political manifesto. The vast majority consisted of jokes about dorms, dining halls, his own career, and practical life advice. Political satire occupied only a few minutes. Even his concluding sentence was a shameless plug for the upcoming release of Toy Story

5. Yet that very lightness was precisely its strength. Rather than mounting a solemn rebuttal against the President's lawsuit, he dismissed it with a single wave of laughter.

At the same ceremony, President Garber's opening remarks struck a markedly different chord. The university's official publication, the Harvard Gazette, reported that Garber delivered a somber assessment of the political and legal challenges confronting the institution. The president spoke with solemn gravity; the comedian brought humor. Yet both voices pointed in the exact same direction.

Before taking the podium that day, there had been an added complication. The Harvard Graduate Students Union was on strike during commencement week. The union had petitioned Conan, Chieng, former Senator Mitt Romney, and Boston Mayor Michelle Wu to boycott the festivities and not cross the picket line. Mayor Wu canceled her scheduled address at the Harvard Law School Class Day event. Conan and Chieng, however, took the podium as planned. It was a scene that laid bare the fact that Harvard's battles were not coming solely from external forces.

29.3 Ronny Chieng: "No Wonder Trump Is Trying to Destroy You"

Ronny Chieng was born in Malaysia and raised in Singapore and New Hampshire. He studied law and commerce at the University of Melbourne in Australia. He began performing stand-up comedy in Melbourne, joined The Daily Show in 2015, and relocated to New York. He has also starred in the films Crazy Rich Asians and Shang-Chi and the Legend of the Ten Rings, and is an Emmy Award winner.

His invitation was settled at the eleventh hour. The student daily, The Harvard Crimson, reported that as late as May 18, the Class Day speaker had still not been announced. The university finally announced Chieng on Friday, May 22—just five days before the event.

Chieng turned these awkward circumstances into his opening routine. He introduced himself as the senior class committee's frantically arranged second choice, quipping that he had spent the entire week trying to find out who had canceled. He then hazarded a guess as to why he had been selected: someone living within Amtrak commuting distance whose name did not appear in the Epstein files. In the end, he joked, the shortlist came down to just two candidates: himself and Baby Yoda.

The Epstein files refer to investigative records relating to convicted sex offender Jeffrey Epstein, which were unsealed in batches beginning in 2025. These files named numerous figures across American politics, finance, and academia. Harvard was no exception. Former President Lawrence Summers stepped down from his university professorship in February 2026 after disclosures regarding his past ties to Epstein. Chieng's opening joke satirized the absurd reality that avoiding

mention in the Epstein files had become the primary vetting criterion even for booking commencement speakers.

His next target was grades. Just one week earlier, the Harvard faculty had voted 458 to 201 to cap the proportion of A grades, a measure that, starting in the fall of 2027, limits A grades to 20% of each class plus four students. Chieng congratulated the graduating seniors on being the last Harvard class where everyone got straight A's. He then asked how on earth they had managed to inflate grades for 200 years without anyone noticing.

He openly ridiculed the faculty's decision. Didn't they realize, he demanded, that the more A's you hand out, the smarter everyone looks? "Do I really need to explain this to you? Did you people actually go to Harvard?" he mocked, before delivering the punchline: "No wonder President Trump is trying to destroy you."

The Harvard Crimson highlighted this moment as the centerpiece of the speech, noting how seamlessly it connected campus grading disputes to the high-stakes confrontation with the federal government. Chieng registered the gravity of his line on the spot. Turning to the American Sign Language interpreter beside him, he noted that he had just watched her sign that exact sentence. "Don't worry," he assured her, "it gets much worse as it goes on."

This brief moment captured the essential mechanics of satire. The statement that the President is trying to destroy the university is fundamentally a grave accusation. Chieng tossed it out offhandedly as the punchline to a routine about grade inflation. The audience laughed, yet the substance of the indictment remained intact. Laughter did not trivialize the charge; it translated it into a form that everyone could absorb and confront.

Chieng did not hold back on self-deprecating barbs either. He thanked Trevor Noah for hiring him onto The Daily Show, joking that a Black man had brought an Asian man into America through affirmative action. This joke intersected directly with Harvard's own recent past: in 2023, the U.S. Supreme Court struck down Harvard's race-conscious admissions program as unconstitutional in a landmark case that had originated from claims of discrimination against Asian American applicants.

He went on to candidly confess the shortcomings of himself and his fellow satirists. What had seven years of speaking truth to power through satire actually accomplished? He answered his own question: helping get Trump elected twice. That self-mockery casts a profound question over this entire chapter: if satire cannot stop authoritarian power, what role remains for it? That question is revisited in Section 29.6.

In truth, the principal theme of Chieng's address was not Trump, but artificial intelligence. He dedicated the bulk of his speech to critiquing AI, telling graduates that the defining mission of their generation was to "destroy AI." His message was that while AI could be harnessed for medical and

physics research, it must never be permitted to usurp human creativity and critical thinking. The Harvard Gazette characterized the address as a humorous yet deadly serious warning.

Even in his critique of AI, he kept Harvard squarely in his sights. He noted that AI claims Harvard has an endowment of $56.9 billion, yet also claims the graduate student union is on strike demanding a $25 hourly wage. "That can't possibly be true," he scoffed, attributing the discrepancy to worsening AI hallucinations. In reality, both claims were indisputable facts. It was a razor-sharp puncture of an elite university sitting on an astronomical endowment while engaging in a bitter wage dispute with its own teaching assistants.

He also took a jab at Harvard alumnus Mark Zuckerberg of Meta. The address concluded with an appeal: when future students eventually ask for advice, tell them to live kindly and joyfully—"but first, let's smash these machines."

Chieng's blade cut in many directions: the Trump administration, the Harvard faculty, university finances, Big Tech, and himself. Because his targets were so wide-ranging, his jabs at Trump never sounded like partisan cheerleading. They registered as the voice of a comedian who subjects every form of power to equal skepticism.

29.4 Hamza Masoud: "To the ICE Agents Here Because of My Name"

Class Day also features student addresses. Among them, the "Ivy Oration" is a cherished tradition of humorous speeches delivered by a graduating senior. The 2026 Ivy Orator was Hamza T. Masoud. He was an editor of The Harvard Lampoon—the very magazine Conan O'Brien had once led as president. Together with his fellow Lampoon colleagues, Masoud had even published satirical pieces targeting Trump in Rolling Stone.

Masoud's opening lines set the tone: after acknowledging classmates, faculty, and families, he addressed one additional group—the ICE agents who had seen the name "Hamza Masoud" in the commencement program and showed up expecting an easy bust. ICE stands for Immigration and Customs Enforcement. He then asked everyone to rise for a recitation from the Quran—which was, naturally, a joke.

Behind that opening joke lay real fear: the terror that a Muslim-sounding name alone could make one a target for immigration enforcement. This anxiety directly mirrors the realities detailed in Chapters 26 and 27. The State Department combed through foreign students' social media profiles, and students who voiced pro-Palestinian sentiments faced immediate threats of deportation. By uttering that terror out loud from the podium, Masoud transformed an anxiety kept bottled up inside individuals into material that an entire community could laugh at collectively.

He also touched on the administration's demands. When President Trump demanded $1 billion, he said, Harvard faced the greatest ordeal in its storied history. Matters only worsened, he

continued, when Defense Secretary Hegseth severed the military's relationship with Harvard—supposedly because Hegseth discovered that drinking alcohol was prohibited in Harvard Yard. Hegseth had faced intense grilling during his 2025 Senate confirmation hearings over allegations of alcohol abuse. The joke dragged a major policy action by the Secretary of Defense down to the level of personal drinking habits.

His most daring routine addressed the replacement of the university's dean and president. Masoud remarked that former Harvard College Dean Rakesh Khurana, after enduring relentless attacks from MAGA, underwent a miraculous transformation—and emerged as a white man. Khurana's successor was David Deming, a white man. He claimed the very same metamorphosis happened to former President Claudine Gay: Gay and her successor, President Garber, were actually the exact same person, offering as proof that they share the same height and have never once been seen together in the same room.

This joke must be read with some factual context in mind. Claudine Gay, Harvard's first Black president, resigned in January 2024 following the combined fallout of the December 2023 congressional hearing on campus antisemitism and plagiarism allegations—events that occurred prior to the start of Trump's second term. Masoud bundled these developments into the overarching tide of the conservative offensive. The target of the joke was how the racial and demographic face of the university's top leadership shifted under sustained pressure.

Masoud did not shy away from the Epstein scandal either. He reflected on how, over the course of their college years, fall turned into winter, winter into spring, spring into summer—and Summers into an ex-professor. It was an unmistakable pun playing on the season of summer and the surname of former president Larry Summers. The audience responded with roars of laughter and applause.

The grade cap provided another source of humor. When he first arrived on campus, he said, he thought grade inflation was merely an urban myth; four years later, he had a 3.968 GPA and was graduating dead last in his academic department. He also poked fun at the pro-Palestinian tent encampments of spring 2024: running through the campus club catalogue, he noted that you could go camping with the Mountaineering Club, or you could go camping with the Palestine Solidarity Committee.

What is particularly noteworthy about Masoud's address is the distribution of his targets. He took aim at Trump, Hegseth, and ICE, but simultaneously skewered Harvard's administration, a former president tainted by Epstein, and campus controversies. Criticism of external power carries genuine credibility only when voiced by someone equally willing to hold their own community to account. That is precisely why the laughter of Harvard's students never sounded like mere tribal partisan posturing.

29.5 Voices of Intellectuals: Constitutional Scholars, the Central Banker, and an Officer's Oath

Behind the humor of comedians and students stood more solemn voices. These voices articulated the very issues highlighted by laughter in the rigorous vocabulary of law and public institutions.

Laurence Tribe, University Professor Emeritus at Harvard Law School, is a towering figure in American constitutional jurisprudence. In television interviews in late May 2025, he confronted the administration's stated justification head-on. While acknowledging that antisemitism is a real problem and that Harvard was actively addressing it, he stated that the President's ostensible campaign against antisemitism was merely a "fig leaf" designed to conceal his real agenda—a flimsy covering used to hide shameful intentions.

In Tribe's view, the administration's true objective was subjugation: bringing every individual and every independent institution to its knees. He viewed Harvard, a symbol of intellectual excellence, as its primary target. He also explained why the administration refused to halt its attacks despite repeatedly losing in court: even if the government loses in litigation, the process succeeds in spreading fear throughout society. He characterized this as a "catch me if you can" strategy.

Around the same time, in an interview with MSNBC, Tribe addressed international students directly, urging them not to be intimidated and calling Trump a "paper tiger." He predicted that Harvard would prevail in the courts—a forecast borne out in September 2025 by Judge Burroughs's landmark ruling.

Federal Reserve Chair Jerome Powell also came to the defense of higher education. Delivering the address at Princeton University's Baccalaureate Service on May 25, 2025, Powell avoided naming Trump directly. Instead, he declared that America's great universities are essential national assets that are the envy of the entire world. He implored his audience never to take them for granted, remarking that when people look back fifty years from now, they must be able to say that they did everything within their power to defend democracy.

This speech came just three days after the Department of Homeland Security revoked Harvard's certification to enroll international students. Powell himself was under unrelenting assault from Trump over interest rates—a clash explored in Chapter 35. For the head of the nation's central bank to define universities as vital national assets demonstrated that economic prosperity and academic vitality stem from the exact same root.

Commencement week also featured the Reserve Officers' Training Corps (ROTC) Commissioning Ceremony. On May 27, 2026, graduating cadets were commissioned as military officers at Harvard's Sanders Theatre. Secretary Hegseth's order had targeted graduate programs and fellowships for active-duty officers; undergraduate ROTC remained intact. Harvard's undergraduate ROTC program includes approximately one hundred cadets.

At the commissioning ceremony, the newly minted officers take their oath. The text of that oath is a solemn pledge to support and defend the Constitution of the United States. It contains no vow of allegiance to any individual president or specific administration. Certain online videos portrayed the remarks of a retired general who spoke that day as a pointed warning directed at Trump; however, verifying the complete transcript through mainstream media reporting remains difficult. What is undeniable is that the oath itself enshrines the Constitution as the sole object of military fidelity. Even in the year when the Secretary of Defense branded Harvard a "woke" institution, that identical oath echoed through Harvard's theatre.

29.6 What Laughter Did—and What It Could Not Do

Finally, we offer a measured appraisal of this laughter, separating verifiable facts from interpretation.

To begin with the facts: what actually protected Harvard was the judiciary. In September 2025, Judge Burroughs ruled the research grant freeze unconstitutional. On August 13, 2026, U.S. District Judge Richard Stearns dismissed the Justice Department's antisemitism lawsuit against Harvard. Judge Stearns held that the incidents cited by the government were too sporadic and isolated, failing to establish an ongoing violation of Title VI of the Civil Rights Act.

Assistant Attorney General for Civil Rights Harmeet Dhillon stated that the department disagreed with the ruling and would consider further action. The appeal in the research funding case had not yet concluded. The demand for $1 billion in restitution was never withdrawn. Not a single one of these harsh legal realities was altered by jokes delivered at Commencement.

Chieng himself acknowledged this limitation in his self-deprecating quip that seven years of satire had failed to prevent Trump's two electoral victories. That confession carries an uncomfortable truth: to many voters outside the campus gates, laughter at a Harvard commencement can easily be perceived as elite self-satisfaction. Base supporters of the administration might take it as further proof of academic arrogance. On that very same day, the graduate student union was striking on campus over wages. Harvard, too, was an institution far from immune to legitimate criticism.

What, then, did this laughter actually accomplish? This book offers an interpretation along three dimensions—an analysis offered by the author rather than established fact.

First, laughter gave a name to fear. Masoud's joke about ICE is a case in point. The dread harbored by a student carrying a Muslim name is an emotion typically swallowed in isolation. When that anxiety was voiced as humor before tens of thousands of listeners, it became a shared communal experience. If the purpose of state power was to spread fear, this scene directly defied that objective. It was a cultural rebuttal to the "catch me if you can" strategy described by Laurence Tribe.

Second, laughter pushed the logic of power to its absolute extreme, laying bare its fatal absurdities. Conan's catalogue of foreign contributions is a prime example: if one accepts the assertion that foreigners have added nothing of value to American culture, virtually the whole of American culture must be wiped out. Far more effectively than any lengthy manifesto, that single paragraph threw the gaping holes in that logic into sharp relief. The same held true for juxtaposing a federal lawsuit with complaints about dorm bunk beds.

Third, laughter turned its aim upon its own community. Conan quipped that Harvard had produced the most white-collar criminals. Chieng mocked the grade cap and teaching assistants' wages. Masoud satirized a former president embroiled in the Epstein scandal. Satire that grants no special indulgence to its own side does not degenerate into tribal partisanship; it endures as a principled skepticism toward power in general. This attitude aligns directly with the core values that the university, as an institution, strives to defend.

If the law served as the university's shield, laughter was the signal that the community remained unbowed. A shield deflects blows; a signal provides the internal strength for those inside to hold the line. The laughter in Harvard Yard in May 2026 was precisely that signal. In the very year when America's preeminent university stood locked in battle with the federal government, its commencement was filled with roaring laughter. At the very least, this community refused to be struck dumb by fear.

Yet Harvard Yard was, after all, a protected sanctuary. Graduates laughed alongside their families, and speakers were showered with applause. Beyond the gates of the campus, the reality was starkly different. On the front lines of immigration raids, there was no luxury for cracking jokes. The ICE agents whom Masoud conjured up for laughs were, in other cities across the nation, carrying loaded firearms in the real world. Starting with the next chapter, we turn to those very front lines where laughter could not reach.

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PART 6

Gunfire in Immigration Enforcement and the Shock of Human Rights Abuses

Chapter 30. Reckless Gunfire Under the Pretext of Illegal Immigration Crackdowns

Innocent Civilians and Citizens Struck Down

30.1 A Sunday Afternoon in Austin

On the afternoon of Sunday, September 20, 2026, on a road in north Austin, Texas. A 28-year-old Venezuelan man, Wilber Rafael Garcés Pérez, was delivering food. He was a delivery driver registered with the delivery app DoorDash. At 12:43 p.m., two unmarked black SUVs pulled up alongside his blue sedan. Two agents spoke with him outside his driver's side window. Afterward, Garcés Pérez's car pulled away, and a brief pursuit ensued. Roughly 15 minutes later, near an intersection, three gunshots rang out. A bullet fired by an Immigration and Customs Enforcement (ICE) agent lodged in the back of his neck.

The Austin Police Department had no prior knowledge of this operation. It was also the Austin police, not ICE, who called for an ambulance. The agent who fired had been issued a body-worn camera (bodycam) but was not wearing it. The camera of another agent captured only a partial recording of the shooting. Garcés Pérez was rushed to a hospital. Just four hours later, ICE transferred him to an immigration detention facility. His defense attorney revealed that he was transported with chains around his hands, feet, and waist. As of September 22, the bullet remains lodged in the back of his neck.

The claims of the two sides sharply conflict. The Department of Homeland Security (DHS) asserts that he was an undocumented immigrant subject to a final order of removal. Their explanation is that he fled to evade arrest, endangering both agents and citizens. His defense attorney counters that he is in the country lawfully having applied for asylum. Initially, the attorney stated that an unmarked vehicle had sideswiped his car. Yet video footage released by the Austin Police Department shows a different scene. It depicts him pulling over first, speaking with the agents, and then driving away. Exactly what transpired between those two points remains unknown.

The factual truth of the incident must be determined through investigation. Yet several facts are already clear. A federal agent opened fire on the driver of a moving vehicle in the middle of a city. The camera that should have documented that scene was turned off. Local police were entirely unaware of the operation itself. These three elements are not confined to Austin alone. Ever since the second Trump administration's immigration crackdown began, the exact same pattern has repeated itself across the United States.

Three days later, Secretary of Homeland Security Markwayne Mullin—successor to Kristi Noem—issued a statement. He declared that ICE would neither slow down nor leave Austin. He added that he would make no apologies for removing undocumented immigrants.

The title of this chapter employs the term "reckless gunfire." The "reckless gunfire" referred to here does not mean a mass shooting targeting an unspecified multitude. It refers to public authority pulling the trigger far too easily, far too frequently, devoid of control or accountability. This chapter examines that reality through incidents and numbers, as well as the stark discrepancies between government announcements and video evidence. The cases of Renée Good and Alex Pretti in Minneapolis, as well as the Portland shootings, are addressed separately in Chapter 31.

30.2 Twenty Months of Gunfire in Numbers

Let us first examine the overall scale. ABC News published its own tally on September 24, 2026. Since the start of the second Trump administration, at least 21 people have been shot by federal immigration agents. Among them, 8 individuals died. Of the 8 fatalities, 3 were U.S. citizens. There were at least 15 additional instances of shots being fired where no injuries occurred. According to Newsweek's count, 11 people were shot in the year 2026 alone. Six of those cases occurred in the single month of January.

The numbers vary depending on the counting methodology. A Wikipedia compilation counts more than 41 shootings involving immigration agents since January 20, 2025. This list includes border-zone shootouts, discharges by off-duty agents, and cases where agents returned fire after coming under attack. The death toll on this list stands at 11. Whichever numbers one uses, the overall direction remains identical. Through the summer of 2025, the vast majority of incidents took place near the border. Thereafter, incidents in major metropolitan residential neighborhoods and on roadways surged dramatically.

The inflection point coincided with the dispatch of massive enforcement personnel to major cities. In September 2025, Operation "Midway Blitz" was launched across the Chicago area. In early December of that year, Operation "Metro Surge" kicked off in Minnesota. DHS heralded Metro Surge as the largest immigration enforcement operation in history. During the single month of January 2026, three separate shootings occurred in this operational area alone.

Enforcement tactics also changed compared to the past. ICE agents and Homeland Security Investigations (HSI) agents operated together. The Border Patrol, under U.S. Customs and Border Protection (CBP), joined in as well. Many agents wore ski masks and carried rifles. They detained individuals outside hardware stores, gyms, homes, and schools. Scenes of unmarked vehicles blocking roadways and agents smashing car windows became commonplace.

The targets of enforcement also broadened. A substantial number of the immigrants arrested by ICE during this term had no criminal records. By July 2026, the number of detainees in ICE custody reached approximately 66,000. That is roughly 70 percent higher than the figure when Trump took office. Pressure to meet arrest quotas ratcheted up tensions on the streets. And on those streets of heightened tension, shootings multiplied.

DHS has released no official statistics on how many agent-involved shootings occurred during this period. When PBS requested comparative figures for previous administrations, the department did not respond. Consequently, all the figures used here are the result of media outlets and civil society organizations compiling incidents one by one. This means there may well be additional shootings that the government has never disclosed. This possibility becomes reality in an incident examined in Section 30.4.

30.3 The Recurring Script: "Used the Vehicle as a Weapon"

Shootings by immigration agents share a distinct common thread. Most of the individuals shot were inside vehicles. The Wall Street Journal identified a prevailing trend in a January 2026 analysis. Since July 2025, there were at least 13 instances where agents fired at civilian vehicles. In these incidents, at least 8 people suffered gunshot wounds, and 2 of them died. Some tallies also indicate that at least 5 of those shot during the same period were U.S. citizens.

The government's initial announcements almost always open with the same sentence: An explanation that the driver "used the vehicle as a weapon" or "attempted to ram" the agents. This is inevitably followed by the conclusion that opening fire was an act of self-defense to protect the agents' lives. Yet in multiple cases, civilian videos and police bodycams showed an entirely different scene: Drivers were seen turning their cars or attempting to maneuver away to escape the agents. USA Today also pointed out in a January report that in numerous instances, video evidence directly contradicted the federal government's initial explanations.

Firing at a moving vehicle has long been virtually taboo in American law enforcement. In 1972, the New York City Police Department prohibited shooting at unarmed drivers. Following that reform, the number of NYPD shooting incidents fell precipitously. Police departments across the 25 largest cities in the United States also generally prohibit firing at vehicles. Exceptions are permitted only in rare instances where a driver opens fire or is actively attempting to run people down.

The reason is simple. It is difficult to hit a driver inside a moving car. Missed bullets can injure bystanders or passengers. If the driver is shot, the car does not stop; instead, it goes out of control. For this reason, police are trained never to stand in front of a car, and to step out of the way if a vehicle approaches. The fundamental rule of police training is that it is far safer to record the license plate number and track down the suspect later.

DHS regulations, in principle, reflect the same standard. The regulations "generally" prohibit firing a weapon for the purpose of disabling a vehicle. The only exception is when the driver poses an imminent threat of deadly force and no other reasonable means of defense exist. In 2023, ICE established use-of-force guidelines stipulating that physical force should only be deployed when no safe alternative is available. Immediately following the Minnesota shooting, a senior DHS official also explained the department's training protocols to NBC News: Agents are trained not to

approach directly from the front of a vehicle, but rather from a 90-degree angle. They are also taught that shooting at a moving vehicle will not stop the car.

The reality on the ground was starkly different from the training. Agents blocked the front of vehicles, and when the cars moved, they fired through the windows. And almost every time, the explanation emerged that "the agent felt threatened." Rulings by federal courts further widened this opening. A federal judge in Chicago held that ICE regulations do not go so far as to impose a "duty to retreat." Under this interpretation, agents are neither required to wait for an attack nor obligated to exhaust alternatives in sequential order. As regulatory loopholes and performance pressures converged, the threshold for firing was drastically lowered.

30.4 Two Drivers in Chicago, and a Death Concealed for a Year

The first fatality of Operation Midway Blitz was a 38-year-old cook. On the morning of September 12, 2025, Silverio Villegas González dropped his children off at school. He was on his way to work. In Franklin Park, a western suburb of Chicago, two ICE agents stopped his vehicle. Originally from Mexico, he lacked legal immigration documents. As he reversed and then drove forward again, one of the agents opened fire.

DHS immediately issued a statement. It claimed that he had dragged an agent caught on his vehicle for a "significant distance." It also asserted that the agent suffered "serious injuries." However, bodycam footage from local police recorded something very different. Wearing torn pants, the agent stated that he had only been dragged a little bit and that it was "no big deal."

The autopsy results also contradicted the government's narrative. The bullet entered the back of his neck and lodged in his chest. The Cook County Medical Examiner determined that it was a close-range gunshot wound. The attorney representing the bereaved family highlighted that the bullet had entered at a downward angle. He noted that this indicated the agent who fired was standing beside the vehicle, not in front of it. A person standing next to a car is not in significant danger of being struck by it.

Local police did not investigate the incident. This was because DHS informed them that the Federal Bureau of Investigation (FBI) would take charge of the investigation. Bodycam footage captured a local police supervisor telling his subordinates: "We are not here to investigate." The Illinois State Police launched an inquiry only in May 2026—some eight months after the incident. Even in September 2026, a full year after the event, the FBI had not released a single line of investigative findings. The initial police report received by the family consisted of a mere seven sentences.

Three weeks later, a second driver was shot. On October 4, 2025, in Brighton Park, southwest Chicago. Thirty-year-old Marimar Martínez was a Montessori schoolteacher and a U.S. citizen. That

day, she had followed enforcement vehicles for several blocks, honking her horn. At the time, this was a common action among Chicago residents seeking to alert their neighbors to immigration operations. Border Patrol Supervisory Agent Charles Exum exited his vehicle, and shortly thereafter, five gunshots rang out. According to her attorney, this occurred just two seconds after his car door opened.

DHS framed her as the perpetrator. The agency claimed she had "ambushed" the agents and "rammed" them with her vehicle. Officials even alleged that she was armed with a semi-automatic weapon. DHS officials branded her a "domestic terrorist." Prosecutors indicted her on charges of assaulting a federal officer. Yet in the indictment itself, there was no mention of any firearms-related charge.

When court proceedings began, the government's claims collapsed one after another. Following the shooting, Exum drove his car roughly 1,100 miles (approximately 1,800 km) back to Maine. That vehicle was repaired before the defense attorney could inspect it for damage. Exum was not wearing a bodycam at the time of the incident either. His text messages, disclosed in court, transformed the character of the case. He texted colleagues: "shot 5 times, 7 holes." He also sent a text saying: "Put that on your record." One colleague praised him as a "legend" among agents. When the defense attorney asked what he meant, Exum replied that as a firearms instructor, he took pride in his shooting proficiency.

In November 2025, prosecutors themselves moved to dismiss the indictment. The judge dismissed the case with prejudice, barring the charges from being refiled. Bodycam footage released in February 2026 was even more decisive. The video showed Exum turning his steering wheel to swerve directly toward her vehicle first. Six seconds after the collision, he stepped out of his car, and five gunshots were heard. The Border Patrol placed him on administrative leave. A criminal investigation into his conduct remains underway, but no conclusions have been released. At a press conference, Martínez referred to herself as a "survivor."

Around the same time, similar incidents unfolded in other cities. On August 16, 2025, in San Bernardino, California, masked agents smashed a car window and fired three shots. The 18-year-old son of driver Francisco Longoria narrowly escaped being hit. Not knowing who the assailants were, Longoria called 911. The Border Patrol charged him, alleging that he had driven toward agents. Prosecutors later dismissed the charges after failing to substantiate the agents' claims.

On October 17, in Washington, D.C., an HSI agent fired at the vehicle of Philip Brown, a Black U.S. citizen. He was unarmed and unhurt. The police report did not even mention that a shooting had taken place. The judge presiding over the case stated that it was "completely impossible to determine" why the agent had fired.

On October 21, in Los Angeles, agents attempted to arrest a Mexican TikTok streamer. He had frequently filmed ICE enforcement operations on the ground. During the arrest, an agent's firearm

discharged. The bullet struck both the streamer and a U.S. Marshal assisting in the operation. DHS claimed the streamer had attempted to ram agents with his car, but prosecutors dismissed the charges in December.

On October 30, in Ontario, California, U.S. citizen Carlos Jimenez was shot. He had stopped his truck to inform agents that schoolchildren would soon be passing by. An agent drew a firearm and ordered him to leave. When he attempted to turn his vehicle around, the agent opened fire. ICE claimed he tried to run over an agent, while his attorney maintained he was merely attempting to change direction.

On the night of December 31, in Northridge, Los Angeles, an off-duty ICE agent shot and killed Keith Porter, a Black family man. The agent claimed Porter had fired first. The family countered that he had merely been firing celebratory shots into the air to ring in the New Year. The bereaved family requested an independent investigation from the California Attorney General.

The most shocking case was revealed only long after the fact. On March 15, 2025, on South Padre Island, a resort destination in Texas. Twenty-three-year-old U.S. citizen Ruben Ray Martinez was on a birthday trip with friends. As his car passed near the scene of a traffic accident, an HSI supervisor fired three shots through the driver's side window. Although agents administered first aid, he ultimately died.

At the time, local media reported the death only as an "officer-involved shooting." DHS never disclosed the fact that a federal agent had fired the shots. This fact became public nearly a year later, in February 2026. It was brought to light thanks to the watchdog group American Oversight, which obtained internal ICE records through a Freedom of Information Act request. DHS claimed that he had "intentionally struck" an agent. However, local police bodycam footage released by the Texas Department of Public Safety failed to substantiate that claim. The family's attorney explained that in the video, the vehicle was barely moving. The federal agents were not wearing bodycams that night either. The passenger who disputed the government's account died in a car crash before formalizing a statement. Straight Arrow News and other outlets reported that a Texas grand jury declined to indict the agent who fired the fatal shots.

This incident reveals two things: First, that shootings by federal agents can remain buried without ever being disclosed. Second, that the official tallies cited earlier may be far lower than the reality. Texas State Representative Gina Hinojosa asked how many more shootings exist that the public knows nothing about. To this day, the government has provided no data to answer that question.

30.5 2026: An Unrelenting Trigger

In January 2026, shootings erupted one after another in Minnesota and Oregon. On January 7, in Minneapolis, U.S. citizen Renée Good was killed by ICE gunfire. A day later, in Portland, a Border Patrol agent shot two Venezuelan nationals. On January 14, in north Minneapolis, Venezuelan national Julio Sosa-Celis was shot in the leg. DHS announced that the agent had been "ambushed," and two people were indicted. On February 12, a federal prosecutor acknowledged that new evidence was "materially inconsistent" with the allegations in the indictment. The prosecution dismissed the charges. On January 24, Border Patrol agents shot and killed U.S. citizen Alex Pretti. According to a video analysis by The New York Times, at least 10 shots were fired in the span of five seconds. These three incidents and their aftermath are examined in detail in Chapter 31.

Even after the shock of Minnesota, the gunfire did not stop. With the onset of summer, fatalities emerged once more.

On July 1, 2026, in Harrisburg, Pennsylvania. ICE agents opened fire on a man fleeing a traffic stop. ICE stated that he attempted to ram agents with his car. Video obtained by local media outlet PennLive showed only that he was attempting to maneuver around the ICE vehicle.

Six days later, on July 7, a fatal incident occurred in east Houston, Texas. Fifty-two-year-old Mexican national Lorenzo Salgado Araujo was driving a passenger van carrying a work crew to a construction site. In the front passenger seat was his brother, and two colleagues were seated in the back. Multiple unmarked vehicles followed the van. And an agent shot him. He died at Ben Taub Hospital.

ICE initially announced that it had targeted and conducted enforcement against him as an undocumented immigrant. A few days later, DHS reversed its statement, claiming agents had stopped the van while looking for someone else. The explanation given by the Acting ICE Director to local Congresswoman Sylvia Garcia was the same: The target of the operation was another individual inside the van, not Salgado Araujo. ICE claimed he used the vehicle as a weapon to attempt to hit an agent.

The testimony of the three men in the van was entirely different. They stated that agents suddenly rammed the van from behind and from the side, trapping it. They testified that an agent opened fire even after Salgado Araujo had brought the vehicle to a stop. His brother testified that the agent fired through the open front passenger window. All three eyewitnesses were locked in an ICE detention facility immediately after the incident. The agents had neither bodycams nor dashcams. These three men were the sole eyewitnesses who saw what happened. Following orders from a federal judge and legal challenges, the three men were released sequentially between late July and late August.

The government released a search warrant claiming that methamphetamine might have been present in the van. The family's attorney countered that the substance was not narcotics, but rather

industrial salt used in construction. The DHS Office of Inspector General launched an administrative investigation into whether the shooting was justified. The Harris County District Attorney's Office also opened an independent criminal probe. Yet more than two and a half months after the incident, not even the name of the agent who fired has been released. At a congressional hearing in September, his son, Lorenzo Jr., stated that he had still not received his father's wallet and cell phone. Another son, Ronaldo, pleaded that his father should not be remembered merely as a one-line headline: "Mexican Shot by ICE."

A week later, on July 13, gunshots rang out in Biddeford, Maine, in the Northeast. An ICE agent shot and killed 26-year-old Colombian national Joan Sebastian Guerrero. ICE stated that agents fired because he attempted to flee in his car. It was the second fatal shooting in less than a week.

And then came the shooting in Austin on September 20. The Travis County District Attorney's Office sent a letter to DHS and ICE. It was a formal request not to deport Garcés Pérez, as he is a key witness in a criminal investigation. A federal judge temporarily stayed his deportation. The Austin Police Department and the Texas Rangers launched investigations. HSI is also conducting an internal inquiry with assistance from the FBI. In effect, a branch of the very agency that fired the shots is investigating itself.

Table 30-1 Major Shooting Incidents Covered in This Chapter (March 2025 – September 2026)

2025.3.15 South Padre Island, Texas	Ruben Ray Martinez (23, U.S. citizen) killed	HSI agent	Undisclosed for nearly a year
2025.8.16 San Bernardino, California	3 shots into Francisco Longoria's vehicle	Border Patrol	Charges against driver dismissed
2025.9.12 Franklin Park, Illinois	Silverio Villegas González (38) killed	ICE agent	No investigative results after 1 year
2025.10.4 Brighton Park, Chicago	Marimar Martínez (30, U.S. citizen) struck by 5 bullets	Border Patrol	Victim indicted, charges later dismissed
2025.10.17 Washington, D.C.	Shots fired at vehicle of Philip Brown (U.S. citizen)	HSI agent	Judge: "Completely impossible to determine why"
2025.10.21 Los Angeles	TikTok streamer and U.S. Marshal injured	ICE agent	Charges against streamer dismissed
2025.10.30 Ontario, California	Carlos Jimenez (U.S. citizen) injured	ICE agent	Competing claims by both sides
2025.12.31 Northridge, Los Angeles	Keith Porter (43, U.S. citizen) killed	Off-duty ICE agent	Family demanded independent investigation
2026.1.7–1.24 Minneapolis	Renée Good and Alex Pretti killed, Sosa-Celis injured	ICE and Border Patrol	Covered in Chapter 31
2026.7.7 Houston, Texas	Lorenzo Salgado Araujo (52) killed	ICE agent	3 eyewitnesses detained, later released

2026.7.13 Biddeford, Maine	Joan Sebastian Guerrero (26) killed	ICE agent	
2026.9.20 Austin, Texas	Wilber Garcés Pérez (28) injured	ICE agent	Bodycam not worn

(Source: Compiled from reports by ABC News, The New York Times, CNN, NBC News, The Texas Tribune, Chicago Sun-Times, and others)

30.6 People Die Even Without Shots Being Fired

The dangers of immigration crackdowns do not emerge only from gun barrels. Reckless vehicular pursuits kill people as well.

On the morning of February 16, 2026, in Savannah, Georgia. Dr. Linda Davis was a special education teacher at Hesse K-8 School. She was commuting to school as she did every morning. At that same hour, ICE agents attempted to pull over Oscar Vasquez Lopez, an immigrant from Guatemala. Although he initially complied with the agents' instructions, he turned his car around and fled. ICE vehicles gave chase. He made an illegal U-turn and blew through a red light into an intersection. His car broadsided Dr. Davis's vehicle. The site of the crash was directly in front of the school where she taught. She died instantly at the scene.

Vasquez Lopez had no criminal record. There was no evidence that he posed any danger to the public. The reason for pursuing him was deportation proceedings—an administrative procedure, not a criminal matter. Local police learned that ICE was operating in their jurisdiction only after the crash occurred. The Chatham County Police Department does not engage in vehicular pursuits unless a suspect is involved in a violent felony. The Chairman of the County Commission stated that had ICE coordinated with local police, safer methods would have been used.

Human Rights Watch (HRW) issued a statement on March 5. It stated that had ICE simply followed Chatham County's policies, Dr. Davis might still be alive. HRW pointed out that ICE and CBP grant agents broad discretion to pursue. An article published by the American Constitution Society (ACS) highlighted systemic institutional changes: In 2025, DHS revoked the vehicle pursuit policy enacted during the Biden administration. That policy had established a reasonableness standard, requiring agents to weigh the risks to civilian bystanders before initiating a chase. With that policy eliminated, pursuits were left entirely to the judgment of individual agents.

Deaths inside detention facilities also continued. In January 2026, at "Camp East Montana," a detention facility in El Paso, Texas. Geraldo Lunas Campos (55), a Cuban national, died here. The El Paso County Medical Examiner ruled the death a homicide caused by asphyxia due to compression of the neck and torso. DHS explained that staff intervened because he was attempting self-harm. In 2025 alone, 32 people died in ICE custody—the highest annual total since 2004. The reality within detention facilities is addressed in Chapter 32.

30.7 Where Did Accountability Go?

The names and locations differed in each incident. Yet the events following each incident followed almost the exact same sequence:

First, DHS announced its conclusions within hours. The conclusion was invariably that the driver used the vehicle as a weapon, and the agent fired in self-defense. The victims were labeled "criminals," "rioters," or "domestic terrorists."

Second, cellphone videos captured by citizens or bodycams from local police were made public. The videos frequently contradicted the core of the government's announcements. The federal agents' own cameras were either turned off or nonexistent.

Third, the criminal charges brought against the victims collapsed in court. This was true for Martínez, Longoria, Brown, the TikTok streamer, and Sosa-Celis. The New York Times highlighted this trend separately in February 2026: An analysis showing that Trump administration officials' accounts of shootings were unraveling one after another in court.

Fourth, investigations into the agents who fired stalled or slowed to a crawl. DHS explains that all discharges of firearms are reported and reviewed. However, it has never made the findings of an internal investigation public. The FBI merely reiterated its principle of not commenting on ongoing investigations. The Franklin Park Police stepped away upon being told that the FBI was handling the case. Police departments in Savannah and Austin were never even informed of the operations. More than eight months after the Renée Good incident, prosecutors had still not indicted the ICE agent who fired the fatal shot.

State governments and local prosecutors stepped forward to fill the void. The Illinois State Police, the Harris County District Attorney's Office, and the Travis County District Attorney's Office launched investigations. However, the path to bringing federal agents before a state court is long and arduous. Actions undertaken by federal officers in the performance of their official duties are prone to assertions of federal immunity. Furthermore, it is federal agencies that hold the evidence and scene records. Simply gaining access to that evidence is a daunting task for local prosecutors.

On September 22, 2026, an extraordinary joint hearing was held in Washington. The Senate Permanent Subcommittee on Investigations and the House Committee on Oversight and Accountability jointly summoned the surviving family members of shooting victims. Renée Good's mother, Donna Ganger, took the witness stand. She testified that she had voted for President Donald Trump. She explained that she had done so because she believed the agents would protect citizens from terrorists. Yet she said those very agents had branded her family member a terrorist and stolen her life. She described the situation as "madness."

Senator Richard Blumenthal stated that all hope had vanished that ICE would abandon its brutal street tactics and hold itself accountable. The previous day, at an Austin press conference, Roman Palomares, president of the Latino civil rights organization LULAC, brought up the Houston incident. He noted that even after 75 days, no one knew who had pulled the trigger.

30.8 Behind the Scenes of the Summit

The central subject of this book is the 2026 U.S.–China Summit. President Trump welcomed President Xi Jinping lavishly at Joint Base Andrews. He sought to showcase a strong, orderly America to the world. During that exact same period, gunfire from federal agents echoed across the streets of American cities. The choreography of the diplomatic stage and the reality of domestic law enforcement were this starkly at odds.

To Korean readers, this is not a story from a distant land. The Georgia factory raid examined in Chapters 20 and 21 unfolded under this exact same apparatus. A large number of South Korean nationals, international students, and business travelers reside in and visit the United States. The overwhelming majority of them are lawful residents. Yet the cases documented in this chapter show that legal status does not guarantee safety. Even American citizens were shot inside their cars. Citizens watching enforcement operations and a teacher on her way to work lost their lives.

The reason public authority is permitted to discharge firearms is that the law has granted that power. Along with that power comes the solemn duty to record, to explain, and to be held accountable. A public authority that turns off its cameras, announces its conclusions first, and takes charge of its own investigations has abandoned this obligation. Enforcing immigration law is a legitimate sovereign power of the state. However, enforcement that gambles with the lives of citizens in pursuit of deportation—an administrative procedure—exceeds the scope of that authority.

Ahead of the November 2026 midterm elections, the Trump administration has declared that it will not slow the pace of its crackdown. If Secretary Mullin's words are any indication, the gunfire on the streets will not cease anytime soon. The names recorded in this chapter show upon whom that cost is inflicted. The next chapter turns to Minneapolis and Portland, where that cost erupted with the greatest intensity.

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Chapter 31. Border Patrol Shootings in Minneapolis and Portland and the Repercussions of Citizen Deaths

31.1 Federal Agents Converge on Two Winter Cities

In December 2025, the federal government dispatched a massive immigration enforcement contingent to Minnesota. The operation was named "Operation Metro Surge." "Surge" is a military term denoting the concentrated deployment of forces to a single area. Prior to the operation, there were around 150 immigration agents in Minneapolis. Once the operation commenced, that number exceeded 3,000. Minneapolis and Saint Paul are collectively known as the Twin Cities. The Department of Homeland Security (DHS) heralded this operation as the largest immigration enforcement deployment in history.

The deployed personnel did not belong to just one agency. Immigration and Customs Enforcement (ICE) took center stage, joined by the U.S. Border Patrol under Customs and Border Protection (CBP). The Border Patrol is originally an organization tasked with guarding the Mexican border. Yet that very agency entered the heart of a major northern metropolis more than 2,000 kilometers away from the border. On-scene command was assigned to Gregory Bovino of the Border Patrol. Bovino had made a name for himself leading crackdowns in Los Angeles and Chicago.

Agents concealed their faces with masks. Driving unmarked vehicles without police insignia, they appeared in residential neighborhoods and commercial areas. Residents blew whistles to alert neighbors to the approach of agents. "Observers" documenting the crackdowns with smartphones also proliferated. Those conducting the crackdowns and those watching them confronted one another on the streets every day.

The situation was much the same in Portland, Oregon, on the West Coast. Protests had been ongoing in front of the ICE building in south Portland since June 2025. In the fall of 2025, President Trump attempted to deploy the National Guard to the city. When a federal court blocked the move, the conflict spilled into the courtroom. Portland was already a city with a long history of confrontation with the federal government.

In January 2026, a series of shootings by federal agents erupted across these two cities. In Minneapolis, two American citizens were killed. In Portland, two people were shot and wounded. This chapter chronicles the course of these three incidents and their aftermath in turn.

31.2 Minneapolis, January 7: The Death of Renée Good

On the morning of January 7, 2026, gunshots echoed along Portland Avenue in south Minneapolis. Though easily confused because the street name is identical to the city in Oregon, it is

an entirely different place. The person killed was a 37-year-old woman, Renée Nicole Macklin Good. Good was a U.S. citizen and a mother with a child. Her family stated that she was at the scene as an observer monitoring the immigration crackdown.

At the time of the incident, Good was driving a maroon Honda SUV. Her spouse was in the front passenger seat, and her dog was in the back. The vehicle was stopped diagonally in the roadway. ICE Agent Jonathan Ross walked around the vehicle on foot. Other agents approached and ordered Good to get out of the car. One agent reached inside through the open window.

Good briefly reversed the vehicle. Then she began moving forward to the right, in the direction of traffic. Ross was standing to the front-left of the car at this time. As the car turned and began pulling away, Ross fired three shots. According to an independent autopsy conducted for her family, bullets struck her head, forearm, and chest. The cause of death was determined to be a gunshot wound to the left temple.

The scene immediately following the shooting also sparked fierce controversy. A man present at the scene stated that he was a physician and offered to render aid. Agents barred him from doing so. According to reporting by Minnesota Public Radio (MPR), cardiopulmonary resuscitation (CPR) was not initiated until more than 10 minutes had passed.

The federal government's explanation came within hours. Secretary of Homeland Security Kristi Noem stated that Good had "weaponized" her vehicle. The Department of Homeland Security issued a statement labeling the incident an "act of domestic terrorism." Their contention was that the agent fired in self-defense to protect his own life. Before any investigation could even get underway, the President and senior administration officials put forward the same conclusion.

Vice President J.D. Vance posted a 47-second cell phone video recorded by Ross himself onto social media. Vance asserted that the agent's life had been in danger. However, that video also captured the words Good spoke out the window: "It's okay. I'm not mad at you." The video shook violently the moment the car moved, followed immediately by the sound of gunshots.

On January 9, the international human rights organization Human Rights Watch (HRW) released its analysis. HRW verified four videos circulating on social media. The conclusion was unmistakable: The footage did not align with the government's claim that Good had used the vehicle as a weapon. HRW determined that the agent had no reasonable basis to fear death or serious bodily injury. It characterized the shooting as an "unjustified killing."

Ross had a prior history. In June 2025, Ross was injured in Bloomington when he was dragged by an immigrant's vehicle. The driver, Roberto Munoz-Guatemala, was convicted in a jury trial. When this past incident came to light, questions arose as to whether Ross had overreacted upon seeing Good's car.

Conflict surrounding the investigation erupted immediately. In Minnesota, officer-involved shootings had traditionally been investigated by the state Bureau of Criminal Apprehension (BCA). The federal government excluded the BCA from the joint investigation. The Federal Bureau of Investigation (FBI) did not execute a court-issued search warrant to inspect the vehicle. A majority of prosecutors in the U.S. Attorney's Office for the District of Minnesota concluded that Good had not attempted to hit the agent. Yet the leadership of the Justice Department's Civil Rights Division decided against opening a civil rights investigation. In protest of this decision, around a dozen federal prosecutors in Minneapolis and Washington submitted their resignations. A supervisory agent at the FBI's Minneapolis field office also stepped down after facing pressure to halt the investigation.

Criticism also mounted that the targets of the investigation had been inverted. Reports followed that federal authorities were investigating Good's spouse instead of the agent who pulled the trigger. Governor Tim Walz and Mayor Jacob Frey were also placed under federal investigation. The citizens of Minneapolis refused to accept this inversion of priorities.

31.3 Portland, January 8, and the Continuing Gunfire

Around 2:15 p.m. on January 8, the day after Good was killed. A shooting occurred in the parking lot of a medical clinic in the Hazelwood neighborhood of East Portland. A Border Patrol agent opened fire on a man and a woman inside a vehicle. Both individuals were unarmed.

The wounded were Venezuelan nationals Luis David Niño-Moncada and Yorlenis Zambrano-Contreras. Though shot, the two drove their car for more than 4 kilometers. They sought help at an apartment complex, where police applied a tourniquet and transported them to a hospital. The man sustained two gunshot wounds. Both survived.

The Department of Homeland Security's explanation followed the identical playbook seen in Minneapolis. It claimed that agents had stopped a targeted vehicle and that the driver had attempted to strike agents with the car. The agent, they argued, had fired in self-defense. DHS further announced that the two individuals were linked to the Venezuelan criminal gang Tren de Aragua.

The Portland police chief stated that police could not verify whether the vehicle had actually been used as a weapon. Portland Mayor Keith Wilson demanded that immigration operations be suspended until the investigation was complete. The City Council recessed its meeting upon hearing the news. That night, a candlelight vigil was held in front of City Hall. The man was subsequently indicted on charges of assaulting an officer and pleaded not guilty. Several media outlets reported that DHS's narrative unraveled in court.

Tensions in Portland escalated further in front of the ICE building. In late January, federal agents deployed tear gas against protesters gathered outside the facility. Children were among the crowd. The tear gas drifted into Grace Landing, an affordable housing complex adjacent to the building. In early February, a federal judge sharply restricted agents' use of chemical weapons and impact munitions. On March 6, U.S. District Judge Amy Baggio ordered that tear gas must not reach residential areas. The federal government appealed, contending that the order impeded agents' ability to control protests. In late March, the U.S. Court of Appeals for the Ninth Circuit stayed those restrictions.

The gunfire in Minneapolis did not cease either. On January 14, exactly one week after Good's death, an ICE agent fired his weapon again. The victim was Julio Cesar Sosa-Celis, a Venezuelan national. Sosa-Celis survived. Following this shooting, the streets of north Minneapolis were blanketed in tear gas.

These incidents did not occur in a vacuum. From September 2025 until the Good shooting, ICE agents had opened fire nine times across five states and Washington, D.C. In the Chicago suburbs, Silverio Villegas González was killed in September 2025. In Chicago itself that October, Marimar Martínez was shot by a Border Patrol agent. Martínez survived, and prosecutors eventually dropped the charges brought against her. With each incident, the government repeated the claim that a vehicle had been weaponized. Cases where that explanation contradicted video evidence continued to mount.

31.4 A March at Minus 29 Degrees: The 'Day of Truth and Freedom'

Minnesota citizens designated January 23 as a day of action. Labor unions, faith groups, and local civic organizations jointly named it: "ICE Out of Minnesota: Day of Truth and Freedom." The demands were threefold: No work, no school, and no shopping.

The Executive Council of the Minnesota AFL-CIO endorsed the action. The federation represents more than 1,000 affiliated unions and over 300,000 members. More than 700 businesses and institutions closed their doors on that day.

On the morning of the march, temperatures plummeted below minus 20 degrees Celsius. The wind chill dropped as low as minus 34 degrees Celsius (minus 29 degrees Fahrenheit). Amid that biting cold, citizens marched through downtown Minneapolis. Turnout estimates varied: Some tallies put the crowd at 75,000, while other estimates exceeded 100,000. The procession started from U.S. Bank Stadium and stretched all the way to the Target Center arena.

On that same day, roughly 100 faith leaders staged a sit-in at Minneapolis–Saint Paul International Airport. They held airlines and charter flight operators accountable for assisting with deportation flights. Police arrested the clergy members.

Two days later, 60 chief executive officers of major Minnesota corporations issued an open letter. Target, U.S. Bancorp, Mayo Clinic, and 3M were among the signatories. The letter called for "de-escalation," but stopped short of demanding ICE's withdrawal. Labor leaders criticized the letter for sidestepping the core issue.

In a subsequent poll, one in four Minnesota voters reported a connection to the action, meaning they had participated themselves or had someone close to them take part. Eighty-three percent of respondents were aware of the mobilization. The survey had been commissioned and conducted on behalf of a labor coalition.

The day after the march concluded, a second death occurred in Minneapolis.

31.5 January 24: The Final Minute of Alex Pretti

On Saturday, January 24, at the intersection of Nicollet Avenue and 26th Street in Minneapolis. The neighborhood is a corridor lined with restaurants and art spaces. Border Patrol agents were conducting enforcement operations there. Citizens blew whistles and shouted. Agents instructed people to move onto the sidewalk.

Alex Jeffrey Pretti was a 37-year-old intensive care unit (ICU) nurse. He worked at the Minneapolis VA Medical Center under the Department of Veterans Affairs (VA). He was a U.S. citizen with no criminal record. That day, he was documenting the movements of agents with his cell phone. Video footage also captured him directing vehicles and guiding a woman out of the roadway.

The confrontation escalated within tens of seconds. Agents shoved a bystander who was filming to the ground. Pretti attempted to help that person back up. Agents sprayed pepper spray into Pretti's face. Two agents struck Pretti multiple times in the face and head.

Pretti was carrying a handgun in his waistband, lawfully carried under a valid Minnesota permit to carry. Video shows an agent stripping the firearm from him. Less than a second later, another agent fired the first shot. Pretti was already disarmed. Agents continued to fire even after he collapsed to the ground. According to HRW's analysis, a total of 10 shots were fired.

The initial reaction from high-ranking government officials mirrored that of the Good case. Bovino claimed that Pretti had intended to "massacre" the agents. The Department of Homeland Security announced that an armed male had violently resisted, prompting agents to fire in defensive action. White House Deputy Chief of Staff Stephen Miller branded Pretti an "attempted assassin." President Trump remarked to reporters to the effect that people should not be carrying guns around. Secretary of Defense Pete Hegseth posted a graphic titled "Three Ways to Avoid ICE" on social media.

The evidence told a very different story. Analyzing video footage, CNN reported that the two agents had escalated the encounter: a progression from pepper spray and physical blows to opening fire on a disarmed individual. HRW reviewed eight videos captured from multiple angles along with two eyewitness declarations filed in court. On January 27, HRW designated the shooting as the "second unjustified killing" in Minneapolis. Ida Sawyer, Crisis and Conflict Director at HRW, warned that ICE and the Border Patrol were devolving into security forces operating with impunity.

The account of one eyewitness was succinct: Pretti had not approached the agents with a gun drawn. He had merely tried to help a fallen woman back to her feet.

Later, video recorded 11 days prior to the incident was made public, showing Pretti in a verbal altercation with agents. It depicted him shouting at agents and damaging a vehicle. Conservative media seized on this footage to call Pretti's conduct into question. Yet that earlier video had no bearing on the justification for the January 24 shooting. At the moment the shots were fired, Pretti was disarmed and subdued.

Once again, federal agents blocked state investigators from accessing the scene. That very day, the Hennepin County Attorney's Office and the BCA filed a lawsuit in federal court, seeking to prevent evidence from being altered, destroyed, or tampered with. As public outrage mounted, Miller altered his stance, conceding that the agents may not have adhered to protocol. On January 30, the Department of Justice announced that it was opening a civil rights investigation into the Pretti shooting. This reversed, in a matter of days, the very course of action refused in the Good case. The two agents were placed on administrative leave. Drawing on government records, the investigative news outlet ProPublica published the names of both agents: Border Patrol Agent Jesus Ochoa and CBP Officer Raymundo Gutierrez.

31.6 Three Weeks Washington Backed Down

The second death altered Washington's calculus. Even within the Republican Party, voices emerged criticizing the excessive response. On January 26, Bovino was stripped of his title as incident commander. The administration reassigned him back to his original duty station in the El Centro border sector in California. President Trump entrusted command of the operation to "Border Czar" Tom Homan. "Czar" is an informal moniker for a White House official overseeing a specific policy portfolio.

That same day, President Trump and Governor Walz spoke by phone. Both characterized the conversation as "productive." Walz demanded a fair investigation.

Upon his arrival, Homan immediately withdrew 700 agents from Minnesota. He acknowledged that there were areas in the operation requiring improvement. Secretary Noem announced that

body-worn cameras would be issued to all DHS field personnel in Minneapolis. A bodycam is a small camera worn on an officer's body to record incidents as they occur.

On February 12, Homan announced the conclusion of Operation Metro Surge. He explained that increased cooperation from state and local law enforcement had allowed the operation to achieve its objectives, stating that cooperation between county jails and federal authorities now enabled transfers of custody in detention facilities rather than through street sweeps. Homan remarked, "I don't want to see any more blood." Arrests during the operation totaled approximately 4,000. However, Homan was unable to answer how many of those constituted targeted arrests of threats to public safety.

Governor Walz reacted with "cautious optimism." He introduced a $10 million relief package for affected small businesses. Mayor Frey evaluated the operation as a catastrophe for neighborhoods and local storefronts. Minnesota Attorney General Keith Ellison and the two cities had already filed a lawsuit against the federal government. The lawsuit challenged racially discriminatory crackdowns, violence against bystanders and protesters, and enforcement actions inside schools, churches, and hospitals.

In Congress, a budget war flared. Senate Democrats declared their opposition to the DHS appropriations bill on the very day Pretti was killed. Senate Democratic Leader Chuck Schumer stated that a spending bill without reforms could not halt ICE abuses. Securing passage in the Senate required 60 votes, making approval virtually impossible without Democratic support.

Democratic demands were specific: banning the wearing of masks, mandating body cameras, requiring visible identification, and tightening warrant requirements. They also demanded an end to roving patrols and insisted on coordination with local police. Republican Senator Shelley Moore Capito agreed on body cameras and de-escalation training, yet she balked at the mask ban, citing the risk of doxxing and exposing agents' personal identities. Congress bought time with a two-week stopgap funding measure. When no compromise was reached, DHS entered a partial shutdown in mid-February, suspending all but essential operations. The Transportation Security Administration (TSA), responsible for airport security screening, and the Federal Emergency Management Agency (FEMA) were also impacted. The deaths of two private citizens had brought the funding of an entire federal department to a grinding halt.

31.7 'No Kings in America': The Third Wave

"No Kings" was the banner of nationwide protests against the second Trump administration. The movement drew its slogan from the nation's history as a republic founded on the repudiation of British royal rule. The first demonstration took place on June 14, 2025— a day marked by a military parade in Washington celebrating the 250th anniversary of the U.S. Army, as well as President

Trump's birthday. Organizers estimated turnout at approximately 5 million people. The second mobilization occurred on October 18, 2025, drawing an estimated 7 million.

The two deaths in January became the catalyst for the third mobilization. In late January, organizers announced that a nationwide day of protest would be held on March 28 in response to the killings of Good and Pretti. Before that, on January 30, a "National Shutdown" action took place, initiated by student groups at the University of Minnesota. When war broke out with Iran in late February, organizers added opposition to "senseless war" to their slogans— the very conflict examined in Chapter 7 under Operation Epic Fury.

On March 28, demonstrations were held at more than 3,300 locations across all 50 U.S. states. Organizers announced that more than 8 million people had taken part. If this estimate is accurate, it represents the single largest one-day demonstration in American history. The prior record was set by the 2017 Women's March, with approximately 3.3 million participants. It must be noted, however, that organizers' estimates were not independently verified.

The epicenter was Minnesota. Bruce Springsteen performed at a rally outside the Minnesota State Capitol in Saint Paul. In Chicago, approximately 75,000 marched. In Philadelphia, an estimated 40,000 gathered, according to organizers. In Washington, participants crossed the Memorial Bridge from Arlington National Cemetery and marched into downtown. Organizers stated that nearly half of the events were held in Republican strongholds. Crowds gathered even in conservative state capitals like Nashville, Tennessee. Solidarity rallies took place in overseas cities such as Paris and Rome as well. In constitutional monarchies, demonstrators marched under the slogan "No Tyrants."

The White House dismissed the protests as an event orchestrated by "left-wing donor networks." The true weight of public sentiment will reveal itself in the November midterm elections.

The day's demonstrations were overwhelmingly peaceful. Clashes were confined to a handful of areas. In Dallas, Texas, counterprotesters disrupted the march, prompting police intervention. In Portland, after the march concluded, roughly 500 people headed toward the ICE facility. Because the appeals court had lifted the restrictions on tear gas three days earlier, nearby residents were on edge. One resident recovering from surgery relocated to a hotel to avoid potential gas exposure. That evening, federal agents refrained from using tear gas and arrested several individuals.

January and March bore distinctly different characters. In the Minneapolis and Portland of January, live ammunition flew. In the "No Kings" protests of March, millions poured into the streets, yet nearly all ended without confrontation. Bloodshed had catalyzed the protests, and the protests embraced nonviolence as their core principle. This sequence illustrates the defining character of American civil resistance in 2026.

31.8 Human Rights Reports and the Unfinished Investigations

HRW dispatched an investigative team to Minnesota in early February. Ida Sawyer, Crisis and Conflict Director, and Nicole Widdersheim, Deputy Washington Director, visited the area. The two met with residents at the memorial space created at the site where Good was killed. On February 11, HRW published a field dispatch titled "State Violence and Community Resistance in Minnesota." The account included testimony from a Honduran family, who recounted how roughly 20 armed agents surrounded their home in early December.

Following a five-month investigation, HRW released its formal report on June 18. The investigative team interviewed more than 130 individuals, including immigrants, teachers, medical personnel, attorneys, and current and former public officials. They also analyzed ICE records obtained through Freedom of Information Act (FOIA) requests. Among those arrested during the operation, 77.1% had no criminal convictions. Approximately 90% of resolved cases concluded with release orders. The report documented numerous instances in which U.S. citizens and permanent residents were stopped or detained solely on the basis of their appearance. Sawyer conveyed testimony from medical providers reporting that three teenagers had attempted suicide following their parents' detention.

The Department of Homeland Security's accounting was markedly different. It claimed that over 11,000 undocumented immigrants had been arrested during the operation, asserting that the tally included murderers, sex offenders, and gang members. The roughly 4,000 figure cited by HRW and the government's 11,000 differed in their foundational counting criteria. The discrepancy between the two numbers remains unreconciled.

HRW demanded specific legislation from Congress: prohibiting enforcement actions at schools, places of worship, courthouses, and hospitals; explicitly outlawing racial profiling— the practice of targeting individuals for enforcement based on skin color or ethnic origin; and barring agents from concealing their faces, agency affiliations, or vehicles.

Holding individuals criminally accountable fell to state prosecutors. Hennepin County is the jurisdiction that encompasses Minneapolis. County Attorney Mary Moriarty launched a joint investigation with Attorney General Ellison. For months, the federal government refused to surrender evidence. State authorities were not even formally provided with the agents' names. Pretti's handgun and Good's SUV had likewise been seized by federal authorities.

The turning point came in a separate judicial proceeding. On April 9, U.S. District Judge Jeffrey Bryan issued an order in the Munoz-Guatemala case, directing that investigative files from the Good shooting and Ross's personnel records be submitted to a magistrate judge. This included statements made by Ross in the hour before and after the shooting, eyewitness statements, and bodycam footage.

The county attorney's office first indicted other ICE agents. In April, felony assault charges were filed against an agent who drove an unmarked SUV and pointed a firearm at another motorist. In May, another agent was charged with assault. It is rare for state prosecutors to indict federal agents for actions taken in the line of duty. Federal officers can assert immunity under the constitutional Supremacy Clause, establishing that federal law supersedes state law. The likelihood that such cases would be removed to federal court was also high.

On July 13, County Attorney Moriarty announced that the federal government had turned over evidence. The materials included witness statements and bodycam recordings on hard drives, along with Good's 2014 Honda SUV— evidence spanning the three cases of Good, Pretti, and Sosa-Celis. Moriarty stated that prosecutors were now in a position to determine whether to file charges. She pledged to "conduct a thorough, exhaustive review before making a determination." However, she did not specify a timeline for that decision. Pretti's family pushed back, objecting that the U.S. Attorney's Office had not formally confirmed any evidence-sharing agreement.

As of late September, the agents who shot Good and Pretti have not been charged with any crime. In April, posts spread across social media claiming that Ross had been "cleared of all charges." The fact-checking outlet Snopes rated the claim false, explaining that because he had never been charged, there were no charges to be cleared of. Moriarty chose not to seek reelection. The charging decision may now fall to her successor, who will be chosen in the November election. The county attorney race has effectively become a referendum on legal accountability for the two deaths.

31.9 Questions Left by the Gunfire

The January 2026 incidents in Minneapolis and Portland share several common threads. Each time, the federal government put forward explanations within hours alleging "weaponized vehicles" or "attempted assaults." Each time, videos recorded by citizens contradicted those claims. Federal authorities systematically shut state investigators out from the scenes and the evidence. And nine months later, the processes to establish accountability have reached no conclusion.

These incidents are not merely about the merits or wrongs of immigration policy. Enforcing laws against undocumented immigrants is a constitutional power of the federal government. The problem lies in how that power was wielded. Armed agents concealing their faces roamed city streets without displaying identification. After shots were fired, the government pronounced its conclusions before any investigation took place. And state governments seeking to scrutinize those conclusions were denied access to the evidence. Those exercising power and those supposedly checking it were housed under the very same roof.

Both Good and Pretti were 37 years old. One was the mother of a child; the other was a nurse caring for military veterans. Neither of them was an immigrant. They were citizens who sought to observe and document the apprehension of their neighbors. That was why the shock to American

society was so profound: it laid bare the reality that the gun barrels of enforcement could turn past immigrants and directly toward citizens.

This spectacle also connects directly to Trump's diplomacy leading up to the U.S.–China summit. President Trump sought to lavishly welcome President Xi Jinping on the Andrews runway. Yet around that very time, federal agents were shooting citizens in his own country's cities, and the Department of Homeland Security was shuttered. Millions marched in the streets chanting "No Kings." A leader shaken at home can hardly negotiate from strength abroad. Beijing watched these domestic fractures inside the United States, carefully calculating its hand at the bargaining table.

The November midterm elections will serve as the voters' first official verdict on all of this. Whether that verdict will demonstrate American democracy's capacity for self-correction or deepen its fractures remains to be seen. One thing, however, is clear: In the Minneapolis of January, the cell phones raised by ordinary citizens dismantled the government's initial narrative. Ordinary citizens documenting what happened on the ground served as democracy's last line of defense.

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Chapter 32. 'Alligator Alcatraz' and the Inhumane Realities of Warehouse-Style Immigrant Detention Centers

> What Happened in Isolation Camps Built in Alligator Swamps and Converted Logistics Warehouses

32.1 Mass Deportations with Nowhere to Detain

With its inauguration, the second Trump administration promised mass deportations. To fulfill that promise, people had to be rounded up first. Those apprehended had to be locked up somewhere. The problem was that very "somewhere."

When Trump returned to the White House in January 2025, the number of detainees held by ICE stood at approximately 40,000. ICE is Immigration and Customs Enforcement—the federal agency responsible for immigration enforcement and deportation. One year later, the detained population surpassed 70,000. According to public ICE data, the number of detainees on January 24, 2026, was 70,766. It was the first time since the agency's founding that the figure exceeded 70,000. The Vera Institute of Justice, a nonprofit research organization, calculated that the single-day count in mid-January had exceeded 73,400. In just one year, it had surged by more than 75 percent.

Most of the additional detainees had no criminal record. By around February 2026, analyses revealed that roughly three-quarters of those detained had never received a criminal conviction. This was the direct result of a surge in "at-large arrests"—collaring people directly off the streets and out of their workplaces.

Congress footed the bill. The so-called "One Big Beautiful Bill," passed in July 2025, allocated $45 billion for ICE detention. This sum exceeded ten years of normal annual detention budgets.

Yet even with money in hand, buildings do not appear overnight. Existing federal facilities and local county jails were already bursting at the seams. The federal government and Republican-led state administrations chose two paths. One path was erecting makeshift detention camps on remote, inhospitable land where human habitation is difficult. The other was purchasing vacant logistics warehouses and converting them into detention centers. The former was Florida's "Alligator Alcatraz." The latter was the network of "warehouse detention centers" springing up across the country.

32.2 A Tent Camp Erected in the Heart of the Swamp

The official name of Alligator Alcatraz was the "South Florida Detention Facility." Its location was the Everglades wetlands in southern Florida. Tents were pitched directly atop the runway of a

former flight training strip inside the Big Cypress National Preserve. The surrounding area was a swamp teeming with alligators and mosquitoes.

The moniker was derived from Alcatraz, the former federal penitentiary in San Francisco Bay. Just as the icy waters surrounding the island barred prison breaks, the swamp's alligators were meant to prevent escape. The plan was unveiled on June 19, 2025. On July 1, President Trump toured the site. He was joined by Florida Governor Ron DeSantis and Kristi Noem, then Secretary of Homeland Security. Trump remarked that this facility might be just as good as the real Alcatraz. He added that even if controversy ensued, he couldn't care less.

Operations were overseen not by the federal government, but by the Florida Division of Emergency Management. The state government contracted with vendors without competitive bidding to install tents, chain-link fencing, and generators. Those detained were immigrants apprehended under ICE authority. Yet the operational management and financial burden fell upon the state government. Who bore ultimate responsibility remained murky until the day the facility shut down.

Testimonies poured out immediately after it opened. Detainees and their families reported finding bugs in the food. They pleaded that drinking water was scarce and that the insides of the tents were sweltering furnaces. The Washington Post published testimonies from former security guards. One guard recounted that the restrooms and shower trailers were swarming with mosquitoes. Testimony also surfaced that detainees were sprayed with insect repellent only once upon their arrival. One visitor reported that inside a single tent were six chain-link cages, each holding 32 people.

The state government claimed that all detainees held there were individuals subject to final orders of removal. The American Civil Liberties Union (ACLU) rebutted that this claim was unequivocally false. News reports followed showing that individuals without any criminal record were detained there. Among them were recipients of DACA—the program deferring deportation for those brought to the United States as children.

32.3 Steel Cages Called "Calming Areas"

In mid-September 2026, the Department of Homeland Security Office of Inspector General (DHS OIG) released a 34-page report. The OIG is an internal oversight watchdog that investigates misconduct and regulatory violations within the department. The inspection team made an unannounced visit to the facility on January 21, 2026. By the time the report was published, the facility had already been closed.

At the center of the report were small metal cages. The floor of the indoor cages measured roughly 4 feet 3 inches on each side, or just over 1.3 meters. The floor area was about 18 square feet

(roughly 1.7 square meters), with a height of about 8 feet (2.4 meters). In the outdoor recreation area, there were at least two cages that were slightly smaller. NBC News described these cages as being slightly larger than a telephone booth.

Facility staff referred to these cages as "calming areas." Their explanation was that they were places for detainees to de-escalate and spend time alone. Staff claimed that detainees entered them voluntarily. They also asserted that detainees could leave whenever they wished. Records showed that over six months, 79 people were placed in these cages. The time spent inside ranged from several minutes to nearly two hours.

The OIG did not accept the staff's explanations. The report noted that such practices had never been observed in any ICE facility. It determined that placing human beings in such confined spaces failed to meet standards for humane treatment. It also assessed that it could significantly compromise the health and safety of detainees. It found that in at least one instance, the cages may have been used as a disciplinary tool.

The problems did not end with the cages. The report noted that the facility failed to comply with numerous standards. These encompassed environmental health and safety, medical care, food services, personal hygiene, and recreation. Detainees were permitted showers only three times a week per person. In eight housing pods, between 22 and 31 individuals were housed in each unit. This density fell far short of the federal standard of approximately 75 square feet (roughly 7 square meters) per person. Staff could not even clearly answer which detention standards they were supposed to follow.

The OIG recommended ceasing the use of the cages. It also recommended providing clean drinking water and cups. However, because the facility had already shut down, all recommendations were categorized as "closed." DHS responded that all of its detention facilities were clean. It declared allegations of inhumane conditions to be false. It offered no specific explanation regarding the cages. Governor DeSantis likewise rejected criticism after the report's release.

The progressive magazine The American Prospect went a step further. It argued that even the cages seen by the inspectors might have been tidied up specifically for the inspection. This remains an unverified conjecture. What remains indisputable, however, is that even an unannounced inspection laid bare conditions of this severity.

32.4 Legal Battles, Closure, and a $1.2 Billion Bill

The legal fight unfolded along two tracks. The first was environmental litigation. The environmental organization Friends of the Everglades and the Center for Biological Diversity filed suit. They were joined by the Miccosukee Tribe of Indians of Florida, who have called this land their

home for generations. They contended that the government bypassed the mandatory environmental reviews required under the National Environmental Policy Act (NEPA).

In August 2025, Judge Kathleen M. Williams of the U.S. District Court in Miami ruled in favor of the plaintiffs. The judge enjoined the transfer of new detainees and halted further construction. She ordered the removal of generators, fuel supplies, and wastewater infrastructure within 60 days. The Department of Homeland Security pushed back, blasting the jurist as an "activist judge." Even as it protested, however, the government began relocating detainees to other facilities.

In September, the U.S. Court of Appeals for the Eleventh Circuit stayed the order. Governor DeSantis declared that the facility was still open for business. In April 2026, an Eleventh Circuit panel reversed the lower court's ruling in a 2–1 decision. The rationale was that the facility had been constructed and operated by the state government and had not yet received federal funding. Under this logic, it was not a federally controlled facility and therefore not subject to federal environmental review.

The second track was litigation over detainees' rights. The ACLU and other organizations brought legal action alleging that detainees were being denied meaningful access to legal counsel. The court ordered the expansion of attorney-client visitation access. Yet less than a week after the order was issued, phone lines for detainees were cut. When detainees protested, allegations were presented in court that guards assaulted them and sprayed pepper spray. The Florida Division of Emergency Management denied the allegations, calling them false.

Although the state government had prevailed in the environmental lawsuit, it ultimately shut the facility down. The reason was money. On May 12, 2026, operating contractors received notice of the facility's impending closure. The roughly 1,400 detainees remaining at the time were transferred to other facilities over several weeks. By mid-June, the final detainee had departed. On June 25, Governor DeSantis officially announced the closure. Less than a year had passed since it opened its doors.

CBS Miami reported that the estimated total cost reached $1.2 billion. Records also emerged indicating the state was burning through $1.2 million a day in operating expenses. The federal government approved reimbursing up to $608 million through the Federal Emergency Management Agency (FEMA). Yet the initial reimbursement disbursed in May 2026 was just $58.2 million. That was slightly less than one-tenth of the pledged amount. In the meantime, Florida's emergency disaster reserve fund was drained dry. And hurricane season was right around the corner.

Governor DeSantis stated that approximately 22,000 individuals had passed through the facility. He remarked that the facility was intended to be temporary from the start. He added that even if the lights were turned off today, it could be said to have fulfilled its role.

The ACLU welcomed the closure while issuing a stern warning. It warned that the grim realities of the swamp detention camp were not isolated to this single site. It pointed out that identical patterns of abuse were recurring across ICE facilities nationwide. Human Rights Watch (HRW) underscored the same point. While this facility had closed, more than 200 immigrant detention facilities continued to operate across the United States.

32.5 ICE Buys Up Logistics Warehouses

If the swamp camp was a single state's experiment, warehouse detention centers were the federal government's master blueprint. Its title was the "ICE Detention Reengineering Initiative." Its outlines came to light when New Hampshire Governor Kelly Ayotte disclosed internal ICE documents.

Historically, ICE had primarily leased space in private prisons and local county jails. The reengineering initiative was designed to overhaul this paradigm. The system would be restructured around 34 large-scale facilities owned directly by ICE. Among them, 16 would be "processing centers" holding 1,000 to 1,500 people each. Detainees would stay there for an average of 3 to 7 days. In addition, mega-detention centers confining thousands of individuals under a single roof would be established. The target completion date was September 30, 2026. The immigrant advocacy group American Immigration Council assessed it as the most extensive overhaul of the detention apparatus since the 1990s.

The vacant properties selected for this purpose were massive logistics warehouses on the outskirts of metropolitan areas. Many were situated a 45-minute to one-hour drive away from major cities. Acquisitions began in earnest in January 2026.

The warehouse in Surprise, Arizona, spanned roughly 39,000 square meters. That is the size of seven football fields. The Department of Homeland Security purchased this warehouse in cash for just over $70 million. ICE announced plans to convert it into a facility accommodating 1,500 individuals. In Salt Lake City, Utah, the purchase price of the warehouse was $145 million. In Socorro, Texas, plans called for combining three warehouse buildings into a mega-facility housing 8,500 people. Purchases followed in Georgia, Maryland, Pennsylvania, Michigan, and New Jersey.

The acquisitions were carried out quietly. The Associated Press reported that at least 20 locations were targeted for acquisition. Most local mayors and city councils learned of the developments only after contracts had already been finalized. A city council member in Surprise lamented that it felt like the matter had already slipped completely out of their hands. Salt Lake City Mayor Erin Mendenhall declared that packing human beings en masse into warehouses was inhumane. She vowed to block it using every tool at the city's disposal. Even Utah Governor Spencer Cox, a Republican who had advocated hosting detention facilities, was kept in the dark prior to the purchase.

Backlash quickly escalated into legal action. The State of Arizona sued the federal government to block the Surprise warehouse project. The state argued that a warehouse does not constitute a "suitable place of detention" as defined by immigration law. The lawsuit also asserted that the government violated statutory mandates requiring it to prioritize existing DHS facilities before acquiring new property. The State of Maryland brought development of a Hagerstown warehouse to a standstill through litigation. Local officials in Socorro voiced grave concerns over whether the municipal water supply could withstand the strain. Republican Senator Roger Wicker likewise criticized warehouse plans in Mississippi.

Legislative pushback emerged in Congress as well. In April 2026, Democratic Representative Rashida Tlaib introduced legislation to prohibit warehouse detention. The bill aimed to prevent atypical structures such as warehouses from being converted into ICE detention facilities.

The administration, too, tapped the brakes. After Secretary Noem stepped down, Markwayne Mullin took the helm of the Department of Homeland Security. DHS halted new warehouse acquisitions while reviewing contracts executed during Noem's tenure. In May 2026, NBC News reported that officials were even considering reselling some of the 11 warehouses already acquired. Multiple sites remained in limbo under "acquired but on hold" status.

32.6 Warehouses Are Not Built for Human Habitation

On April 9, 2026, Human Rights Watch published a commentary warning of the grave dangers posed by warehouse detention. It was titled "Another Disturbing Surprise From ICE." The word "Surprise" was a play on the name of the city of Surprise, Arizona.

HRW's argument was straightforward. The Surprise warehouse was constructed for manufacturing and logistics. It was never engineered for human beings to live in. Still less was it designed to confine human beings humanely. HRW underscored that deaths in detention were already alarmingly high. It noted that it was hard to believe an agency with such a track record could transform industrial warehouses into humane facilities.

Retrofitting a warehouse into living quarters requires immense overhauls. Ventilation, heating and air conditioning, restrooms, and shower facilities must be installed anew. Fire suppression systems, dining areas, and medical examination rooms are also indispensable. Potable water, electric power, and wastewater treatment infrastructure capable of supporting thousands of people must be put in place. This explains why municipalities like Socorro and Salt Lake City voiced deep anxiety over water and power grids. It was also why a wave of lawsuits erupted accusing the government of sidestepping environmental reviews.

Based on reports verified at the time of this writing, a significant number of these warehouses remain either unconverted or indefinitely on hold. Yet the perils inherent in large-scale makeshift

facilities had already materialized into grim reality. A glaring example was "Camp East Montana," a tent encampment situated inside the Fort Bliss military base in El Paso, Texas.

In July 2026, HRW and the ACLU released a joint report on this facility. Its title was "You're Only Getting Out Deported or Dead." Detainees testified that they had been beaten by guards. They stated they were denied necessary medical treatment. They recounted being cut off from contacting their families and lawyers. The two organizations documented one instance of a person dying outside the legal process. They assessed that certain cases amounted to "enforced disappearances" under international human rights law. The Department of Homeland Security dismissed all of these findings as false. The U.S. Government Accountability Office (GAO) also flagged severe problems at the facility in a June report.

32.7 Delaney Hall in New Jersey: A Hunger Strike of 300

Even while warehouse-style detention centers were still on the drawing board, existing private facilities had already ruptured at the seams. Delaney Hall in Newark, New Jersey, was a prime case in point. The facility is owned and operated by the private prison corporation GEO Group. It is the largest immigrant detention center on the East Coast of the United States. The State of New Jersey revealed that GEO Group had secured a $1 billion government contract for this facility.

Delaney Hall was mired in turmoil from the moment it opened its doors in May 2025. Newark Mayor Ras Baraka was arrested on site while attempting to inspect the facility. The charges against Mayor Baraka were subsequently dropped. Representative LaMonica McIver, who accompanied him, was indicted on charges of assaulting and impeding federal officers. In June, four detainees escaped in the aftermath of a disturbance protesting chronic food shortages. In December 2025, 41-year-old Jean Wilson Brutus died within 24 hours of his arrival at the facility.

On May 18, 2026, three members of the U.S. House of Representatives conducted an unannounced visit: Representatives McIver, Rob Menendez, and Analilia Mejia. Detainees handed the lawmakers letters detailing the conditions inside. Four days later, on May 22, more than 300 detainees launched a hunger and labor strike.

Their demands were specific. Detainees denounced spoiled food and severe medical neglect. They reported being deprived of basic hygiene essentials like toilet paper, menstrual products, and toothpaste. They protested that bond hearings were not being properly conducted. They recounted being coerced into signing voluntary departure and self-deportation documents. They demanded the release of the sick, the elderly, pregnant women, and young detainees. They also called upon immigration judges and federal courts to give their cases a fair, proper hearing.

Authorities denied everything. The Department of Homeland Security announced that no hunger strike was occurring. Secretary Mullin stated that detainees were being provided all the calories they

could possibly want. Accounts from detainees and their families told a very different story. They testified that guards beat detainees and sprayed pepper spray. Strike organizers were transferred to other facilities. Others were thrown into solitary confinement and cut off from commissary access.

ICE also enforced its own internal threshold for acknowledging a hunger strike. Under its standard, an individual must refuse nine consecutive meals or abstain from both food and water for 72 straight hours. Advocacy groups condemned this rule as an almost impossible threshold for detainees already suffering from poor nutrition.

Turmoil boiled outside the walls as well. Demonstrators blockaded the main entrance, clashing with federal officers. Scenes unfolded where people frantically flushed their eyes after being hit by an unidentified chemical agent. New Jersey Governor Mikie Sherrill visited the site but was barred from entering. The state Department of Health demanded a comprehensive inspection, but GEO Group refused to allow it. On June 2, New Jersey Attorney General Jennifer Davenport filed a lawsuit against GEO Group.

The hunger strike concluded after roughly one month. Activists reported that retaliatory punitive transfers and solitary confinement persisted to the very end. Meanwhile, ICE quietly reduced the detainee population at Delaney Hall. One activist noted that the hunger strike had influenced the reduction in numbers.

Two months after the strike ended, another person lost his life. In August 2026, 41-year-old Edwin López-Cornejo of El Salvador suffered a medical emergency inside the facility. He was transferred to a hospital, where he died. His mother recounted that ICE never informed her of her son's condition or even his death.

32.8 A System That Fails to Notify Deaths

The death of López-Cornejo exposed a glaring loophole. There is no statutory legal obligation requiring ICE to notify family members when a detainee dies or falls critically ill in its custody. Internal ICE guidelines vaguely state that families are to be notified only "to the extent practicable."

In early August 2026, Representatives Ritchie Torres and George Latimer visited Delaney Hall. Representative Torres stated that the vast majority of detainees had no criminal record. He insisted that they did not belong in such a facility. On August 13, the two lawmakers introduced the "Families Deserve to Know Act."

The key provisions of the bill were as follows: If a detainee dies, is hospitalized, or experiences a medical emergency, ICE must notify family members. ICE must report all in-custody deaths to Congress and the public. Contractors that fail to provide required notifications face daily fines and contract termination. Bereaved families deprived of notification are granted the right to sue directly in federal court. Representative Torres argued that a family's right to know cannot rely on the

goodwill of ICE. Nor, he said, should it be left to internal agency policy documents that can be altered at any whim.

Behind this legislation was a grim backdrop of mounting fatalities. In calendar year 2025, 33 deaths were reported in ICE custody. It was the highest death toll in more than two decades. Looked at by fiscal year, the picture was even bleaker. According to government data cited by NPR, 29 people had died in fiscal year 2026 by mid-April alone. This had already eclipsed the previous record of 28 deaths set in fiscal year 2004. In the first nine days of January 2026 alone, four detainees perished.

Causes of death included illnesses such as heart disease as well as suicide. A 34-year-old Mexican national arrested for driving without a license was found dead in his cell just seven days into his detention. A 59-year-old Iranian national suffering from multiple chronic ailments was denied release and died of a heart attack.

Acting ICE Director Todd Lyons testified before Congress to explain the high number of deaths. His explanation was that the detainee population was at its highest point since the agency's founding. Human Rights Watch assessed that the administration had gutted oversight bodies, making it difficult to check abuses. Researchers point out that the official count may understate the true toll. That is because when critically ill individuals are technically "released" just before dying, their deaths vanish from ICE statistics. Indeed, among the fatalities linked to Delaney Hall were cases where ICE stated it had released individuals prior to their deaths.

32.9 The Questions Left by the Swamps and Warehouses

Alligator Alcatraz closed its gates before completing a single year. The warehouse detention project, too, ground to a halt across multiple sites under the weight of lawsuits, local resistance, and runaway costs. Yet that did not mean the problem had vanished. According to calculations by the Vera Institute of Justice, ICE held individuals across 469 different facilities during the single month of July 2026. The number of facilities officially acknowledged on ICE's own website was 208—less than half that tally.

The swamp camp and the warehouse detention centers shared distinct commonalities: First, the pace of arresting people outstripped the capacity to create spaces to confine them. Second, the facilities were situated in remote swamps or distant suburban fringes. These were places difficult for families, attorneys, and watchdog bodies to reach. Third, jurisdictional accountability was murky. It was never clear whether the state government or the federal government, ICE or private contractors, held ultimate responsibility. Fourth, whenever problems came to light, the government's first reflex was outright denial.

The financial costs also warrant close examination. A single swamp detention camp consumed $1.2 billion. Purchasing a single warehouse commanded tens of millions to well over $100 million. In contrast, Alternatives to Detention programs, such as electronic ankle monitors, are known to cost merely a few dollars a day per person. It is difficult to explain through mere efficiency why such an expensive and hazardous approach was dogmatically pursued. Proponents of these facilities argued that the "Alcatraz" moniker and the harsh conditions functioned as a deterrent. The calculation was that by showcasing cruelty, migration would be deterred. The accounts examined in this chapter demonstrate that this calculation was paid for in human bodies and human lives.

This issue connects directly to foreign diplomacy as well. For decades, the United States leveraged human rights as an instrument of foreign diplomacy. The nation that exerted the fiercest pressure on China over the internment camps in Xinjiang was none other than the United States. Yet that very same United States found itself engulfed in domestic scandal over steel cages and warehouse detention camps. The fact that inspector general offices, federal courts, and state governments raised objections proves that American institutional checks are not yet dead. Nevertheless, when Washington spoke of human rights before Beijing, the gravity of its words was profoundly diminished. This is the interpretation of this book.

The steel cages atop the swamp and the windowless industrial warehouses leave behind a single question: What is the absolute minimum that a nation-state must uphold when detaining a human being? The Inspector General's report termed that minimum "standards for humane treatment." In 2025 and 2026, the American immigration detention apparatus operated far beneath that threshold.

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Chapter 33. Erroneous Arrests of Citizens and Human Rights Watch's (HRW) Official Warnings of Democratic Backsliding

> The Inside Story of American Citizens Detained Simply for Having Different Skin Colors, and International Human Rights Groups Like HRW and Democracy Assessment Institutes Officially Warning of the Rapid Retreat of U.S. Democracy Under Trump's Second Term

Introduction

On the day President Xi Jinping touched down at Joint Base Andrews, Washington rolled out lavish protocol. During the very same period, an entirely different scene was unfolding inside the United States. Masked federal agents seized people off the streets. Among those apprehended were citizens holding U.S. passports.

The preceding three chapters dealt with gunfire, civilian deaths, and warehouse-style detention camps. This chapter addresses two questions that lie at the end of that trajectory. First, why did the dragnet of enforcement reach America's own citizens? Second, how did international human rights organizations and democracy assessment institutes document this reality?

These two questions are not separate from one another. If a country cannot even release its own citizens when they prove their identity, the very foundation of the rule of law has been shaken. It was precisely on these grounds that human rights organizations warned of the backsliding of American democracy. And that warning rested with unseen weight upon the table of the U.S.–China summit as well.

33.1 Even When Showing Passports, They Were Not Released

The U.S. government does not track how many citizens immigration agents apprehend. So the nonprofit investigative newsroom ProPublica counted them directly. In a report published in October 2025, the number of confirmed cases exceeded 170. Reporters cross-referenced social media posts, news coverage, and court records one by one.

Nearly 20 of the detained citizens were children. Two children battling cancer were also among them. At least three female citizens were pregnant when apprehended. More than 20 citizens were locked up for over twenty-four hours. During that time, they were not even given an opportunity to call their families or attorneys.

Case after case exhibited similar patterns. Leonardo Garcia Venegas, a construction worker in Alabama, is an American citizen. Agents claimed the REAL ID he presented was fake. This

identification is issued by the State of Alabama to citizens and lawful residents after identity verification. He was held in handcuffs for more than an hour.

On California's Central Coast, military veteran George Retes was arrested. This occurred under circumstances where agents appeared to already know his identity. ProPublica compiled cases in which citizens were dragged away, slammed to the ground, and tasered. Multiple instances of pinning suspects by pressing a knee into the neck were also confirmed.

The Department of Homeland Security's (DHS) response remained unwavering. A spokesperson stated that citizens are not arrested for immigration enforcement. Then-Secretary Kristi Noem went so far as to assert that no citizen had ever been arrested or detained. Yet a senior immigration official admitted that agents take a person's physical appearance into account.

Congressional Democrats launched an investigation. Ranking Member Robert Garcia of the House Oversight Committee and Senator Richard Blumenthal took the lead. In a joint letter, the two lawmakers divided the cases over a nine-month period into two categories: Nearly 130 citizens were arrested on charges of assaulting or impeding officers. More than 50 citizens were seized under suspicion regarding their citizenship. The two lawmakers pointed out that charges of assault and obstruction were frequently dismissed in court.

In December 2025, Senator Blumenthal released a Senate Permanent Subcommittee on Investigations minority staff report. Its title was "Unchecked Authority." The report featured testimonies from 22 citizens across 10 states. They testified that they were dragged from their cars, sprayed with chemical agents, and denied medical treatment. Some were detained for days on end.

On March 3, 2026, Secretary Noem appeared before the Senate Judiciary Committee to testify. It was her first congressional appearance since two citizens had been shot dead by federal agents in Minneapolis. Seated in the audience were citizens who had been detained by federal agents. Marimar Martinez, who had been shot in Chicago, was also present. Senator Blumenthal criticized the Secretary's responses as consistently evasive.

In July 2026, children took the witness stand. This occurred at a public hearing convened by bicameral Democratic lawmakers. Arnoldo Bazan, a 16-year-old boy from Houston, was among those on the witness list. While pursuing his undocumented father, federal agents had tackled the boy to the ground and choked him.

Across all these cases, recurring elements emerge: warrantless arrests, masked agents, and unmarked vehicles. A blanket refusal to believe identity documents and incommunicado detention also repeated themselves. The Fourth Amendment of the U.S. Constitution prohibits unreasonable searches and seizures. The Fifth Amendment guarantees due process of law. On the ground, neither amendment functioned.

33.2 The Door Opened by the Supreme Court: The So-Called 'Kavanaugh Stop'

There was a legal backdrop to the rise in erroneous arrests of citizens. It was an emergency ruling issued by the U.S. Supreme Court on September 8, 2025. The case was Noem v. Vasquez Perdomo.

The case originated in Los Angeles. A federal district court had issued an injunction restricting immigration agents' investigatory stops. The court determined that agents were stopping individuals based solely on four factors: Apparent race or ethnicity, and speaking Spanish or accented English, were the first and second. Locations such as car washes and bus stops, and job categories such as day labor, were the third and fourth.

The Supreme Court stayed the injunction by a 6-to-3 vote. No majority opinion was written. There were neither formal oral arguments nor extensive written briefs. It was an emergency procedure conducted on what is known as the "shadow docket."

The only written rationale came in a concurring opinion by Justice Brett Kavanaugh. He wrote that apparent ethnicity alone could not serve as the basis for suspicion. However, he noted that it could be considered in combination with other factors. His conclusion was that combining the four factors could justify a reasonable suspicion of unlawful presence. He added to the effect that citizens need not worry, as they would be quickly released.

Justice Sonia Sotomayor, who penned the dissent, saw it differently. She pointed out that ethnicity and language are inextricably intertwined. Relying on both factors is no different from looking solely at ethnicity. Following the decision, these stops came to be known as "Kavanaugh stops."

ProPublica's tally provided evidence directly refuting Justice Kavanaugh's optimism. Citizens were not released immediately. More than 20 individuals were locked up for over twenty-four hours. The North Carolina Civil Rights Law Review analyzed that, following the ruling, agents had in fact acted even more aggressively. As of May 2026, this stay remained in effect.

The true weight of this decision lay in its signal rather than its legal jurisprudence. The nation's highest court had, in effect, recognized appearance and language as legitimate enforcement criteria. To agents in the field, this was interpreted as broad discretion. Latino and Asian American citizens were forced into carrying identification at all times. Even those identity documents continued to be suspected as fraudulent.

33.3 Lawful Residents, Children, and Pregnant Women

The dragnet of enforcement did not stop at citizens. It reached lawful residents, green card holders, children with disabilities, and pregnant women.

There is a case familiar to Korean readers: the construction site of the Hyundai Motor–LG Energy Solution joint battery plant in Georgia on September 4, 2025. Immigration authorities alongside multiple federal agencies raided the site and detained 475 people. Among them, more than 300 were South Koreans. These individuals were not U.S. citizens. Yet a significant portion were technical personnel who had entered the country on business visitor visas or the Electronic System for Travel Authorization (ESTA). Although there was room for dispute over the legal interpretation of their immigration status, authorities slapped handcuffs on them first. The full story of this incident was covered in Chapters 20 and 21. Here, only one point needs emphasizing: even individuals possessing legal documents were initially categorized on-site by their "suspicious appearance."

On March 3, 2026, six-year-old Joseph was detained in San Francisco. Joseph had a hearing impairment and attended the California School for the Deaf in Fremont. That day, the child was sick and could not go to school. So he accompanied his mother to her scheduled immigration check-in. The mother, Leslie Rodriguez Gutierrez, was an asylum seeker from Colombia who had fled domestic violence. The mother reported in accordance with required procedures. Authorities took the mother and her two children into custody on the spot.

The mother pleaded to allow a relative waiting outside to hand over the child's hearing aids. Agents refused the request. The family was transferred to another region and deported to Colombia three days later. This occurred before an attorney could locate the family and file an objection. Immigration authorities stated that a deportation order had been issued two years prior and that the mother had violated reporting requirements. Human Rights Watch documented this incident in a report on March 10. HRW pointed out that the practice of transferring detainees to distant locations immediately after arrest severely impedes access to legal remedies. Staff members for Representative Eric Swalwell traveled all the way to Colombia to deliver the hearing aids.

The issue of pregnant women was corroborated by official government data. The Department of Homeland Security submitted a written response to an inquiry from Senator Patty Murray. The figures covered the period from January 1, 2025, to February 16, 2026. During this period, Immigration and Customs Enforcement (ICE) deported 363 women who were pregnant, postpartum, or nursing. As of February 16, there were 86 pregnant women held in detention. Among them, nine were in their third trimester. Through the end of September 2025, 16 miscarriages were recorded inside detention facilities.

A stark contrast emerges when compared to the past. In 2022 and 2023, around 350 women in these categories were detained each year. Yet at that time, the vast majority were released or paroled. ICE's own internal guidelines advise against detaining them as a general principle. Physicians for Human Rights (PHR) and the Women's Refugee Commission conducted on-the-ground field interviews in Honduras. The two organizations reported that pregnant women were deported without adequate medical care. They concluded that this violated ICE's own guidelines.

There were also submissions made by HRW in April 2026 to the United Nations Universal Periodic Review (UPR). Between January 2025 and March 2026, 46 people died in immigration detention facilities. This figure was drawn directly from U.S. government data.

33.4 Human Rights Watch's Three Official Warnings

Human Rights Watch (HRW) is an international human rights organization headquartered in New York. It investigates human rights conditions in nearly 100 countries and publishes annual reports. The warnings issued by this organization targeting the United States in 2026 can be synthesized into three major waves.

The first came on January 20, 2026. To mark the first anniversary of President Trump's second inauguration, HRW released a special report. The title was Sliding Towards Authoritarianism? HRW organized its findings from across 2025 into seven key areas: targeting minorities, blocking access to information, and the unlawful use of force formed the first three; retaliating against critics, concentrating executive power, and undermining independent institutions followed; the final area was the erosion of voting rights. HRW assessed that the administration had broadly embraced authoritarian tactics. It concluded that the objective was to concentrate power within the executive branch.

The second was the World Report 2026, released on February 4. Spanning 529 pages, it examined conditions in more than 100 countries. Executive Director Philippe Bolopion dedicated a substantial portion of the introductory essay to the United States. The report evaluated that during its first year, the United States had taken a distinct turn toward authoritarianism. It also characterized this as an explicit disregard for human rights.

The report's evidentiary basis was specific. It revisited the deportation of 252 Venezuelan migrants to a maximum-security prison in El Salvador. HRW classified this as enforced disappearance, a crime under international law. It also cited immigration crackdowns, threats to voting rights, and the downsizing of the State Department's human rights bureau. Sanctions against the International Criminal Court (ICC) and withdrawal from the United Nations Human Rights Council (UNHRC) were likewise condemned. HRW noted that global democracy indicators had plunged to levels not seen since 1985— before the end of the Cold War, when the Soviet Union still existed.

Executive Director Bolopion made his orientation clear in a video message. He stated that the pivotal battle over the future of human rights in 2026 would be fought most acutely within the United States, and that its outcome would reverberate across the globe. He reiterated the same point in a February interview with Euronews: his assessment was that the U.S. administration was turning its back on the entire human rights architecture.

The White House fired back immediately. It claimed HRW was afflicted with "Trump Derangement Syndrome." It further asserted that the organization had been attacking the president since before he took office.

The third came on June 25. It was nine days before July 4, the 250th anniversary of the Declaration of Independence. HRW released US Democracy in Decline Under Trump. Rather than presenting entirely new investigations, this feature synthesized the documented record of the first half of 2026. HRW opened by highlighting the significance of the 250th anniversary. It noted that for many, this date would be an occasion to celebrate longstanding democratic traditions. However, it wrote that since 2025, the Trump administration had mounted an all-out assault on human rights and fundamental freedoms. Many of those under assault were rights essential to making democracy function in practice. HRW noted that in 2026 alone, it had investigated and reported on dozens of such threats.

Superimposing these three reports reveals HRW's underlying logic: immigration enforcement was merely the starting point. The tactics of enforcement eroded due process. Those very methods then spread to the media, universities, and elections. HRW viewed this not as isolated misconduct by individual officials, but as a systemic problem in the mode of governance itself.

33.5 The Backslide in Numbers: Simultaneous Diagnoses by Assessment Institutions

HRW was not the only organization sounding the alarm. Throughout the spring and autumn of 2026, leading democracy assessment institutions released reports in rapid succession. Their methodologies varied, but their findings pointed in the exact same direction.

V-Dem Institute

On March 17, the V-Dem Institute at the University of Gothenburg, Sweden, released Democracy Report 2026. V-Dem stands for "Varieties of Democracy." More than 4,200 scholars and experts worldwide assess nations across the globe.

The U.S. Liberal Democracy Index plummeted by 24 percent within a single year. Its ranking dropped from 20th to 51st out of 179 countries. The institute described the speed of the American decline as "unprecedented." Six out of the ten countries undergoing newly emerging autocratization in 2025 were located in Europe and North America. The United States, the United Kingdom, and Italy were among them. The United States was downgraded in classification from a "liberal democracy" to an "electoral democracy."

Professor Staffan Lindberg, founding director of the institute, emphasized the speed in an interview with NPR. He observed that the level of democratic regression that took Prime Minister

Modi of India and President Erdoğan of Turkey a decade, and Prime Minister Orbán of Hungary four years, was accomplished by the Trump administration in just a single year. He cited the concentration of power, circumvention of the law, sidelining of Congress, and attacks on the press as reasons for the downgrade. The report noted that the 2026 midterm elections would serve as the litmus test for the quality of American elections, as election-related indicators are evaluated only in years with nationwide contests.

The White House rejected this evaluation. A spokesperson dismissed it as an absurd claim from an obscure, biased outfit.

Freedom House

Washington, D.C.-based Freedom House released Freedom in the World 2026 in March. The report was subtitled "The Growing Shadow of Autocracy." The United States scored 81 out of 100. It dropped 3 points in 2025 alone. Over the past two decades, it had lost a cumulative total of 12 points. Among "Free" countries, the United States, Bulgaria, and Italy were singled out for experiencing significant score declines.

Detailed category scores were also made public: paralysis of congressional functioning and the longest federal government shutdown in history reduced one indicator from 3 to 2 points; threats against political expression and the penalization of non-citizens' speech dropped another indicator from 4 to 3 points. Freedom House highlighted freedom of the press, individual expression, and due process as the areas that had deteriorated most severely over the last 20 years.

Bright Line Watch

Bright Line Watch is a research initiative involving more than 500 American political scientists. It is co-led by Professors John Carey and Brendan Nyhan of Dartmouth College. A score of 0 represents total dictatorship, while 100 represents full democracy. Immediately following the November 2024 presidential election, the scholars' rating stood at 67 points. A few weeks after the second inauguration, it tumbled to 55 points. It was the steepest drop recorded since the survey began in 2017. In the March 2026 survey, the consensus concluded that the American system sat almost squarely midway between liberal democracy and autocracy.

However, Professor Nyhan offered a caveat: just because Trump had damaged democracy did not mean the damage was necessarily permanent. This caveat ties directly to the conclusion of this chapter.

International IDEA

The International Institute for Democracy and Electoral Assistance (International IDEA), based in Stockholm, is an intergovernmental organization. On September 15, the organization published

The Global State of Democracy 2026. The subtitle was "Democracy in an Age of Conflict."

The report featured the United States as a distinct case study. Nearly half of the 30 indicators measuring U.S. democracy sank to their lowest levels since 1975. These included access to justice, economic equality, and effective parliament. Freedom of expression, media integrity (press freedom), and judicial independence also hit historic lows. Worldwide, judicial independence fell to a 36-year low. The year 2025 marked the 11th consecutive year in which more countries experienced democratic decline than democratic improvement. It was the longest consecutive streak of decline since records began in 1975.

Secretary-General Kevin Casas-Zamora warned that America's steep retreat undermined judicial independence, fragmented the international order, and threatened global democracy. The United States renounced its observer status in the organization shortly after Trump's inauguration— part of a broader withdrawal from more than 60 international bodies.

Press Freedom and Public Opinion

In the 2026 World Press Freedom Index by Reporters Without Borders (RSF), the United States ranked 64th out of 180 nations. It fell seven spots from 57th place the previous year. RSF noted significant deterioration in both the political and security indicators. The detention and deportation of Salvadoran journalist Mario Guevara was cited as a prominent case in point.

Americans' own assessments mirrored these findings. In March 2026, the Pew Research Center surveyed 3,507 U.S. adults. Sixty-eight percent of respondents said that while American democracy used to be a good example for other countries, it has not been in recent years. Even among Republican leaners, a majority gave that exact same response.

Synthesizing the findings of all five institutions into a single sentence yields this: The United States remains a democracy where elections are held; yet between elections, the institutional mechanisms that check executive power are rapidly eroding. This is precisely why V-Dem demoted the United States to an "electoral democracy."

33.6 The Second Front Ahead of the Elections: The SAVE Act and ICE at Polling Places

The theater of greatest concern for human rights organizations in the latter half of 2026 was the ballot box. Heading into the November midterm elections, two primary battlegrounds emerged.

The first was the so-called SAVE Act. Its formal name is the "Safeguard American Voter Eligibility Act." Its core mandate is requiring individuals to present documentary proof of citizenship in person when registering to vote. It also includes provisions requiring photo identification at the ballot box. Republicans describe it as a safeguard to prevent fraudulent voting by non-citizens.

Opponents argue on the grounds of document accessibility. The Brennan Center for Justice at New York University calculated that 21 million citizens do not have readily available documentary proof of citizenship. Only about half of U.S. citizens possess a valid passport. Women whose surnames changed through marriage, senior citizens, rural residents, and low-income populations are disproportionately disadvantaged. The NAACP Legal Defense and Educational Fund (NAACP LDF) warned that this legislation could function as a modern-day poll tax. HRW likewise warned that the act could disenfranchise eligible voters.

The legislative trajectory unfolded as follows: The House of Representatives passed the bill on February 11, 2026, by a vote of 218 to 213. President Trump designated the bill as Congress's top priority. In the Senate, however, it ran into a filibuster. Although some Republicans pushed to alter the filibuster rules, Senate leadership declined. In June, NPR reported that the bill had officially failed in the Senate. The House passed a revised version once more in August. Yet as of September, the SAVE Act had not become law. The Brennan Center assessed that the administration's attempts to interfere in elections had been thwarted by Congress and the courts.

There were also maneuvers to bypass the legislative logjam via executive orders. In March, President Trump signed an executive order regarding citizenship verification and mail-in voting. The order directed federal agencies to compile lists of voters' citizenship data and transmit them to state election authorities. Election law scholars condemned the order as an unconstitutional encroachment upon powers reserved by the Constitution to states and Congress.

The second battleground centered on the deployment of immigration agents near polling places. Administration officials repeatedly signaled that federal law enforcement personnel could be stationed in the vicinity of voting sites during the election period. Department of Homeland Security Secretary Markwayne Mullin stated that ICE did not intend to patrol polling locations per se; yet he left the door open by adding that agents could go there if there were specific threats or warrants to execute.

In September alone, two separate federal lawsuits were filed. On September 10, the City of Denver, Common Cause, and Latino advocacy groups filed a lawsuit in the U.S. District Court in Washington, D.C. A federal statute dating back to the Civil War era prohibits federal officials from ordering armed forces or armed troops to polling places. The plaintiffs invoked this provision as their legal foundation. On September 18, a coalition of nine civil rights and labor organizations filed a second lawsuit. They argued that the policy constituted voter intimidation prohibited under the Voting Rights Act. The plaintiffs emphasized that such a level of voter intimidation had not been witnessed since the Civil Rights era. On September 21, another legal challenge followed against the practice of armed agents conducting home visits to interrogate residents on their voting eligibility.

These election disputes connect directly back to the opening theme of this chapter: imagine enforcement units that stop individuals based on physical appearance and accent standing right

next to polling booths. Naturalized citizens, Latinos, and Asian Americans would inevitably dread the path to the ballot box. This is the precise mechanism by which erroneous citizen arrests metastasize into the disenfranchisement of voting rights. This is why human rights groups describe the midterm elections as a "litmus test for democracy."

33.7 Shadows Cast Over the Washington Summit Table

The events recounted in this chapter may appear to be domestic American matters. Yet on the grand stage of a summit meeting, they become matters of diplomacy. From this point forward is the author's analysis.

For decades, the United States has wielded human rights and democracy as a central pillar of its diplomacy toward China. Whenever Xinjiang, Hong Kong, or Tibet was brought to the negotiating table, this was the playbook. China responded each year by publishing its own counter-reports critiquing the human rights situation in the United States. In the past, these Chinese responses were largely dismissed as mere propaganda.

In 2026, the situation is different. The very evidence China can quote is originating from within the United States itself: U.S. congressional reports, investigative exposés by American media outlets, and official responses from the U.S. Department of Homeland Security. To these are added the damning evaluations of Western institutions like HRW, V-Dem, and Freedom House. The conditions have been created for Chinese diplomats to comfortably counter: "Just look at your own records."

The Trump administration itself discarded human rights from its foreign policy agenda. HRW highlighted the gutting of the State Department's human rights bureau and the distortion of its annual Country Reports on Human Rights Practices. Freedom House and V-Dem assessed that the United States had abdicated its role as a champion of global democracy. The fact that the bilateral summit agenda was overwhelmingly narrowed down to Boeing aircraft, soybeans, tariffs, and rare earths reflects this exact dynamic. Human rights vanished from the roster of bargaining chips.

The perspective of traditional allies has shifted as well. Several European nations and Canada had already clashed head-on with Washington over tariffs and the Greenland crisis. South Korea watched its own technical engineers being handcuffed in the Georgia factory raid. The shared commitment to democratic values long served as the adhesive binding these alliances together. When that glue weakens, it becomes exceedingly difficult for the United States to rally its allies against Beijing. Beneath the surface of the empty-handed negotiations lies this severely diminished moral authority.

33.8 Conclusion

This chapter has established three core realities:

First, the number of confirmed cases in which American citizens were seized during immigration crackdowns surpassed 170 through October 2025 alone. The government did not track these incidents and flatly denied them. The Supreme Court's emergency order widened the legal latitude to use physical appearance and spoken language as enforcement criteria.

Second, the collateral damage of crackdowns spilled over to lawful residents, children with disabilities, and pregnant women. Korean technicians in Georgia, a six-year-old child deprived of hearing aids, and 363 deported pregnant or postpartum women stand as living testaments to this reality.

Third, throughout 2026, HRW and premier assessment institutions arrived at the exact same conclusion: that American democracy is undergoing rapid regression, and at an unprecedented pace.

Yet this diagnosis comes with an important caveat. Assessment organizations do not claim that the United States has turned into an outright dictatorship. The United States still holds elections, and its courts still hand down rulings. The SAVE Act was stopped in the Senate, and civil rights groups mounted federal lawsuits over polling site intimidation. The congressional minority brought aggrieved citizens to the witness stand. As Professor Nyhan observed, damage does not automatically equate to permanent destruction.

That is precisely why the November 2026 midterm elections are so momentous. V-Dem called this election the ultimate litmus test for American democracy. If the elections are conducted fairly and their outcomes respected, a path toward renewal will open. In the opposite scenario, the warnings of assessment institutes will cease to be mere records and become enduring reality.

The report card delivered to the United States on the 250th anniversary of its Declaration of Independence can be summarized as follows: it is an alarm that the nation is drifting in the very direction its Founders fought to avert. The power to reverse that trajectory still rests in the hands of the American people.

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PART 7

Financial Self-Sabotage and the Decline of Dollar Hegemony

Chapter 34. U.S. 30-Year Treasury Yield Tops 5.2%

Fiscal Ruin from $1 Trillion in Annual Interest

34.1 The Air in Washington Changed by a Single Number

On May 19, 2026, the yield on the U.S. 30-year Treasury bond touched 5.2%. It was the highest level in nineteen years, since 2007. What troubled the markets was inflation sparked by the war with Iran. The Strait of Hormuz was virtually closed. Oil and gas prices were perched at their highest points in four years. In April, U.S. consumer price inflation climbed to its highest rate in three years.

First, a look at what Treasury yields actually are. The U.S. government cannot fund all its affairs through taxes alone. It borrows the shortfall by selling IOUs known as Treasury securities. The Treasury yield is the interest rate the government promises to pay when borrowing that money. When fewer buyers step forward, the government must offer higher interest to sell them. Thus, Treasury yields function as the credit score the market assigns to the U.S. government.

The 30-year Treasury is a bond whose principal is repaid after thirty years. Investors price it by weighing inflation and the nation’s fiscal health over that vast horizon. A rising 30-year yield signifies that the market views America's distant future with mounting unease.

The 10-year Treasury note serves as the benchmark interest rate for the entire financial market. Mortgage rates, corporate bond yields, and auto loan rates all move in tandem with the 10-year yield. Investors worldwide also take the 10-year Treasury as the baseline against which they value other assets.

The 10-year yield of 4.76% and 30-year yield of 5.2% noted in the title of this chapter represent the critical thresholds recorded in this book’s reference sources. According to publicly available market data, the 30-year yield breached 5.2% in May. The 10-year yield crossed 4.7% in mid-August.

Yields did not halt at those thresholds. On September 24, the 30-year yield climbed as high as 5.501% intraday. It was the highest level in twenty-two years, since June 2004. On the same day, the 10-year yield touched 5.223%. That was its highest mark since June 2007.

This chapter traces how interest rates arrived at this juncture. It then examines the consequences those yields left on the federal government’s balance sheet. Namely, the reality that America has become a nation paying over $1 trillion a year in interest alone.

34.2 The Timeline of the Ascent in Yields

As late as early 2026, the trend pointed in the opposite direction. The Federal Reserve had cut its benchmark interest rate three times in the second half of 2025. The market anticipated that rate cuts would continue throughout 2026. From the beginning of the year through late February, the 30-year yield declined by 0.2 percentage point. Just before the war, the 10-year yield even dipped below 4%.

The tide turned on February 28. The United States and Israel launched strikes against Iran. The operation was code-named Operation Epic Fury. From that day onward, the 30-year yield climbed almost without pause.

At every crossroads, a major event unfolded. Chronologically, they unfolded as follows:

February 20: The Supreme Court invalidated tariffs based on the International Emergency Economic Powers Act (IEEPA). February 28: The United States and Israel launched airstrikes on Iran. March 17: Total federal debt surpassed $39 trillion. May 19: The 30-year Treasury yield touched 5.2%. Second week of August: The Treasury auctioned $25 billion of 30-year bonds at 5.216%. August 18: The 30-year yield reached 5.337% intraday, recording its highest level since April 2007. August 18: Total federal debt surpassed $40 trillion. September 16: The Federal Reserve raised its benchmark interest rate by 0.25 percentage point. September 24: The 30-year yield broke above the 5.5% line, and the 10-year yield stood above the 5.22% line.

The August Treasury auction was itself an alarm. The auction yield of 5.216% was the highest in a 30-year bond auction since 2001. The 10-year note auction held one day earlier likewise recorded the highest borrowing cost since 2007. With every auction, the price the government paid to borrow money had marched upward.

The sharp surge on September 24 originated once again in oil prices. When crude prices jumped that day, yields across the curve—from 5-year notes to 30-year bonds—surged in unison. The 2-year yield also rose to 4.941%. Markets wagered their money on another rate hike from the Fed.

34.3 The Collapse of the Tariff Revenue Calculation

Tariffs occupied a central place in the Trump administration's fiscal arithmetic. The blueprint envisioned offsetting the tax revenue lost to tax cuts with tariffs. The Congressional Budget Office (CBO) factored this effect into its February 2026 outlook. The estimate was that tariffs would reduce the deficit by roughly $3 trillion over ten years.

That calculation was shattered on February 20. The Supreme Court ruled 6–3 in Learning Resources, Inc. v. Trump. Chief Justice John Roberts authored the majority opinion. The ruling concluded that the International Emergency Economic Powers Act (IEEPA) does not confer

authority on the president to impose tariffs. IEEPA was originally designed for economic sanctions, such as freezing the assets of hostile nations. The Court reaffirmed that under the Constitution, the power to levy tariffs belongs to Congress.

U.S. Customs and Border Protection (CBP) stopped collecting the tariffs in question starting February 24. The administration immediately pulled out Section 122 of the Trade Act. Initially, it levied a 10% tariff on global imports, raising it to 15% just days later. Section 122 tariffs, however, are a temporary tool that can be used for only up to 150 days. That statutory window expired on July 24.

A far larger problem was the money already collected. The majority opinion did not address the issue of refunds. In his dissent, Justice Brett Kavanaugh wrote that billions of dollars might have to be returned. He also warned that the refund process would turn into a mess. More than 2,000 lawsuits demanding refunds piled up at the U.S. Court of International Trade. On March 4, Senior Judge Richard Eaton ordered the government to issue refunds with interest. Estimates surfaced that this interest alone was snowballing by roughly $650 million every month.

Estimates of the total refund liability varied across institutions. The Penn Wharton Budget Model at the University of Pennsylvania projected it at up to $175 billion. The reference materials for this book cited the Tax Foundation, a tax policy research organization, placing the figure at upwards of $160 billion. An August news report revealed that $81 billion had already been refunded during the current fiscal year. Refunds during the same period in the previous year had been around $5 billion.

The fiscal outlook deteriorated immediately. The CBO released a revised projection on March 5. Accounting for the Supreme Court ruling, it projected that the deficit would expand by roughly $2 trillion from 2026 to 2036. The nonpartisan fiscal watchdog Committee for a Responsible Federal Budget (CRFB) estimated that the debt could surge by up to $2.4 trillion. The Washington Post singled out tariff refunds as one of the primary reasons the national debt breached $40 trillion several months earlier than anticipated.

The promise to plug the deficit with tariffs lost all legal force in the courtroom. That shortfall had to be covered by issuing new Treasury debt. When the government sells more Treasuries, yields rise. In this manner, the tariff ruling was tied directly to the surge in interest rates.

34.4 The Bill for the War

The second pressure came from the cost of the war. On March 19, Defense Secretary Pete Hegseth unveiled plans to request a supplemental budget. The Department of Defense submitted an emergency supplemental request exceeding $200 billion to the White House. Hegseth noted that this figure was subject to change. Congress pushed back immediately. Congress had never authorized this war.

The actual bill submitted ended up smaller. In April, a defense official disclosed for the first time that direct war costs were roughly $25 billion. White House Office of Management and Budget (OMB) Director Russell Vought testified at an April House hearing that he had no estimate of the war's costs. At that same hearing, he defended the demand for a $1.5 trillion annual defense budget. In June, an interim agreement to wind down the war emerged. On July 21, Hegseth testified before the Senate that cumulative war costs stood at $37.5 billion. He also requested $67.1 billion in supplemental appropriations for the Department of Defense. The Center for Strategic and International Studies (CSIS) analyzed that of the total $87.6 billion supplemental request, war costs accounted for roughly one-third.

There is a baseline for comparison. In December 2025, Congress approved approximately $891 billion for the fiscal year 2026 national defense budget. Of that total, the Department of Defense portion was roughly $856 billion. The direct cost of the war amounted to only a few percent of the annual defense budget.

The blow the war dealt to public finances was far heavier through indirect costs than direct expenditures. When the Strait of Hormuz was choked off, oil prices soared. In July, U.S. energy prices were up 14.7% from a year earlier. When energy costs rise, general prices rise. When inflation picks up, bond investors demand higher yields. When yields rise, the interest burden across the entire $40 trillion national debt swells.

Consider the simple arithmetic. As of the end of August 2026, federal debt held by the public stood at $32.4 trillion. If the average borrowing rate rises by 1 percentage point, annual interest on this debt swells by roughly $324 billion. There is a lag depending on the pace at which existing Treasuries mature and roll over. Yet the direction is unmistakable. The bill left in the wake of surging interest rates is incomparably larger than the $37.5 billion in direct war spending.

34.5 One Trillion Dollars in Interest: The Cost of Debt Surpassing Defense Spending

In February 2026, the CBO released its 10-year outlook. It projected net interest outlays for fiscal year 2026 at $1 trillion. Net interest represents the amount the government pays in interest on Treasury debt minus the interest income it receives. By 2036, it projected this figure would more than double to $2.1 trillion. As a share of gross domestic product (GDP), it would climb from 3.3% to 4.6%. Cumulative interest payments over the ten-year period would amount to $16.2 trillion. CBO Director Phillip Swagel warned that the nation’s fiscal trajectory was unsustainable.

The forecast became reality. The Peter G. Peterson Foundation analyzed Treasury data for August. In just eleven months, before the fiscal year had even drawn to a close, net interest outlays crossed $1 trillion for the first time. Interest had become the second-largest outlay in the federal

budget, behind only Social Security. It was larger than Medicare, the health insurance program for the elderly, and larger than the entire defense budget.

Viewed as a proportion, the burden becomes even starker. In the first quarter of fiscal year 2026, net interest consumed 22.1% of federal revenues. The average over the past fifty years was 12%. Over the same period, net interest accounted for 14.8% of total government spending. The 50-year average was 8.9%. Out of every $100 the government collected in taxes, $22 flowed out merely to service interest on debt.

Compare this to defense spending. The Stockholm International Peace Research Institute (SIPRI) released its annual report in April 2026. U.S. military spending in 2025 stood at $954 billion. That was a 7.5% decline from 2024. The United States remained the world's undisputed number one military spender. Second-ranked China was estimated at $336 billion. Yet the annual interest paid by the U.S. government had already surpassed that entire military expenditure.

One distinction must be made with precision. Fiscal year 2026 was not the first time interest outstripped discretionary defense spending. The CBO estimated net interest for fiscal year 2024 at $892 billion. In that year, it had already exceeded discretionary defense outlays. The milestone newly crossed in 2026 was the $1 trillion mark. The reality that servicing debt costs more than operating the world’s most powerful military had now become an entrenched fact.

House Budget Committee Chairman Jodey Arrington is a Republican. On the day the debt passed $40 trillion, he issued a statement: The federal government borrows $6 billion every single day. More than half of that is used merely to pay interest on debt already incurred. That interest exceeds the entire national defense budget. These were numbers acknowledged by the ruling party's own budget committee chairman.

Comparing this to South Korea puts the scale into perspective. South Korea’s national defense budget for 2026 is in the 60-trillion-won range. The annual interest paid by the United States is more than twenty times that entire sum.

Some market analysts offer even more extreme calculations. They contend that adding Social Security, Medicare, and veterans’ benefits to net interest consumes more than 100% of total tax revenues. The reference materials for this book cited that ratio at 105%. This figure is not an official statistic, and the result shifts dramatically depending on what categories are included. Roughly estimating those four items using CBO figures yields around three-quarters of total tax revenues. There is no need to accept the 105% figure at face value. What official data do confirm, however, is that the vast majority of tax revenue is siphoned off into untouchable mandatory spending before a single dollar can be allocated elsewhere.

34.6 A $40 Trillion Debt and a $2 Trillion Deficit

On August 18, total federal debt reached $40.05 trillion. That was more than double its level in 2017. In August 2016, the debt stood just shy of $20 trillion. It had doubled in a span of ten years.

The pace had accelerated as well. The debt stood at $38 trillion at the end of October 2025. On March 17, 2026, it passed $39 trillion. And five months later, it crossed $40 trillion. Adding another trillion dollars now takes less than five months. Chairman Arrington observed that it took the United States nearly two hundred years to accumulate its first trillion dollars of debt.

The deficit also outstripped forecasts. During the first eleven months of fiscal year 2026, the federal deficit reached approximately $2 trillion. Over that same period, revenues totaled $4.8 trillion against outlays of $6.8 trillion. It surpassed the $1.9 trillion full-year deficit forecasted by the CBO in February a full month ahead of schedule.

It was not that revenues had shrunk. Revenues were up $154 billion compared to the previous year. Income taxes and payroll taxes had risen, and tariff revenues had flowed in as well. The problem was on the spending side. Mandatory outlays such as Social Security and healthcare expanded. Interest outlays climbed faster than any other category.

A substantial portion of the deficit also tied back to the tax-cut bill passed in 2025. The legislation President Trump dubbed "One Big Beautiful Bill." The CBO estimated that this legislation would add $4.2 trillion to the debt through fiscal year 2034. Over the 2026–2035 period, it projected an increase in deficits of $4.7 trillion. Tax cuts, the tariff ruling, and war had collided all at once.

Divided among every citizen, the national debt amounts to roughly $117,000 per person. Even if one combines the market capitalizations of the eleven largest companies on the U.S. stock market, the total is around $28 trillion. The national debt surpasses that vast sum by $12 trillion.

34.7 Yields Cross the Threshold into Households

Treasury yields do not stay confined to the ledgers of Washington. Banks benchmark mortgage rates to the 10-year Treasury yield. On September 24, Freddie Mac announced that the 30-year fixed mortgage rate stood at 7.03%. It was the first time rates had broken 7% since January 2025. This was the culmination of five consecutive weeks of increases.

In real dollar terms, the arithmetic is as follows: If one borrows $400,000 for thirty years at a 7.03% interest rate, the monthly mortgage payment is roughly $2,669. At the 6.30% rate seen a year earlier, the monthly payment would have been $193 less. Over the course of a year, that difference exceeds $2,300. And that figure excludes property taxes and insurance.

The Federal Reserve's rate hike piled on additional strain. On September 16, the Fed raised its benchmark policy rate to 3.75%–4.00%. It was the first rate increase since July 2023. Interest charges on credit cards, auto loans, and adjustable-rate mortgages rose in tandem. Sixteen out of eighteen Fed officials projected yet another rate hike before the year's end.

The stock market was shaken as well. In 2026, across the five days on which Fed policy meeting decisions were announced, the S&P 500 index fell every single time. The average decline was 1.5%. Corporations must issue bonds at steeper borrowing costs. To that extent, the capital available for investment and hiring shrinks.

34.8 The Bond Vigilantes and the Fed's Dilemma

In the market, this spike in yields is hailed as the return of the "Bond Vigilantes." The term "Bond Vigilantes" was coined in the 1980s by American economist Ed Yardeni. When a government spends money profligately, investors dump its bonds, driving yields higher. As yields rise, the government finds it harder to borrow and must curb its spending. Because investors are in effect punishing the government, they were given the moniker "vigilantes."

What the bond market demanded in 2026 was the term premium. The term premium is the extra compensation required for the risk of locking money away over an extended period. The more uncertain it is when inflation will be tamed or when deficits will narrow, the larger this compensation becomes. Bloomberg cited four drivers behind the surge in yields: a ballooning national debt, an inundation of long-term Treasuries, inflation exceeding the target for a fifth consecutive year, and corporate bond issuance spurred by investments in artificial intelligence.

In August, the yield curve steepened. The yield curve is the line connecting yields across different maturities. That month, the 2-year yield fell by 0.12 percentage point. In that same month, the 30-year yield rose by more than 0.13 percentage point. It was a scene illustrating that while the Fed steers short-term rates, the market determines long-term yields. The louder the voices clamoring for the Fed to cut rates grew, the higher long-term yields actually climbed. The market placed no faith in rate cuts that turned a blind eye to inflation.

Rising yields were not an exclusively American phenomenon. On September 24, Japan's 10-year government bond yield recorded its highest level since August 1996. The British 30-year gilt hit its highest level since 1998 in May. Japan's 30-year yield reached an all-time high. German 30-year yields reached their highest point since 2011, and French 30-year yields since 2008. This was a global trend, born from the compounding pressures of oil shocks and sovereign fiscal burdens worldwide.

Even so, the United States stands in a fundamentally different position from other countries. U.S. Treasuries are the benchmark asset of global financial markets. When U.S. yields rise, global capital

moves, and borrowing costs in other nations climb in tow. And at the starting point of this entire cascade lay a war launched by the United States and the deficits run by the U.S. government.

President Trump relentlessly pressured the Fed to cut interest rates. Even after Kevin Warsh, his handpicked nominee, took office as Fed Chair, those demands continued unabated. Warsh moved in the opposite direction. At the Jackson Hole symposium in late August, he made crystal clear his resolve to fight inflation. At the July FOMC meeting, three members had already cast dissenting votes arguing for a rate hike. At the September meeting, all twelve members voted unanimously in favor of a hike. Warsh declared that inflation was too high, and had stayed high for too long.

Even the Chair chosen directly by the president hiked rates. Political demands to cut interest rates proved utterly powerless before the bond market. This conflict surrounding the Fed is examined in detail in Chapter 35.

34.9 The Balance Sheet Behind the Summit Table

Earlier chapters of this book covered the extravagant protocol of the Washington summit. President Trump welcomed his guest with stealth bombers and formations of fighter jets. He showcased commitments to purchase Boeing airliners and soybeans as crowning achievements.

During that very same period, the Treasury Department's balance sheet was telling a completely different story. The annual interest paid by the country had surpassed the operating cost of the world's largest military. The government was borrowing money to be used over thirty years at the highest interest rates in twenty-two years. The calculation that tariffs would plug the deficit was shattered by the Supreme Court ruling. The war drove up oil prices and inflation, and that inflation in turn propelled interest rates higher.

The arithmetic of debt obeys unbending rules. When the interest rate attached to debt exceeds the rate of economic growth, the debt-to-GDP ratio grows automatically. Unless more taxes are collected or spending is reduced, there is no way to close that gap. The CBO projected that debt held by the public would reach 120% of GDP by 2036. Under CRFB estimates that account for the tariff ruling, it climbs as high as 125%.

A nation whose public finances are faltering loses its composure and leverage at the negotiating table. China remains a nation holding vast quantities of U.S. Treasuries. While America borrowed to wage war and impose tariffs, the pool of buyers willing to purchase that debt was dwindling. Could blustering rhetoric and grand protocol conceal this balance sheet?

One trillion dollars in interest is not an isolated one-year event. If CBO projections hold, it will reach $2 trillion in ten years. If interest rates stay at current levels, that moment will arrive even sooner. Chapters 35 through 39 examine in turn how this fiscal pressure spilled over into the Fed, gold holdings, the status of the dollar, and relations with trading partners.

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Chapter 35. Trump's War with the Fed

Rate Pressure on Powell and Warsh, and Financial Repression

35.1 "Rates Should Be Below 1%"

At 2:00 p.m. on September 16, 2026, a policy statement was released from the headquarters of the Federal Reserve (Fed) in Washington. The Federal Open Market Committee (FOMC) raised the benchmark interest rate by 0.25 percentage points. The target range shifted from 3.50%–3.75% to 3.75%–4.00%. It was the first rate hike in over three years, since July 2023. The vote was 12 to 0, a unanimous decision.

The person stepping up to the briefing podium was Chairman Kevin Warsh. He was a figure handpicked by President Trump himself. Warsh stated that inflation was too high, and that the fact it had remained elevated for too long was unmistakable. He characterized that day's decision as sober and responsible.

A few hours later, Trump posted on Truth Social. He declared that U.S. interest rates should be below 1%, and that America was a country with the greatest credit in the world. That evening, before reporters, he added a bizarre remark. He claimed he had told Warsh to vote for the hike along with the rest of the board. His point was that there was no use in dissenting alone on a "hostile" committee.

This scene encapsulates the clash over monetary policy in Trump's second term. The president demands that interest rates be lowered. Even the chairman he installed refuses to grant that demand. So the president searches for leverage outside the Federal Reserve. The card he pulled in early September was a cessation of trade. It was a threat that if rates were not cut, he would cut off trade with countries running surpluses against the United States.

This chapter examines this battle across three distinct layers. The first layer is the struggle within the Federal Reserve itself. This encompasses the attempts to dismiss former Chairman Powell and Governor Lisa Cook, the Department of Justice investigation, and the Supreme Court rulings. The second layer is the fight that spilled outside the Fed. That is the threat to halt trade targeting trade surplus nations. The third layer is a quiet, less visible battle. These are the detours the Treasury uses to suppress interest rates—namely, the instruments of financial repression.

35.2 What Kind of Institution Is the Federal Reserve?

First, a brief explanation of the Federal Reserve's structure. The Federal Reserve is the central bank of the United States, established in 1913. It consists of the Board of Governors in Washington and twelve regional Federal Reserve Banks across the nation. There are seven governors, nominated

by the president and confirmed by the Senate. A governor's term is fourteen years, while the chairman's term is four years.

Interest rates are determined by the FOMC. The voting members comprise the seven governors, the president of the New York Fed, and four regional Fed bank presidents on a rotating basis. In total, twelve people hold votes. It is not a structure where a single chairman dictates interest rates. The chairman is merely the presiding leader who holds one of the twelve votes.

There is a clear rationale for the Fed maintaining its distance from the administration. Politicians facing upcoming elections always want interest rates kept low. When easy money floods the system, the economy immediately appears buoyant. The price tag—soaring inflation—arrives one to two years later.

The United States paid that exact price in the 1970s. Ahead of his 1972 reelection bid, President Richard Nixon pressured Chairman Arthur Burns to cut interest rates. Burns succumbed to the pressure, and subsequently inflation spiked into double digits. The man who broke the back of this inflation was Chairman Paul Volcker. In the early 1980s, he drove the benchmark interest rate up to nearly 20%. Unemployment surged, but inflation was brought under control. The principle of central bank independence was cemented atop this historical experience.

Placing Trump's demands against the backdrop of this history makes their meaning unmistakable. He is demanding that the Federal Reserve take the path of Burns. The Fed seeks to choose the path of Volcker. The conflict of 2026 is a reenactment of the debate from half a century ago.

35.3 The War with Powell

The ill blood between Trump and Jerome Powell runs deep and long. Trump nominated Powell as chairman in 2017. Yet as soon as the Fed raised rates in 2018, he immediately turned to open vitriol. In his second term, the intensity of the attacks escalated even further.

In 2025, Trump tagged Powell with the moniker "Too Late." It was a taunt mocking him for not cutting rates fast enough. Statements openly discussing his dismissal surfaced on multiple occasions.

The fodder for attacks was not limited to interest rates. Russell Vought, Director of the White House Office of Management and Budget (OMB), took issue with the renovation project at the Federal Reserve headquarters. He alleged that construction costs had ballooned to $2.5 billion and featured lavish, luxurious amenities. Powell refuted these claims during a Senate Banking Committee hearing in June 2025. He testified that there were no such installations as rooftop gardens or VIP elevators. Half a year later, this very testimony would be seized upon as the pretext for a criminal investigation.

In late August 2025, an unprecedented event occurred. Trump announced the dismissal of Federal Reserve Governor Lisa Cook. The rationale cited was mortgage fraud allegations raised by Bill Pulte, Director of the Federal Housing Finance Agency (FHFA). The suspicion was that in 2021, before becoming a Fed governor, Cook had designated homes in both Michigan and Georgia as primary residences. Cook denied the accusations, and she had never been indicted. In the 112-year history of the Federal Reserve, it was the first time a president had attempted to fire a sitting governor. Cook had been nominated by President Biden and was the first Black woman to serve on the Federal Reserve Board of Governors.

In the eyes of the market, the attempt to remove Cook was not merely about one individual. If Trump replaced just one more governor, he could pack a majority of the Board of Governors with his loyalists. A board majority also exerts influence over appointments of regional Fed bank presidents. The Cook affair turned into a high-stakes battle dictating the direction of the entire Federal Reserve.

The Fed lowered interest rates by 0.25 percentage points three times—in September, October, and December 2025. The benchmark rate fell to 3.50%–3.75%. Even so, Trump's dissatisfaction did not subside in the slightest.

In January 2026, the confrontation escalated into a criminal matter. The Department of Justice served a grand jury subpoena on the Federal Reserve. It took aim at Powell's testimony before the June 2025 hearing, leaving open the possibility of a criminal indictment. The subpoena was issued under the name of U.S. Attorney for the District of Columbia Jeanine Pirro.

On January 11, Powell issued an extraordinary video statement. He said that no one, not even the Chair of the Federal Reserve, is above the law. Yet he went on to pinpoint the real objective behind the investigation. He stated that this threat had nothing to do with testimony or construction. The threat of criminal prosecution, he declared, was the consequence of the Fed setting interest rates based on the public interest rather than the preferences of the president. It was a stunning moment where a sitting Fed chairman confronted the president head-on.

Pushback arose even within the ruling Republican Party. Republican Senator Thom Tillis declared that he would block all confirmations of Fed nominees until the investigation was concluded. Democratic Senator Elizabeth Warren slammed the investigation as a pretext to seize control of the Federal Reserve.

On March 13, the U.S. District Court in Washington quashed the subpoenas. The court blocked the Justice Department from obtaining records related to the renovation project. Tillis commented that the ruling demonstrated just how flimsy and frivolous the investigation into Powell truly was.

35.4 The Supreme Court's Choice: The Fed Is an Exception

The Cook case climbed all the way to the Supreme Court. In October 2025, the Supreme Court rejected the administration's emergency petition to oust Cook immediately. Instead, it scheduled oral arguments for January 2026.

Oral arguments were held on January 21. Powell attended the hearing in person. He remarked that this case could be the most momentous legal proceeding in the history of the Federal Reserve. He also cited the precedent of Chairman Volcker attending Supreme Court arguments around 1985.

On June 29, the Supreme Court delivered its decision. Cook was permitted to retain her post while her lawsuit challenging the dismissal proceeded. On that very same day, the Supreme Court took the exact opposite tack in a separate case. It ruled that the removal of Federal Trade Commission (FTC) Commissioner Rebecca Slaughter was lawful. With this decision, a 91-year-old precedent collapsed. The 1935 Humphrey's Executor ruling had barred presidents from removing commissioners of independent regulatory agencies at will.

Placing the two rulings side by side reveals the Supreme Court's clear message. The president may remove commissioners of other independent agencies. But Federal Reserve governors are an exception. The Court treated the Fed not as an ordinary administrative arm of the executive branch, but as an exceptional institution.

Senator Warren remarked that even the justices installed by Trump agreed that Cook's dismissal was illegal. At the same time, she warned that attempts to capture the Fed were far from over. A final merits ruling in the Cook case still lies ahead. What the Supreme Court decided was solely whether she could keep her seat while the litigation ran its course.

Powell's status was another focal point. Trump threatened that if Powell remained in his governorship after his term as chairman expired, he would fire him. His term as chairman expired on May 15, 2026. Yet his term as a member of the Board of Governors runs until January 2028. Powell did not step down. To this day, he exercises his vote on the FOMC as a governor. He cast his vote in favor of the rate hike on September 16 as well.

35.5 The Chairman Chosen by Trump: Kevin Warsh

On January 30, 2026, Trump nominated Kevin Warsh as the next Fed chairman. He chose Warsh over National Economic Council (NEC) Director Kevin Hassett, who had once been considered the front-runner.

Warsh was no stranger to the financial establishment. He had worked at Morgan Stanley and served in George W. Bush's White House. In 2006, at the age of 35, he became a Federal Reserve governor. During the 2008 financial crisis, he acted as Chairman Ben Bernanke's key liaison to Wall

Street. After stepping down from the Board of Governors in 2011, he operated as a prominent Fed critic.

Warsh's critiques had followed two distinct tracks. First, that the Federal Reserve's balance sheet had grown dangerously bloated. He argued that by hoovering up massive amounts of Treasuries, the Fed was actively abetting government fiscal profligacy. Second, that the Fed had strayed into politically charged domains such as climate change and inclusion. He believed that straying from its core mandate had cost the central bank its credibility.

In an interview in early February, shortly after making the nomination, Trump revealed his true motives. He stated that had he wanted interest rates raised, he would not have chosen Warsh. The president anticipated Warsh would act as an agent for aggressive rate cuts.

The confirmation process was far from smooth sailing. The criminal probe into Powell snagged the proceedings. Senator Tillis insisted he could not support Warsh until the investigation was cleared away. After twists and turns, the Senate ultimately confirmed Warsh. The voting margin was the narrowest for any Fed chair confirmation in history. Warsh took the oath of office in the White House East Room on May 22.

Upon taking office, Warsh overhauled the Fed's mode of communication from the ground up. The policy statement for his first meeting on June 17 shrank from roughly 300 words to around 130 words. He excised the "forward guidance" that signaled future rate trajectories in advance. He announced that press conferences would be held only when there was substantive news to deliver. He also established five task forces to overhaul communications, the balance sheet, data analytics, productivity and employment, and inflation frameworks.

Rates were frozen for two consecutive meetings. Following June, the FOMC maintained the benchmark rate at 3.50%–3.75% at its July 29 meeting. At the July meeting, three dissenting votes were cast. They were Beth Hammack of the Cleveland Fed, Neel Kashkari of the Minneapolis Fed, and Lorie Logan of the Dallas Fed. All three urged an immediate rate hike. The center of gravity within the Federal Reserve was already shifting away from cuts and toward rate hikes.

Following the July press briefing, market appraisals turned harsh. This was because Warsh offered no clarity on under what specific conditions he would adjust rates. Economists refer to this as the "reaction function." Investors began to question whether Warsh genuinely possessed the stomach to fight inflation. That suspicion drove long-term Treasury yields higher.

35.6 The Jackson Hole Declaration and the September Hike

The turning point arrived on August 28 at the Jackson Hole symposium in Wyoming. Warsh titled this address, marking roughly his 100th day in office, "In Our Time." He opened with a wry quip, advising the audience not to call his speech forward guidance.

The core message was an uncompromising reaffirmation of principle. He declared that the 2% target based on the Personal Consumption Expenditures (PCE) price index remained an unwavering, fixed anchor. Price stability does not arrive on its own, he asserted, and delivering it is the Fed's primary job. He added that there would be no excuses. He noted that the modest softening of inflation readings over the summer did not constitute meaningful improvement. He also diagnosed that prevailing financial conditions could hardly be described as restrictive. The market read this speech loud and clear as a harbinger of imminent rate increases.

Trump's name was not uttered once throughout the speech. Yet the trajectory of the remarks ran diametrically counter to the president's demands.

In the background lurked unrelenting inflation. With navigation through the Strait of Hormuz blocked due to the war with Iran, oil prices had exploded (Chapter 7). Consumer prices in August jumped 3.4% year-over-year. Gasoline prices soared 3.9% in a single month. Core inflation, stripping out volatile food and energy, slowed to 2.4%. However, the monthly increase came in hotter than anticipated. Supercore services inflation—services excluding shelter—remained well above 3% annualized. International crude oil prices once again oscillated around $100 per barrel.

The labor market also demonstrated robust resilience. The August jobs report released on September 4 showed nonfarm payrolls surging by 162,000. The unemployment rate held at 4.1%. When an economy runs hot and inflation flares, central banks raise rates. The textbook answer was crystal clear.

On September 16, the Fed pulled the trigger on a rate hike. All twelve voting members backed the move. The three regional bank presidents who had pushed for a hike in July and former Chairman Powell all stood together. Among the eighteen participants submitting dot plot projections, sixteen forecast at least one more rate hike before the year’s end. Warsh chose not to submit a dot of his own.

Wall Street viewed the day with immense symbolic weight. Krishna Guha of Evercore ISI commented that this was the day the Fed became Warsh's Fed. The chairman handpicked by the president had orchestrated a decision the president abhorred. And he carried it through unanimously.

Warsh explained that raising interest rates was ultimately a decision in service of ordinary citizens. His rationale was that those who stand to gain the most from price stability are those struggling on the margins. One reporter pointed out that hiking rates would not reopen the Strait of Hormuz. The question of whether monetary policy can conquer inflation born of oil price shocks remained unanswered.

35.7 "Lower Rates, or We Will Cease Trading"

The threat surfaced for the first time on September 4. Immediately following the release of the August employment report, Trump published a lengthy post on Truth Social.

Its crux was as follows: Job numbers had handily beaten expectations. America's credit was vastly superior to what it was not long ago, so slash interest rates. The United States ought to enjoy the lowest interest rates in the world, "like in the old days." If America ceased permitting other countries to run massive trade surpluses, those countries would no longer be a financial elite. Then, he hammered it out in all capital letters: LOWER INTEREST RATES, OR WE WILL CEASE TRADING WITH COUNTRIES WITH WHOM WE RUN DEFICITS.

He stated that this approach was even better than tariffs. He urged the Fed Board of Governors, alongside their "great new leader," to be patriots just this once. The premise that strong jobs data warrants interest rate cuts runs directly counter to basic economic logic. When employment is tight, inflationary pressures mount, strengthening the justification for raising rates.

Trump also brought up the Supreme Court's tariff ruling. On February 20, the Supreme Court had struck down tariffs imposed under the International Emergency Economic Powers Act (IEEPA) (Chapter 13). Trump insisted that even this "foolish and expensive" ruling had forcefully affirmed the president's statutory authority to halt trade.

There is a glaring legal seam in this claim. The IEEPA contains provisions empowering the president to block or prohibit transactions with foreign entities during a declared national emergency. What the Supreme Court struck down was the authority to levy tariffs under this statute. The justices had not explicitly denied the executive power to block transactions altogether. Trump dove headfirst into that very crack. Blocked from deploying tariffs, he retaliated with an even blunter, harsher weapon: an outright ban on trade transactions.

That afternoon in the Oval Office, Trump reiterated the threat. In his Truth Social post, he had named no specific nations. Before reporters, however, he explicitly singled out the European Union, Canada, and Mexico. He remarked that huge deficits with numerous countries should never have been allowed in the first place. His ingrained worldview of trade as a strictly zero-sum game, where one party’s gain is entirely the other’s loss, was laid bare.

On September 13, returning from a trip to Ireland, he delivered the same rhetoric. He stated that if the Fed hiked interest rates, he would sever trade with certain countries. He added, "I have no choice." He asserted that because the U.S. economy was so strong, it was entitled to the lowest interest rates in the world, regardless of the Fed's mathematical formulas. NEC Director Hassett chimed in as well, contending there was no reason to raise rates.

The trigger behind the threat was trade statistics. The trade deficit for July had ballooned to its widest level since the "Liberation Day" tariffs of April 2025. The goods deficit alone stood at $119.6 billion, expanding by $17.6 billion in a single month. It was a figure flatly mocking promises that tariffs would shrink the deficit. Massive deficits with China, Vietnam, Taiwan, South Korea, the European Union, and Mexico persisted unabated. A primary culprit inflating the deficit was an influx of capital equipment imports destined for AI data center construction.

The White House press secretary explained that deficits were narrower compared to the beginning of the year, claiming the tariff policy was bearing fruit. In fact, the cumulative deficit from January through July had dropped 29.6% year-over-year. Yet early 2025 had witnessed front-loaded surges in imports as businesses scrambled to beat incoming tariffs. With the baseline artificially inflated, it was difficult to credit the magnitude of that decline as a genuine achievement.

Threats to "cease trade" were hardly unprecedented. During his first term at the 2018 G7 Summit in Charlevoix, Quebec, Trump uttered the exact same words. He had threatened that unless tariffs and trade barriers were dismantled, he would stop trading with those nations. Eight years earlier, the demand had been for trade partners to lower tariffs. Now, it had morphed into a demand directed at the Federal Reserve to slash interest rates. The targets of the blackmail were foreign nations, yet the only entity capable of granting the demand was the U.S. Federal Reserve.

35.8 The Economics of Blackmail: Incoherent Calculations

A critical link in logic is missing from this coercion. The Federal Reserve determines interest rates solely by weighing its dual mandate of price stability and maximum employment. Trade balances do not factor into the Fed's calculus. Trade policy does not fall under the Fed's jurisdiction. There is simply no transmission channel through which threats to sever trade with foreign nations can alter the Fed's equations.

At whom, then, was this threat truly aimed? From here, we step from factual record into the realm of interpretation. The first interpretation is that Trump sought to shift political blame onto FOMC policymakers. By framing the narrative this way, if the Fed hiked rates, it would be saddled with the blame for the catastrophic rupture of foreign trade. The second interpretation is that it was crude pressure applied against surplus nations. It can be read as a coercive call for those countries to plow the dollars earned in U.S. markets into buying U.S. Treasuries to drive down yields. The third interpretation is that it was political posturing intended for public consumption ahead of the midterm elections. A calculated ploy to deflect popular anger over rising gasoline prices and borrowing costs onto the Fed and foreign scapegoats.

Whichever interpretation one embraces, the economic arithmetic completely falls apart. Trade surplus countries sell goods to the United States and earn dollars. A substantial portion of those dollars flows back into U.S. Treasuries. For decades, this demand from foreign central banks and

institutional investors has kept U.S. borrowing costs low. Severing trade with surplus nations cuts off this capital recycling pipeline. When fewer buyers step up to absorb Treasuries, yields go up. It yields the exact opposite of what Trump wants.

The inflation transmission channel leads to the identical dead end. Blocking imports drives domestic prices inside the United States through the roof. As inflation accelerates, the Federal Reserve is forced to hike rates even higher. Halting trade is not a mechanism that induces rate cuts; it is a catalyst for aggressive rate hikes.

The scale is utterly divorced from reality. In 2025, America's total trade deficit stood at $1.2 trillion. The single largest bilateral deficit was with China at over $200 billion, followed closely by Mexico and Vietnam. The United States runs trade deficits with dozens of nations. Severing trade with all of them would be equivalent to self-amputating a massive portion of America's own industrial supply chains. CNBC aptly characterized the threat as extreme.

Even so, one cannot dismiss this bluster out of hand. Trump subsequently narrowed the scope to "certain countries." While an across-the-board embargo may be unworkable, targeted measures picking off specific countries to block trade transactions remain well within reach. The invocation of Section 338 of the Tariff Act against Canada, examined in Chapter 14, was a clear preview of this tactic. The true potency of coercive diplomacy springs not from operational feasibility, but from sheer uncertainty. The dread of not knowing when or upon whom the hammer might fall paralyses foreign governments and global corporations alike.

35.9 What Is Financial Repression?

If pressuring the Federal Reserve fails to force interest rates down, what alternative path remains for the administration? The recurring answer throughout economic history is financial repression.

Financial repression refers to policies where a government uses regulations and institutional mechanisms to peg interest rates below the rate of inflation. Nominal interest rates minus the inflation rate yield the real interest rate. When real interest rates slip into negative territory, the real value of debt is whittled away year after year. To the precise extent that government debt is relieved, depositors and bondholders bear the financial loss. It functions as a stealth tax levied without ever sending out a tax bill.

This concept was first systematically formulated in 1973 by Ronald McKinnon and Edward Shaw of Stanford University. Originally, it was a critique directed at the underdeveloped, distorted financial systems of emerging economies. In 2011, Carmen Reinhart and Belen Sbrancia applied this framework to advanced economies. The two economists demonstrated that following World War II, both the United States and the United Kingdom had successfully liquidated their massive public debt loads through this very mechanism. According to their estimates, between 1945 and

1980, the debt liquidated annually via financial repression amounted to roughly 3% to 4% of GDP for both nations.

Classic financial repression relies on roughly four primary instruments. First, imposing statutory caps or ceilings on deposit and lending interest rates. Second, mandating that domestic banks and pension funds hold government bonds in their portfolios. Third, enforcing capital controls to prevent wealth from fleeing overseas. Fourth, having the central bank buy up government bonds to peg yields at targeted levels.

The United States is a nation with firsthand experience deploying these very tools. In 1942, to finance the war effort, the Fed pegged Treasury yields at the request of the Treasury Department. Short-term Treasury bills were capped at 0.375%, and long-term Treasury bonds were capped at 2.5%. To maintain those interest caps, the Fed stepped in to absorb unlimited quantities of Treasuries floating in the market. Even when inflation flared, interest rates did not budge.

This regime persisted even after the war concluded. When the Korean War erupted in 1950, inflation surged anew. The Fed dug in its heels, insisting it could no longer hold interest rates artificially repressed. The fierce standoff between President Harry Truman and the Federal Reserve culminated in the Treasury-Fed Accord of 1951. Under this accord, the Fed regained its statutory independence to set monetary policy and interest rates on its own authority. This 1951 Accord marks the true birth of modern central bank independence for the Federal Reserve.

Following World War II, U.S. government debt exceeded 100% of GDP. By the 1970s, this ratio had tumbled below 30%. Alongside robust economic growth, interest rates kept systematically below inflation melted the debt ratio down. The financial burden was quietly shouldered by ordinary households holding savings deposits and Treasury bonds.

In 2026, U.S. federal debt once again exceeds 100% of GDP. Annual net interest payments have breached the staggering threshold of $1 trillion (Chapter 34). The honest, orthodox path to shrinking sovereign debt is to slash public spending or raise taxes. Both are surefire recipes for electoral annihilation. Suppressing interest rates, on the other hand, costs far fewer votes. This is precisely why the specter of financial repression is being summoned once more.

35.10 Bessent's Detours: Modern Instruments of Financial Repression

A fact must be made clear from the outset: The Trump administration has never officially proclaimed financial repression as its stated policy. Yet several policy initiatives spearheaded by Treasury Secretary Scott Bessent point unambiguously in one single direction. Lowering the government's funding costs through levers operating outside pure market mechanisms. Critics view these moves as embryonic manifestations of financial repression. Below are those instruments.

The first instrument is expanding the share of short-term Treasury bills (T-bills). U.S. Treasury securities are categorized according to maturity. There are short-term Treasury bills (T-bills) with maturities of one year or less, intermediate Treasury notes ranging from two to ten years, and long-term Treasury bonds extending from twenty to thirty years. Yields on short-term paper are pegged closely to the Federal Reserve's benchmark policy rate. Yields on long-term bonds are priced by market participants based on inflation expectations and long-term fiscal trajectories.

Bessent chose to ratchet up the proportion of short-term T-bills while curbing long-term bond issuance. He was the very man who had fiercely criticized his predecessor, Janet Yellen, for issuing excessive amounts of short-term debt. Once in office, however, he walked down the exact same road. By choking off the supply of long-term bonds, one can dampen upward pressure on long-term yields to some extent.

There is a steep cost, however. Short-term bills mature rapidly and must constantly be rolled over into new borrowing. If the policy rate rises, the government's interest expense surges almost instantaneously. The September rate hike instantly pushed up the Treasury's short-term financing costs. The more the Fed raises rates, the more glaring the structural vulnerability of this strategy becomes. This dynamic provides another critical explanation for why Trump tenaciously hounds the Fed for immediate rate cuts.

The Treasury is also conducting bond buybacks to repurchase outstanding long-term Treasuries. It is an operation designed to soak up long-dated supply and bolster bond prices, thereby capping yields. Yet the buyback operation for 20-year and 30-year paper on September 24 fell short of its planned $6 billion target. The actual amount repurchased totaled just $4.078 billion.

The second instrument is stablecoins. A stablecoin is a digital asset whose value is pegged one-to-one to a fiat currency such as the U.S. dollar. In July 2025, the United States enacted the GENIUS Act. This legislation mandated that stablecoin issuers hold safe assets, specifically cash and short-term Treasury bills, as statutory reserves. The structural design ensures that as the stablecoin market expands, captive buyers of short-term Treasuries automatically multiply.

Bessent placed immense faith in this mechanism. He argued that the roughly $300 billion stablecoin market could expand tenfold by the end of the 2020s. Standard Chartered projected that this could generate up to $1 trillion in fresh T-bill demand by 2028.

Reality, however, has fallen far short of those grand expectations. As of September 2026, the stablecoin market remains stalled around the $300 billion mark. With cryptocurrency valuations tumbling, new issuance has ground to a near standstill. Bitcoin has cratered by more than half from its October 2025 peak of $126,000. For Bessent's calculations to pan out, the market would need to more than triple from current levels.

This instrument is also shadowed by thorny conflicts of interest. World Liberty Financial, a crypto venture tied to the Trump family, issues a stablecoin dubbed USD1. A public policy aimed at stoking Treasury demand intersects directly with the private commercial interests of the first family.

The third instrument is the deregulation of commercial banking capital rules. Large banks must maintain a regulatory capital cushion proportional to the total size of their balance sheet assets. This standard is known as the Supplementary Leverage Ratio (SLR). The rub is that this requirement applies equally to U.S. Treasuries, nominally the safest asset in the world. Because holding more Treasuries forces institutions to tie up additional equity capital, banks become reluctant buyers of government paper.

Bessent argued that easing this threshold would unleash bank demand for Treasuries. He remarked that liberated from "over-supervision," banks were stepping up their Treasury holdings. He also singled out money market funds (MMFs) as pivotal buyers. Total assets in MMFs hovered near $7.5 trillion, swelling by nearly $1 trillion within a single year.

Deregulation in itself does not automatically equate to financial repression. Indeed, critiques that excessive capital rules were impairing Treasury market liquidity had surfaced even within the Fed. Yet tweaking regulatory levers so that financial institutions are steered into absorbing sovereign debt bears an unmistakable resemblance to classic financial repression’s second tool.

The fourth instrument is the Federal Reserve's balance sheet purchases of Treasuries. In December 2025, the Fed resumed purchases of short-term Treasury bills under the auspices of maintaining an ample supply of bank reserves. The Fed emphasized that this was a technical liquidity operation rather than quantitative easing (QE). Some market participants branded it "stealth QE." Warsh had built a career advocating for shrinking the Fed's bloated balance sheet. Yet in his Jackson Hole address, there was not a whisper of accelerating balance sheet runoff. He merely reiterated that the policy interest rate was the Fed's primary tool.

Overlaying these four instruments reveals an unmistakable blueprint: The Treasury curbs long-term debt issuance and pumps out short-term T-bills. Demand for that short paper is underwritten by stablecoins, MMFs, and commercial banks. That captive demand is manufactured through legislative statutes and regulatory tweaks. The overarching goal is to artificially depress the federal government's financing costs.

Yet this blueprint is missing one indispensable keystone: The cooperation of the central bank. In 1942, the Fed acquiesced to the Treasury's demands and capped yields. In 2026, the Fed raised rates. A T-bill-heavy issuance strategy functions only if the central bank holds short-term interest rates pegged to the floor. The moment the Fed jacks up rates, this strategy boomerangs, exploding the government's interest burden. This is the fundamental reason Trump cannot stop battering the Fed even after installing Warsh. Because the final puzzle piece of financial repression rests entirely in the hands of the Federal Reserve.

35.11 The Market's Verdict: Bonds Do Not Believe in Coercion

The bond market was looking in a completely different direction from the president's pronouncements. On September 23, the 10-year Treasury yield recorded its largest single-day jump since April 2025. Hotter-than-expected economic data converged with hawkish rhetoric from Federal Reserve officials.

On September 24, the 10-year yield touched an intraday high of 5.223%. It was its highest level in nineteen years, since June 2007. The 30-year yield reached 5.501%. The highest mark since June 2004. The 10-year yield of 4.76% and 30-year yield of 5.2% examined in Chapter 34 had already been rendered obsolete milestones. Yields on 10-year Japanese Government Bonds (JGBs) also climbed to levels unseen since August 1996. Yields on British Gilts and German Bunds similarly carved out multi-year highs.

On that same day, Fed Governor Michael Barr stated that further policy adjustments were necessary. John Williams, President of the New York Fed, noted that it was reasonable to expect additional hikes before year's end. Markets priced the probability of another rate hike at the October meeting at roughly 70%. The interest rate swap market began pricing in three additional rate increases over the coming year.

On September 25, the 10-year yield edged down slightly to 5.17%. This came courtesy of retreating crude prices following reports that the United States and Iran were exploring a phased reopening of the Strait of Hormuz. Nevertheless, that same week's 5-year Treasury note auction was met with weaker-than-expected demand.

The maneuvering of foreign investors also warrants close attention. According to U.S. Treasury data, foreign holdings of U.S. Treasury securities stood at $9.25 trillion in July. That was down by $50.4 billion from June, marking the lowest level in nine months. It is premature to declare a structural secular trend based on a single month of data. Yet it is an undeniable reality that the verbal blackmail targeting surplus nations coincided exactly with an outflow of foreign Treasury holdings.

Warsh offered three structural reasons for why long-term yields were marching upward: Economic vigor, competition for capital, and geopolitical factors. "Competition for capital" referred to the voracious appetite of AI data center buildouts, which were sucking in colossal pools of funding. With the sovereign government and private tech behemoths competing for the exact same pool of capital, yields were inevitably bid higher.

Wall Street had anticipated this exact backlash early on. When the criminal investigation into Powell surfaced in January 2026, market analysts warned that this political pressure would backfire disastrously. It was a warning that the harder the president rattled the Fed's cages, the tighter the door to rate cuts would slam shut. Bond investors price the probability that a central bank might

capitulate to political dictates. That price is the inflation risk premium. The heavier the political intimidation, the higher the yield investors demand to hold long-term debt. Trump's pressure ultimately produced the very outcome he loathed most: surging long-term yields.

35.12 The Coercion Viewed from a Surplus Nation's Vantage: The South Korean Dilemma

South Korea is among the trade surplus nations singled out by Trump. The United States runs a massive bilateral trade deficit with South Korea each year. The September threats ripple into the South Korean economy through three primary channels.

The first is the trade channel. The probability of the United States severing trade with South Korea entirely is low. Korean semiconductors, batteries, and auto parts are embedded deep within the bedrock of U.S. industrial supply chains. The sprawling factories operated by Korean conglomerates on American soil cannot function without high-tech Korean components and manufacturing equipment. Nevertheless, selective measures blocking trade in targeted sectors or over specified windows cannot be ruled out. There is clear precedent in the case of Canada (Chapter 14). South Korea pledged $350 billion in U.S. direct investments, but there is zero guarantee that this commitment will serve as an impenetrable shield (Chapter 21).

The second is the interest rate channel. When U.S. long-term bond yields spike, South Korean domestic market rates are dragged upward in lockstep. Downward pressure on the Korean won intensifies. The Bank of Korea finds it increasingly difficult to set monetary policy solely with an eye on the domestic economy. In South Korea, with its towering mountain of household debt, any jump in market rates immediately translates into crushing interest payment burdens for ordinary families.

The third is the foreign exchange reserve channel. A substantial portion of South Korea's foreign exchange reserves is held in dollar-denominated assets such as U.S. Treasuries. As U.S. yields rise, the mark-to-market valuation of existing bond portfolios inevitably sinks. Yet hastily dumping dollar assets is no viable solution either. The paramount mission of foreign exchange reserves is liquid firepower that can be deployed instantly during emergencies. No market on earth boasts the sheer depth and liquidity of U.S. Treasuries.

The path South Korea must pursue is collective action rather than solitary maneuvering. Trump's threats target dozens of sovereign nations simultaneously. If countries negotiate bilaterally one by one, the United States holds all the structural leverage. Seoul must share intelligence and coordinate policies in close lockstep with peers in identical predicaments, including Canada, the European Union, and Japan. At the same time, it must continuously drive home within the United States the substantial jobs and tax revenues created by Korean investments. Making the American

political establishment vividly aware of the astronomical costs the U.S. itself would pay if such threats were carried out constitutes the most realistic line of defense.

35.13 Conclusion: The Institutions Held, but the War Is Far from Over

Looking solely at the historical record up to September 2026, the institutional guardrails held firm. The Supreme Court shielded Governor Cook. A federal district court quashed the subpoenas targeting Powell. A senior senator from the president's own party applied the brakes to the Justice Department's probe by placing a hold on nominee confirmations. The FOMC unanimously raised interest rates even under a chairman handpicked by the president. An institutional governance architecture where policy is decided by the consensus of twelve members rather than the fiat of a single chairman proved its worth.

Yet it is far too early to declare this war concluded. A final ruling on the merits in the Cook case still looms. Powell's term as governor will expire in January 2028. Once that seat vacates, Trump moves one step closer to commanding an absolute majority on the Board of Governors. With the November midterm elections fast approaching, pump prices and mortgage rates represent volatile wildcards swaying voter sentiment. As interest rates rise, presidential pressure is virtually guaranteed to grow more ferocious.

Interpretations remain divided regarding the spectacle of a Trump-appointed chair defying the president's direct wishes. Some argue that Warsh decisively proved his independence. Others contend he merely bent to the overwhelming gravity of market realities and peer pressure from fellow committee members. Whichever perspective one adopts, one singular truth stands out: What ultimately dictates interest rates is not the president's Truth Social feed, but cold inflation metrics and the uncompromising bond market.

Financial repression operates in quiet stealth. Neither statutory interest rate caps nor mandatory bondholding quotas are splashed across front-page headlines today. They lurk discreetly behind technocratic jargon like T-bill issuance shares, stablecoin reserve mandates, and bank capital ratios. Those who bear the ultimate costs are retail savers, pensioners living on fixed incomes, and foreign central banks holding sovereign debt. It is a mechanism by which a debtor government liquidates its liabilities by steadily degrading the purchasing power of its creditors.

Why has the U.S. dollar been accorded the privileged status of the world's undisputed anchor currency? It is not merely because the American economy is vast. It is because there exists an unshakeable faith that the U.S. government repays its borrowed money in full, honest purchasing power. One of the indispensable pillars shoring up that faith is a central bank insulated from political interference. Blackmailing trade partners and shaking the foundations of the Federal Reserve strike directly at the core of this very pillar.

In the next chapter, we examine what begins to unfold when this foundational faith starts to fracture. Specifically, we turn our lens to the unfolding maneuvers surrounding the physical gold entrusted by the world's central banks to the underground vaults of the New York Fed.

Key Timeline

June 2025	Powell testifies before the Senate Banking Committee regarding the Federal Reserve headquarters renovation
Late August 2025	Trump announces the dismissal of Governor Lisa Cook
September, October, December 2025	The Fed delivers three consecutive 25-basis-point rate cuts (to 3.50%–3.75%)
January 9, 2026	The Department of Justice serves a grand jury subpoena on the Federal Reserve
January 11, 2026	Powell publicly discloses the criminal investigation via a video statement
January 21, 2026	The Supreme Court hears oral arguments in the Cook case
January 30, 2026	Trump nominates Kevin Warsh as the next Federal Reserve Chairman
February 20, 2026	The Supreme Court invalidates tariffs imposed under the IEEPA
March 13, 2026	Federal district court quashes the subpoenas targeting the Fed
May 15, 2026	Powell's term as Chairman expires (retains his seat as Governor)
May 22, 2026	Chairman Warsh takes the oath of office
June 17, 2026	Warsh presides over his first FOMC meeting; rates are held steady
June 29, 2026	The Supreme Court rules Governor Cook may retain her post pending litigation
July 29, 2026	The FOMC holds rates steady; three members dissent in favor of a rate hike
August 28, 2026	Warsh delivers his "In Our Time" keynote address at Jackson Hole
September 4, 2026	Trump posts warning to halt trade with deficit-running nations unless the Fed cuts rates
September 13, 2026	Trump reiterates the trade cessation threat upon returning from Ireland
September 16, 2026	The FOMC raises rates by 0.25 percentage points (to 3.75%–4.00%) in a 12–0 unanimous vote
September 24, 2026	10-year Treasury yield hits 5.22% (highest since 2007), 30-year hits 5.50% (highest since 2004)

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Chapter 36. "We Can No Longer Trust American Banks"

Germany's Repatriation Debate and the Transfer of Gold Out of the New York Fed by France and the Netherlands

36.1 The Subterranean Vault at 33 Liberty Street

At 33 Liberty Street in the financial district of lower Manhattan, New York, stands the Federal Reserve Bank of New York (hereafter referred to as the New York Fed). Approximately 24 meters beneath the building, embedded deep within Manhattan's solid bedrock, lies a subterranean vault. The floor of the vault rests roughly 15 meters below sea level. Its entrance is sealed by a 90-ton cylindrical steel door.

Inside this vault lies the gold belonging to some 30 foreign central banks and international organizations. Holding approximately 6,300 metric tons, it is the world's largest gold depository. Yet the gold stored within the vault does not belong to the United States. The New York Fed merely acts as its custodian, holding the gold in trust. Ownership remains entirely with the nations that deposited it. The New York Fed charges no storage fees; it bills only the handling expenses incurred when moving the bars.

There are historical reasons why so many nations placed their gold in New York. Around the time of World War II, Europe was engulfed in war. Facing the impending threat of Nazi German invasion, several nations shipped their gold across the Atlantic. In 1944, the Bretton Woods Agreement pegged the U.S. dollar to gold. The price was fixed at $35 per ounce of gold. Central banks around the world could bring their dollars to the United States and redeem them for gold. That exchange took place in New York. Keeping gold in New York was exceedingly convenient. When nations traded gold with one another, there was no need to load it onto ships; they needed only to shift the bars from one compartment in the vault to another.

During the Cold War, security concerns were added to the equation. West Germany accumulated large reserves of gold through trade surpluses. However, Frankfurt was not far from the East German border. To prepare against the threat of a Soviet invasion, West Germany kept a substantial portion of its gold in New York, London, and Paris. In this way, the New York Fed vault earned a reputation as the safest depository in the world. That reputation, however, did not stem merely from its steel door. It arose from the belief that American laws and institutions would never tamper with the property of others. This chapter chronicles how that foundational faith was shaken.

36.2 Old Fractures: From De Gaulle's Gold to the Bundesbank's 300 Tons

Withdrawing gold from New York is by no means unprecedented. In February 1965, French President Charles de Gaulle held a press conference. De Gaulle called for a return to the gold

standard. It was an explicit criticism of the United States for printing an excessive volume of dollars. At the time, the costs of the Vietnam War and mounting fiscal deficits were undermining the value of the dollar.

France converted its dollar holdings into gold. It then transported that gold back to Paris. Stories persist to this day of French naval vessels carrying gold bullion out of New York. In 1966, France withdrew from NATO's integrated military command structure. It had not left NATO itself. Other nations likewise demanded that their dollars be converted into gold. America's gold reserves dwindled rapidly. In August 1971, President Richard Nixon suspended the convertibility between the dollar and gold. The Bretton Woods system thus came to an end.

After that, gold remained a quiet asset for a long time. What reignited interest in gold was the 2008 global financial crisis and the Eurozone crisis. The controversy erupted first in Germany. In 2012, the German Federal Court of Auditors (Bundesrechnungshof) rebuked the Bundesbank. The auditors pointed out that the central bank had failed to properly inspect the gold it stored abroad. The media and lawmakers demanded that authorities verify Germany's sovereign gold with their own eyes.

In January 2013, the Bundesbank unveiled a repatriation plan. The plan called for bringing back 300 metric tons from New York and 374 metric tons from Paris by 2020. The objective was to store more than half of Germany's gold reserves in Frankfurt. The shipments were carried out incrementally year by year. From New York, 85 tons were moved in 2014, 99 tons in 2015, and 111 tons in 2016, completing the 300-ton transfer. In 2017, the last of the gold held in Paris arrived. The operation was completed in 2017, three years ahead of schedule.

The repatriation of Germany's 300 tons mentioned in this book's table of contents refers to this very operation. The repatriation was completed during the first year of the first Trump administration. However, the decision had been made in 2013, during the Obama administration. At that time, the primary rationale was closer to placating domestic public opinion than any distrust of the United States. Clarifying this distinction is essential to properly understanding the events that unfolded under Trump's second term.

The Netherlands followed a similar course. In November 2014, De Nederlandsche Bank (DNB), the Dutch central bank, announced that it had transferred 122.5 metric tons of gold from New York to Amsterdam. The transfer was disclosed only after all shipments were completed. Subsequently, Hungary, Poland, and Austria also repatriated portions of their gold held abroad. In 2024, India transferred roughly 100 metric tons of gold stored in the United Kingdom back to its home soil.

These developments shared a common denominator. There was never just a single reason for repatriating gold. Motivations were intertwined, ranging from restoring public trust to preparing for crises and reducing storage costs. Rarely were these actions aimed directly at the U.S. government.

This is precisely what changed after 2025. The U.S. government itself became the very epicenter of anxiety.

36.3 Trump's Second Term and Anxiety Over Custodial Assets

In January 2025, the second Trump administration took office. In early April, the announcement of so-called reciprocal tariffs triggered major tremors across global financial markets. The tariffs made no distinction between allies and adversaries. From that moment on, discussions concerning the gold held in New York began resurfacing within German political circles.

In January 2026, the Greenland crisis erupted. President Trump announced retaliatory tariffs against eight European nations that opposed his acquisition of Greenland. They were Denmark, Norway, Sweden, Finland, the United Kingdom, Germany, France, and the Netherlands. The tariff rates were set to start at 10% and climb to 25%. (This situation is covered in detail in Chapters 17 and 18.) Among the nations on that retaliatory list, Germany, France, and the Netherlands had stored gold in New York.

What European central bankers feared was not the theft of gold bars. Legal ownership was beyond question. The real issue was whether they would be able to freely deploy that gold when a crisis struck. The German newsmagazine Der Spiegel pointed this out, emphasizing that being the legal owner offers no guarantee of physical control over the gold.

There was precedent as well. When Russia invaded Ukraine in 2022, the West froze the assets of the Russian central bank. The volume of frozen assets was estimated at roughly $300 billion. In 2024, the U.S. Congress passed the Rebuilding Economic Prosperity and Opportunity (REPO) for Ukrainians Act. This law opened the door to seizing sovereign Russian assets within the United States to fund assistance for Ukraine. While this was a sanction imposed against an aggressor nation, financial authorities worldwide took note of an unmistakable reality: Sovereign assets entrusted to a foreign country can be frozen at that host nation's political discretion.

President Trump's words and actions magnified this anxiety. He pressured allies with tariffs. He publicly berated the Federal Reserve Chair and demanded interest rate cuts (a matter examined in Chapter 35). He even warned trade surplus countries of a total cessation of transactions (discussed in Chapter 38). His aggressive posture toward allies coincided with assaults on central bank independence. In Europe, a single question loomed larger and larger: If the rule of law begins to waver, will the credibility of the New York vaults not waver alongside it?

36.4 France: Selling 129 Tons in New York and Buying It Back in Europe

The Banque de France, France's central bank, holds approximately 2,437 metric tons of gold. It is the fourth-largest stockpile in the world, trailing the United States, Germany, and Italy. Although

the majority had been repatriated to Paris during De Gaulle's presidency, a portion still remained in New York. The remaining amount was 129 tons, representing roughly 5% of France's total holdings.

The gold remaining in New York consisted of legacy gold bars. Their dimensions and purity did not conform to current international trading standards. The international gold market adheres to the London Bullion Market Association (LBMA) "Good Delivery" standard. Bullion bars that fail to meet this standard cannot be readily sold or pledged as collateral. For nearly twenty years, the Banque de France had been systematically converting these legacy bars into standard bullion bars.

There were two ways to handle the 129 tons in New York. One was to melt down and recast the bars in the United States and then transport them to Paris. The other was to sell them in New York and purchase new bars in Europe. The Banque de France opted for the second approach. Between July 2025 and January 2026, it executed the transactions across 26 installments. It sold its legacy bars in New York and purchased an equivalent amount of standard bullion in Europe, depositing them directly into the Paris vaults.

This was a time when gold prices were soaring. A profit was generated from the spread between the historic book value and prevailing market prices. The realized gain amounted to approximately €12.8 billion—roughly 20 trillion Korean won. The total quantity held remained unchanged. This development came to light in April 2026 during the presentation of the Banque de France's 2025 financial statements.

All of France's gold is now housed inside French borders. The vast majority rests in the subterranean vault beneath its Paris headquarters. There remain 134 metric tons of gold that do not yet meet standard specifications. The Banque de France plans to standardize these bars by 2028. Crucially, these 134 tons are already located within France.

Governor François Villeroy de Galhau stated that there were no political motives behind this decision. He explained it as a measure aimed at improving the quality of the nation's gold reserves. He also noted that it was far more convenient to sell and buy than to refine the bars in the United States and transport them across the ocean. The official rationale cited technical considerations. There is no basis to dismiss this explanation as untrue.

Nevertheless, markets and the media took note of the timing. The operation began in the summer of Trump's first year in his second term and concluded around the time of the Greenland tariff threats. The central bank could easily have left the newly purchased bullion in New York. Instead, the Banque de France chose Paris. The American newsmagazine Newsweek reported that France had pulled all of its gold out of the Federal Reserve. Looking strictly at the outcome, the process that De Gaulle initiated in the 1960s was finally completed after more than six decades. There is no longer any French gold stored in the vaults of the New York Fed.

36.5 The Netherlands: Shifting 86 Tons from New York and Ottawa to London

On September 2, 2026, the Dutch central bank issued a brief statement. It announced that it had transferred approximately 86 metric tons of gold held in New York and Ottawa, Canada, to London. The transfer period spanned six months, from March to August 2026.

The Netherlands holds 612.4 metric tons of gold. As of late 2025, it was valued at roughly €72.2 billion—around 114 trillion Korean won. Prior to the relocation, approximately 313 tons were held in the United States and Canada. In essence, the central bank withdrew slightly more than a quarter of that North American reserve.

The geographic custody map changed significantly. New York's share fell from 31.3% to 18.5%. Ottawa's share decreased from 19.7% to 18.5%. London's share jumped from 18.1% to 32.1%, making it the largest depository. The central bank's cash center in Zeist, the Netherlands, holds 30.8%.

The method of relocation was similar to France's. First, DNB sold roughly 59 tons in New York and purchased standard bullion in London. A little over 27 tons were physically shipped from the United States and Canada to Zeist. In exchange, an identical quantity of standard bullion held in Zeist was dispatched to London. This approach avoided the need to melt down and recast legacy bars. The Dutch central bank explained that combining sales with physical transit diversified the risks of large-scale transport.

The language in the press release drew keen market attention. The Dutch central bank stated that it was enhancing its crisis response capabilities in light of mounting geopolitical instability. It explained that gold stored at the Bank of England is the most readily tradable gold in the world. Therefore, it can be deployed most swiftly in times of crisis. Conversely, it stated that gold in New York and Ottawa cannot be utilized as quickly and directly. It also noted that distributing storage locations evenly helps diversify risk.

Governor Olaf Sleijpen remarked that he did not expect the gold would actually need to be used. At the same time, he emphasized the need to build up resilience and crisis preparedness. He did not single out the United States by name. Yet the region from which gold was withdrawn was North America, and the destination was London. It is rare for a European central bank to cite geopolitical instability as a reason for transferring gold in an official communique. A market analyst writing in the American business magazine Fortune characterized this as "not normal behavior."

There is also a key point to note. The Netherlands did not bring this gold back to its own soil. Most of it was moved to London, England. Gold in London is also traded in U.S. dollars. Thus, the direct impact on foreign exchange markets was virtually non-existent. The true significance of this

measure lies not in the flow of money, but in the judgment behind it: The assessment that in a crisis, London is far more useful than New York.

36.6 Germany: The Debate Over the Remaining 1,236 Tons in New York

The German Bundesbank holds roughly 3,350 metric tons of gold. This is the second-largest amount in the world, after the United States. Just over half is stored at its Frankfurt headquarters. About 37%, or 1,236 metric tons, is held at the New York Fed. Roughly 13% is held at the Bank of England. The value of the gold held in New York was estimated at approximately €164 billion in early 2026.

Following the tariff turmoil of April 2025, the gold debate flared up again in Germany. In January 2026, the Greenland crisis caused the debate to spread widely. Michael Jäger, who has led the Taxpayers Association of Europe and the German Taxpayers Federation, raised his voice. He warned that if provocations over Greenland continued, the risk of the Bundesbank losing access to its gold would increase. Marie-Agnes Strack-Zimmermann, a Member of the European Parliament from the Free Democratic Party (FDP), also spoke out. She declared that keeping more than a third of Germany's gold across the Atlantic was unacceptable. Markus Ferber, an MEP from the Christian Social Union (CSU), made a different demand: Bundesbank officials should go to New York to personally count the gold bars and record the findings.

The debate cut across party lines. Katharina Beck, financial policy spokesperson for the Greens, also argued that the gold should be brought back to Germany. Her reason was that gold must not become a hostage to geopolitical disputes. Economist Emanuel Mönch, formerly head of research at the Bundesbank, likewise advised reviewing repatriation. His logic was that if Germany wanted to enhance its strategic independence from the United States, it needed to start by thinking about its gold. Within the governing Christian Democratic Union (CDU), an increasing number of lawmakers also favored relocation.

In March 2026, the Alternative for Germany (AfD) submitted a motion to the Bundestag calling for the full repatriation of all overseas gold. The motion went so far as to advocate using the gold as collateral for a future independent sovereign currency. This was interpreted as an implicit call to abandon the euro. Mechthilde Wittmann, a lawmaker from the CSU, called the proposal laughable. Philipp Rottwilm, a lawmaker from the Social Democratic Party (SPD), countered that storing gold in New York provides essential flexibility. His point was that gold in New York is useful when dollar liquidity is urgently needed. Some economists warned that withdrawing gold at this juncture would only escalate tensions.

The position of the Bundesbank and the government remained unchanged. President Joachim Nagel repeatedly stated that the New York Fed is a trustworthy partner. At the IMF Annual Meetings in Washington in October 2025, he maintained that there was no cause for concern.

Stefan Cornelius, spokesperson for the Merz government, also made clear that gold repatriation was not under consideration. As of September 2026, when this manuscript is written, there has been no announcement that the Bundesbank has withdrawn any additional gold from New York.

Germany's debate has not yet reached a conclusion. Yet the shift is unmistakable. Only a few years ago, gold repatriation was the rallying cry of far-right parties and a handful of conspiracy theorists. Today, governing party lawmakers, the Greens, and former central bank officials are making the exact same argument. In Italy, too, pressure has mounted to repatriate sovereign gold stored in New York. Italy is the world's third-largest holder of gold reserves.

36.7 When Gold Moves, What Does the Dollar Lose?

Measured purely by volume, the moves by these three nations are not massive. Combining France's 129 tons and the Netherlands' 86 tons totals only 215 metric tons. That represents barely 3% of the 6,300 tons stored in the New York Fed. Moreover, because both countries utilized buying-and-selling mechanisms, the majority of the bullion never even crossed the Atlantic. And Germany has yet to withdraw a single additional ton.

Yet the reason the global media covered these developments so prominently lies in the signal they sent. Entrusting gold to another country is a demonstration of trust. Withdrawing that gold is a sign that this trust is being reexamined. Central banks are institutions that weigh every word with extreme caution. The fact that such institutions took action carries far more weight than words.

Market figures point in the same direction. Gold prices have risen significantly compared to early 2025. In September 2026, prices hovered between $4,300 and $4,500 per ounce. The IMF revealed that in 2025, the share of gold in official global reserve assets exceeded the share of U.S. Treasuries. However, the IMF explained that this change was almost entirely the result of rising gold prices. In other words, it did not happen because central banks dumped U.S. Treasuries en masse.

The share of the U.S. dollar in global foreign exchange reserves has also been on a long-term downward trajectory. In 2000, it stood above 70%. In the first quarter of 2017, it was in the 64% range. By the fourth quarter of 2025, it had declined to 56.42%. While it ticked up slightly to 57.13% in the first quarter of 2026, the IMF viewed much of this rebound as a valuation effect driven by dollar strength. (This trend is explored in detail in Chapter 37.)

Europe is also seeking to alter the flow of capital itself. On August 27, 2026, European Commission President Ursula von der Leyen delivered a speech at an event hosted by the Movement of the Enterprises of France (MEDEF). She noted that roughly €10 trillion in European household savings sits idle in bank deposits. She added that a considerable portion of it ends up invested outside Europe. She has repeatedly pointed out that approximately €300 billion in European savings drains abroad each year, flowing primarily into the United States. The solution

she put forward is the Savings and Investments Union. The plan aims to integrate fragmented European financial markets and redirect European savings into European businesses. In her annual State of the Union address before the European Parliament on September 16, she again emphasized reducing strategic dependencies. This initiative was officially proposed in March 2025. It was not born solely out of backlash against Trump. Nevertheless, it gained powerful momentum as it intersected with the drive to curb reliance on U.S. capital markets.

The United States has safety mechanisms as well. In 2020, the Federal Reserve created the Foreign and International Monetary Authorities (FIMA) repo facility, making it permanent in 2021. A repo (repurchase agreement) is a transaction where securities are pledged as collateral to borrow money. Foreign central banks can borrow U.S. dollars by pledging their U.S. Treasuries without having to sell them off. The limit per institution is $60 billion. It is an instrument designed to prevent fire sales of Treasuries during a crisis. However, this system can only be utilized if institutions trust the American system. This mechanism cannot solve the problem of crumbling trust.

36.8 Conclusion: Trust Weighs Heavier than Vaults

The New York Fed's vault remains solid to this day. Its 90-ton steel door and the bedrock deep beneath sea level remain intact. What has been shaken is the trust surrounding that vault. Both the French and Dutch central banks denied any political motivation. Central banks do not express distrust toward an ally in spoken words. Instead, they reveal their judgment through the physical location of their gold bars.

The period during which the two nations withdrew their gold coincides with the time when the second Trump administration was brandishing tariffs against its allies. Both nations were on the Greenland tariff list. The Netherlands explicitly cited geopolitical instability in its official press release. In Germany, calls for repatriation came from ruling and opposition parties alike. It is difficult to view all of this as mere coincidence.

This book's table of contents summarized these events as large-scale gold repatriations by three nations. The reality is somewhat more nuanced. Germany's 300 tons was an operation decided in 2013 and completed in 2017. France's 129 tons involved selling in New York and repurchasing in Europe to fill vaults in Paris. The Netherlands' 86 tons went primarily to London, rather than back to its own soil. Yet the direction indicated by all three cases is identical: European central banks have begun to cease viewing New York as their ultimate safe haven.

South Korea cannot view this as a distant matter either. The Bank of Korea keeps all 104.4 metric tons of its gold reserves entrusted to the Bank of England. London offers easy trading and rapid conversion to cash in an emergency. This is the same reason the Netherlands chose London. However, where and in what form a country keeps its foreign exchange reserves directly touches

upon its grand diplomatic calculations. South Korea, with its heavy concentration in U.S. Treasuries and dollar deposits, must evaluate this issue through a broader lens.

Gold yields no interest. Yet there is a single reason why central banks never abandon gold: It is an asset that relies on no one's promise. Entrusting gold to another country's vault means believing in that country's promise. Under Trump's second term, America forced its allies to question that promise anew through threats of tariffs and sanctions. Trust built over eighty years does not vanish with a single executive order. Yet once shaken, trust takes a long time to return to what it once was. Does the United States understand the meaning behind the gold bars quietly slipping away from the vault on Liberty Street?

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Chapter 37. The Rush to Escape Dollar Assets

Central Banks' Gold Buying Spree and an All-Time Low 57% Dollar Share

> As central banks around the world slashed their holdings of U.S. Treasuries and snapped up gold, the dollar's share of foreign exchange reserves dropped below 57%. This chapter traces what that number means—and what it does not mean.

Introduction: Two Numbers

On December 19, 2025, the International Monetary Fund (IMF) released a quarterly statistical report. It announced that the U.S. dollar's share of global foreign exchange reserves stood at 56.92%. Three months later, the figure for the fourth quarter of 2025 came in at 56.42%. For two consecutive quarters, the dollar's share had remained below 57%. This was the lowest level recorded since the IMF began compiling these statistics. Markets referred to it as a 31-year low.

During the same period, the price of gold traced an entirely different trajectory. Gold, which traded in the $2,600-per-ounce range in early 2025, crossed $4,000 for the first time in October of that year. On January 28, 2026, it soared to an intraday peak of $5,589. In 1971, when President Nixon severed the link between the dollar and gold, gold was priced at $35. Measured against gold, the purchasing power of the dollar had plunged by more than 99% in half a century.

On one side, the dollar's share contracted; on the other, the price of gold skyrocketed. Between these two trends lay the choices made by the world's central banks. This chapter traces those choices along three distinct tracks: the outflow of money from U.S. Treasuries, the rush of capital into gold, and the concerted moves to relocate physical vaults and payment networks.

Yet this chapter does not seek to inflate the numbers. The decline in the dollar's reserve share is mingled with exchange rate illusions. Following its January peak, gold retreated by more than 20%. Even today, the dollar accounts for the vast majority of global foreign exchange transactions. To discuss the collapse of dollar hegemony, one must examine this countervailing evidence alongside the headlines. Only then does it become clear what is genuinely crumbling.

37.1 How the Dollar Became the World's Currency

In 1944, delegates from 44 nations gathered at Bretton Woods, New Hampshire. They agreed to peg the dollar to gold at $35 per ounce. Other national currencies were, in turn, pegged to the dollar. It was an architecture in which the world's money was anchored to gold through the dollar.

In August 1971, President Nixon suspended the convertibility of the dollar into gold. Thereafter, what backed the dollar was no longer gold, but the full faith and credit of the United States. In the

1970s, oil-producing nations agreed to receive payment for crude oil in dollars. The petrodollars they earned flowed right back into U.S. Treasuries. This circulation is commonly known as petrodollar recycling.

This cycle did not stop with oil producers. Japan in the 1980s and China in the 2000s followed the same path. They earned dollars through exports to the United States and used those dollars to purchase U.S. Treasuries. Thanks to this influx of capital, the United States was able to sustain massive trade and fiscal deficits at low interest rates. Surplus nations parked their money in safe assets, while the United States secured cheap debt. It was a mutually advantageous bargain.

For this grand bargain to function for nearly eighty years, four conditions had to be met: First, the U.S. market had to remain open to global goods. Second, there had to be unwavering confidence that the rule of law would protect foreign-owned property. Third, the central bank—the Federal Reserve—had to maintain independence from politics. Fourth, there had to be a deep, liquid Treasury market where assets could be bought and sold at any time. Since World War II, the United States was the only nation on earth that satisfied all four criteria.

The second Trump administration challenged these four conditions one by one. In April 2025, tariffs imposed on Chinese goods escalated to 145%. As examined in Chapter 13, when the Supreme Court ruled tariffs under the International Emergency Economic Powers Act (IEEPA) unconstitutional, the administration invoked Section 338 of the Tariff Act of 1930. The pressure campaign against the Federal Reserve, detailed in Chapter 35, culminated in January 2026 reports that the Department of Justice had launched a criminal investigation into then-Chairman Jerome Powell.

Central bankers also harbored long memories. Following Russia's invasion of Ukraine in 2022, Western nations froze approximately $300 billion in Russian central bank reserves. Setting aside whether that action was justifiable, the lesson was unmistakable: Dollar assets could be rendered unusable at any moment based on the political calculations of the United States and its allies.

Foreign exchange reserves are accumulated specifically to be deployed during emergencies. If another government can unilaterally freeze those funds, the very rationale for holding reserves is undermined. When this mounting anxiety collided with the tariffs and coercive pressure of Trump's second term, it translated directly into action.

37.2 How to Read the 57% Figure

Statistics on the dollar's share come from the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) database. These figures aggregate voluntary reports submitted by monetary authorities from 149 countries and jurisdictions. Individual country breakdowns are kept strictly confidential; only global aggregates are released quarterly.

A summary of recent trends is as follows:

Around 2000	approx. 71%
Q4 2024	57.8%
Q2 2025	57.08% (revised)
Q3 2025	56.92%
Q4 2025	56.42%
Q1 2026	57.13%

From above 70% around the year 2000, the dollar's share has shed roughly 14 percentage points over the course of 25 years. In the second half of 2025, even the 57% threshold gave way.

Yet two crucial caveats must be kept in mind when interpreting these figures.

The first is the exchange rate. COFER statistics convert all reserve assets into U.S. dollars to calculate global aggregates. When the dollar depreciates, the dollar-denominated value of assets held in euros or yen increases. As a result, the dollar's relative share declines even if central banks do not sell a single dollar asset. The IMF explained that the decline in the dollar's share in the second quarter of 2025 was almost entirely an exchange rate effect. By its calculations, had exchange rates remained constant, the drop would have been limited to just 0.12 percentage points. The rebound in the first quarter of 2026 was similarly influenced: the IMF noted that a slightly stronger dollar accounted for roughly half of the uptick.

The second factor is methodological revision. The dollar's share for the second quarter of 2025 was initially reported at 56.32%. However, in December 2025, the IMF altered its estimation methodology. It decided to incorporate statistical estimates for non-reporting countries into the aggregate. In this process, the Q2 figure was revised upward to 57.08%. This explains why conflicting numbers circulate regarding the same quarterly period.

Is the decline in the dollar's share, then, nothing more than a statistical illusion? Not at all. Exchange rate fluctuations merely account for quarterly volatility. A quarter-century decline from the 70% range down to the 50% range cannot be explained away by exchange rates alone.

What is particularly intriguing is who stepped into the vacuum left by the dollar. The euro's share remained largely stagnant around 20%, standing at 20.03% in the first quarter of 2026. The Chinese renminbi lingered at 1.99%. The categories that expanded were "other currencies," such as the Canadian dollar, the Australian dollar, and the South Korean won. This collective share climbed to 20.82% in the third quarter of 2025. This indicates that the world's central banks did not simply switch to a single rival currency, but rather diversified across a broader basket.

There is one more notable blind spot in the COFER data: It counts only foreign exchange. Gold held by central banks is entirely excluded. The IMF itself acknowledged this point in a June 2026 publication. It noted that while gold surpassed the share of U.S. Treasuries in official reserve assets in 2025, that tectonic shift is nowhere reflected in COFER's dollar share metrics. A substantial portion of the capital draining from the dollar went into gold, which sits entirely outside these tables.

As of late September 2026, when this manuscript is being written, second-quarter COFER figures have not yet been released. Given that the dollar strengthened in the second quarter, pure exchange rate effects might push the reported share slightly higher. However, a temporary rebound over one or two quarters cannot reverse a 25-year structural trend.

37.3 The Money Draining from Treasury Counters

A far more direct gauge than the COFER reserve share is foreign holdings of U.S. Treasuries. The U.S. Department of the Treasury publishes these figures monthly through its Treasury International Capital (TIC) reports.

The July data, released on September 16, 2026, reveals the following: Foreign holdings of U.S. Treasuries stood at $9.25 trillion. This marked a drop of $50.4 billion in a single month and the second consecutive monthly contraction. It was the lowest level since October 2025, pulling back from the then-record $9.355 trillion reached in November 2025.

The more telling figure is the holdings of foreign central banks and governments—that is, official institutions. At the end of July, official holdings totaled $3.77 trillion. This is roughly on par with levels seen around 2012. In the intervening years, U.S. national debt exploded from the $16 trillion range to $40 trillion. Foreign governments, in effect, absorbed virtually none of America's newly accumulated debt.

The breakdown by country highlights the trend even more sharply:

China	$618.0 billion, an 18-year low
Japan	approx. $1.100 trillion, down $12.8 billion in a month
France	down $41.5 billion in a month
Canada	down $33.3 billion in a month
United Kingdom	up $58.4 billion in a month, to $998.3 billion

China's Treasury holdings peaked at $1.32 trillion in November 2013. Today, they stand at less than half that amount. In March 2025, China was surpassed by the United Kingdom, falling to third place.

The countries leading the July decline were France and Canada. Canada was a direct target of the 50% tariff bombshell detailed in Chapter 14. While it is difficult to establish a direct causal link between tariff retaliation and Treasury divestment, it is nonetheless notable that two of America's closest historic allies shed the largest volumes of Treasuries.

The United Kingdom's increase was of an entirely different character. London and the Cayman Islands host massive custodial accounts for global hedge funds. A significant proportion of these are U.S.-based hedge funds. These entities have tied up nearly $2 trillion in "basis trades"—simultaneously purchasing Treasuries and selling futures contracts. Because these trades rely heavily on borrowed leverage, they can unwind abruptly if markets experience turbulence. It is this leveraged private capital that has been backfilling the void left by foreign central banks.

Caution is also warranted when parsing these headline numbers. Holdings figures reflect price fluctuations. In July, the Bloomberg U.S. Treasury Index fell by more than 1%. Part of the contraction in reported holdings stemmed not from net selling, but from declining bond prices. Looking at long-term securities as a whole, foreign investors were still net buyers to the tune of $40.6 billion in July. To speak of an outright "dumping" or "fire sale" of Treasuries remains an exaggeration. A more accurate description is that foreign buyers "are simply no longer buying."

The case of Japan warrants separate scrutiny. When the yen plummeted during the summer of 2026, the Japanese government stepped into the foreign exchange market. Between July 30 and August 26, Tokyo poured 15.4 trillion yen (approximately $98.6 billion) into market interventions. On a monthly basis, it was the largest intervention in history. On July 31, the United States joined Japan in coordinated yen purchases. Treasury Secretary Scott Bessent explained the reasoning before the House of Representatives: If the yen strengthened, the Japanese government would not be forced to liquidate its U.S. assets.

America's calculations went awry. Data from Japan's Ministry of Finance revealed that by the end of August, Japan's holdings of foreign securities had shrunk by $87.8 billion compared to the prior month. This was an amount virtually identical to the scale of its intervention. While the Ministry of Finance did not disclose precisely which securities were liquidated, market consensus estimates that roughly 70% of Japan's foreign exchange reserves are held in U.S. Treasuries. One is left with little choice but to conclude that Japan sold Treasuries to defend the yen.

Japan's selling was not a strategic decision to abandon the dollar. It was an emergency measure to defend its domestic currency. Yet its impact on the U.S. Treasury market was identical: The market witnessed firsthand that America's largest creditor will sell at a moment's notice whenever domestic exigencies require it.

Meanwhile, U.S. interest rates climbed higher. The 10-year Treasury yield briefly breached 5%. In mid-September, under Chairman Kevin Warsh, the Federal Reserve raised interest rates. The staggering debt servicing burden explored in Chapters 34 and 35 grew heavier once again.

The crux of this transition lies in the changing profile of the buyer. Foreign central banks were price-insensitive patrons who absorbed Treasuries with little regard for yield. Their place is now being filled by yield-sensitive private capital. Private investors demand higher yields. Consequently, the cost to the U.S. government of borrowing the same sum of money continues to escalate.

37.4 Central Banks Heading Toward Gold

The capital draining out of Treasuries found its way into gold. According to the World Gold Council (WGC), central banks purchased an annual average of roughly 1,000 metric tons of gold over the past four years. This was double the annual average of 500 tons recorded over the preceding decade.

The trajectory in the first half of 2026 was somewhat complex. Net purchases in the first half amounted to 345 tons, the lowest half-year total since 2022. This was primarily due to a sharp drop in first-quarter figures. The WGC revised its Q1 estimate down from 244 tons to 57 tons after reclassifying several transactions from central bank purchases to over-the-counter (OTC) institutional trades.

In the second quarter, however, momentum returned with force. Net purchases reached 289 tons, marking the highest second quarter on record. This represented a 62% increase compared to the same period a year earlier. What makes this particularly striking is that gold prices suffered their sharpest quarterly decline since 2013 during this very window. Far from being deterred, central banks bought even more as prices pulled back.

The publicly reported purchasing rankings for the first half were as follows:

Poland	82 tons
Uzbekistan	41 tons
China	40 tons
Kazakhstan	27 tons
Czech Republic	11 tons
Singapore	10 tons

Poland emerged as the undisputed frontrunner of this wave. Its reserves surpassed 600 tons, with a stated target of 700 tons. Warsaw plans to fill nearly 30% of its total foreign exchange reserves with gold. For a nation sharing a border with Russia, gold has become the asset of choice in an era of war. The Czech Republic bought gold for 41 consecutive months through July.

The People's Bank of China resumed gold purchases in November 2024. Through August 2026, it expanded its holdings for 22 consecutive months. In August alone, purchases reached 20.2 tons, the largest monthly addition since October 2023. Total holdings reached approximately 2,387 tons, accounting for around 9% of its foreign exchange reserves. Certain market participants suspect that undisclosed purchases are even larger. However, these remain estimates rather than confirmed facts.

Not every central bank was a net buyer. Turkey sold 83 tons in the first half, becoming the largest net seller. Russia also sold 44 tons. Russia reportedly offloaded gold to plug swelling fiscal deficits. In March, the governor of Poland's central bank likewise touched upon the possibility of selling gold to finance defense expenditures.

These sales illuminate the fundamental utility of gold. Central banks do not stockpile gold merely for display. They hold it to tap during crises—such as sanctions or war—when other assets cannot be mobilized. After its dollar assets were frozen, Russia sustained its state budget by selling gold. In doing so, Russia ironically provided a living demonstration of precisely why other central banks must acquire it.

The mindset of central bankers was vividly reflected in survey data. Between February and May 2026, the WGC surveyed 76 central banks—the largest response rate in the survey's history. The vast majority of responses arrived after the outbreak of the war with Iran.

74%	Anticipate the dollar's share of global reserves will decline over the next 5 years
84%	Anticipate gold's share will increase over the next 5 years
89%	Expect global central bank gold holdings to rise over the coming year
45%	Plan to increase their own institution's gold reserves within a year (an all-time high)

The European Central Bank (ECB) confirmed this identical trajectory. According to its report on The International Role of the Euro released in June 2026, gold accounted for approximately 27% of global official reserve assets at the end of 2025. It surpassed U.S. Treasuries to become the single largest reserve asset. In 2024, it had already overtaken the euro to claim second place. Total gold holdings of global central banks exceeded 36,000 metric tons, approaching levels last seen during the Bretton Woods era.

However, the ECB drew an important line in the same report. Recalculating the figures by holding gold prices fixed at year-end 2023 levels produces a markedly different picture: Gold and the euro each account for 16%, while U.S. Treasuries stand at 26%. This indicates that a substantial portion of gold's rapid rise was the result of price appreciation. The ECB also highlighted the inherent limitations of gold: sharp price volatility, zero yield, and the physical storage costs incurred when holding bullion. Nor does the supply of gold expand flexibly to meet surging demand.

These two calculations do not contradict each other. Central banks steadily accumulated gold, and their persistent demand drove up its price. The rising price, in turn, magnified gold's proportion within total reserves. Both the increase in physical tonnage and the surge in market value are direct consequences of fraying confidence in the U.S. dollar.

37.5 The $5,589 Peak and Its Aftermath

The trajectory of gold prices served as a direct mirror of the global anxiety felt throughout this period.

In 2025, gold set 53 new all-time highs over the course of the year—roughly once a week. Its annual return exceeded 60%. The U.S.–China tariff war, the U.S. government shutdown, and controversies surrounding Federal Reserve independence relentlessly propelled gold upward.

January 2026 marked the climactic peak. On January 3, U.S. forces launched an attack in Venezuela and captured President Nicolás Maduro. On January 9, reports surfaced that the Department of Justice was investigating Fed Chairman Powell. Tensions between the United States and Iran escalated to the brink of outright war. On January 28, gold surged more than $300 in a single day, touching an intraday record of $5,589. For the first time in history, it eclipsed the inflation-adjusted peak of 1980. In both nominal and real terms, it was an all-time record.

Following this peak came a correction. In the second quarter, gold suffered its largest quarterly decline since 2013. Expectations of Fed rate hikes and a strengthening dollar weighed heavily on the market. On September 25, gold was trading at $4,293 per ounce. While approximately 23% below its January peak, it remained roughly 14% higher than a year earlier.

Some observers interpreted this pullback as the end of the gold craze. Yet the actions of central banks told a different story. Private investors dumped gold exchange-traded funds (ETFs) as prices fell; in the second quarter, 45 tons flowed out of gold ETFs. In that exact same quarter, central banks bought 289 tons. While speculative investors react to market price, central banks accumulate gold for the strategic purpose of possession itself. This fundamental divergence forms a sturdy floor beneath the price of gold.

37.6 Nations Moving Their Vaults

Just as significant as buying gold is deciding where to keep it. The movement to repatriate gold, detailed extensively in Chapter 36, is worth revisiting within the context of this broader shift.

Between July 2025 and January 2026, the Bank of France liquidated all 129 metric tons of gold it had stored at the Federal Reserve Bank of New York. This represented roughly 5% of its total reserves of 2,437 tons. The method employed was unique: Rather than loading gold bars onto ships,

France sold its old, non-standard bars locally in New York. It then purchased an equivalent quantity of London Good Delivery standard bars in Europe and deposited them into vaults in Paris. Thanks to selling when gold prices were elevated, the operation generated a capital gain of 12.8 billion euros. Today, every single ounce of France's gold resides on French soil.

Bank of France Governor François Villeroy de Galhau insisted that there was no political motivation behind the move. He characterized it as part of a 20-year technical program to standardize legacy gold bars into modern market specifications. France plans to convert its remaining 134 tons into standard bars by 2028. Nevertheless, the fact remains that none of the newly purchased bullion was redeposited in New York. While framed as a technical swap, the practical outcome was a complete withdrawal from American vaults. This is why many observers drew comparisons to President Charles de Gaulle's aggressive repatriation of French gold from the United States in the 1960s.

Germany's situation is different. Between 2013 and 2017, the Bundesbank repatriated 300 metric tons from New York to Frankfurt. Even so, as of early 2026, 1,236 tons—roughly 37% of Germany's total 3,352 tons—remained at the New York Fed. Within Germany, domestic political voices demanding the full repatriation of this gold are growing louder.

Yet the movement of vaults should not be overstated. In the WGC survey, the Bank of England remained the most widely utilized depository among central banks. Fifty-seven percent of respondents reported holding gold in London, while 49% maintained reserves in their domestic vaults. Departing New York does not equate to abandoning Western financial architecture altogether. What central banks are weighing is which nation's domestic politics might pose a threat to their sovereign assets. By that benchmark, the jurisdiction facing the greatest suspicion today is the United States.

37.7 How Far Have Dollar-Free Payment Networks Come?

Alongside gold, alternative payment mechanisms that bypass the dollar are frequently discussed. Here, one must carefully distinguish between expectations and reality.

China has steadily expanded its Cross-Border Interbank Payment System (CIPS). This system facilitates the clearing and settlement of renminbi transactions without routing through SWIFT, the international interbank messaging network. Its transaction volume has grown year after year. As examined in Chapter 8, during the Strait of Hormuz crisis, China expanded renminbi settlements for crude oil imports. Yet the renminbi's share of global foreign exchange reserves still sits below 2%. While the renminbi is expanding its footprint in trade settlement, it has failed to earn trust as a store of value. Few central banks are eager to accumulate the currency of a nation that maintains strict capital controls.

The Bank for International Settlements' (BIS) "Project Agorá" is often characterized as a network designed to circumvent the dollar. This is factually incorrect. Agorá is a joint initiative led by the BIS and the Institute of International Finance (IIF). Participating central banks include the Federal Reserve Bank of New York, the Bank of England, the Bank of France (representing the Eurosystem), the Bank of Japan, the Bank of Mexico, the Swiss National Bank, and the Bank of Korea. The U.S. central bank has been an active participant from day one.

The problem Agorá addresses is that cross-border payments remain slow and expensive. It explores a framework where tokenized commercial bank deposits and tokenized central bank reserves settle simultaneously on a unified programmable platform. On May 27, 2026, the BIS released its interim project report. More than 40 private financial institutions participated, and preparations are underway for the next phase involving live financial transactions. The Bank of Canada recently joined the initiative as well. Agorá is not a project to discard the dollar; rather, it is an endeavor by Western central banks to modernize and accelerate wholesale settlements across all major currencies, including the dollar.

In the realm of global payments, the dollar remains overwhelmingly dominant. According to the BIS 2025 Triennial Survey, the dollar is on one side of 89% of all foreign exchange transactions worldwide. Furthermore, 54% of global export invoices are denominated in dollars. These figures are notably higher than the dollar's 57% share of foreign exchange reserves.

What, then, is actually wavering? In buying and selling—that is, in everyday trade and settlement—there is currently no viable substitute for the dollar. Where the dollar is faltering is in the domain of savings. When central banks decide where to park their surplus reserves for the long haul, the dollar is losing ground. And the asset claiming the largest share of that vacated space is gold.

37.8 Collapse or Erosion?

Synthesizing the data presented thus far yields a clear picture: The U.S. dollar still accounts for 57% of global foreign exchange reserves—nearly triple the share of the second-place euro. Eighty-nine percent of foreign exchange transactions and more than half of global export invoices are conducted in dollars. By any metric, the dollar remains number one.

Yet the trajectory is unmistakable. The dollar's share of foreign exchange reserves has been trending downward for a quarter of a century. Foreign official holdings of U.S. Treasuries have stagnated at 2012 levels. For four consecutive years, central banks have purchased around 1,000 tons of gold annually. Even after adjusting for price effects, gold has re-emerged as a cornerstone of official reserve portfolios. Seventy-four percent of central bankers expect this trend to continue.

This shift resembles a quiet diversification rather than a panic-driven fire sale. Few nations would dump their dollar holdings all at once, as doing so would immediately crater the value of their own

portfolios. Instead, they refrain from committing new inflows into dollars. Rather than rolling over maturing Treasuries, they rotate proceeds into gold or alternative currencies. The fact that foreign official Treasury holdings remained flat while total U.S. national debt more than doubled starkly demonstrates this dynamic.

This quiet diversification carries a steep price tag. As price-insensitive foreign central banks step back, yield-sensitive private capital steps in. The U.S. government must offer higher interest rates to attract lenders. This dynamic directly fostered the crushing burden of $1 trillion in annual interest payments explored in Chapter 34. Higher interest rates place greater pressure on fiscal deficits, and fiscal fragility further repels foreign capital.

The Trump administration has repeatedly proclaimed its commitment to preserving the dollar's supremacy. It went so far as to threaten punitive tariffs against nations pursuing de-dollarization. Yet central banks are not trimming their dollar allocations because alternative currencies look dazzlingly attractive. They are doing so because the United States, as a custodian, can no longer be trusted as it once was. Coercing allies with tariffs, undermining the Federal Reserve, and circumventing judicial rulings have steadily chipped away at that institutional trust. Can faith that must be enforced through threats truly endure?

Dollar hegemony will not collapse overnight. It took decades for the British pound to surrender its reserve currency status to the dollar. What is occurring today is not an abrupt collapse, but a gradual erosion. Yet this transition differs fundamentally from those of the past in one critical respect: The forces driving this erosion are being generated by the United States itself.

37.9 Signals Korea Must Read

South Korea is no mere spectator to these tectonic shifts. The Bank of Korea is an active participant in Project Agorá, holding a seat at the table where the rules of next-generation cross-border payments are being forged.

When it comes to gold, however, the situation is markedly different. Based on publicly disclosed records, the Bank of Korea's gold reserves have remained frozen at 104.4 metric tons since 2013. The proportion of gold in Korea's foreign exchange reserves is noticeably lower than that of other major economies. In the meantime, nations such as Poland, the Czech Republic, and Singapore have systematically accumulated bullion.

South Korea's options are constrained. The Korean economy trades in dollars, buys energy in dollars, and leans on a security alliance anchored by the dollar. The $350 billion in U.S. investment commitments highlighted in Chapter 21 also consists of dollar-denominated assets. A hasty retreat from the dollar is not a viable or realistic policy choice.

What can be calibrated is the pace and method of adaptation. Proposals under discussion include incrementally expanding the share of gold, broadening won-based settlement and bilateral currency swap networks, and diversifying custodial storage jurisdictions. Whichever path is chosen, the overarching imperative is ensuring that the entirety of the nation's foreign exchange reserves is not held hostage to the political whims of a single foreign power. That, ultimately, is precisely what central banks across the globe are doing today.

Conclusion

The 2026 Washington U.S.–China Summit touted promises of Boeing aircraft purchases and American soybean imports as its crowning achievements. Yet beyond the summit hall, the world's central banks were quietly charting a very different course. They stopped buying new U.S. Treasuries, snapped up gold, and relocated their sovereign vaults.

A 57% reserve share still crowns the dollar as the undisputed global leader. At the same time, it is the lowest figure recorded since the IMF began tracking the data. Which side of that coin one chooses to emphasize is up to the observer. Yet the gold purchases of central bankers leave little doubt as to which reality they are looking at.

The next chapter examines Donald Trump's final gambit to halt this capital flight: the threat to sever trade ties with any country refusing to purchase U.S. Treasuries—and how global financial markets reacted to that ultimatum.

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Chapter 38. Threats of "Trade Halts" Against Surplus Nations and the Global Financial Market Convulsion

A President Brandishing Trade Cutoffs Against Allies Buying U.S. Treasuries, and the Bond Market Turmoil That Followed

38.1 "Cut Rates, or We Will Cut Off Trade"

It was the morning of Friday, September 4, 2026. The U.S. Department of Labor released its employment report for August. Nonfarm payrolls had increased by 162,000. President Trump immediately took to Truth Social. He hailed the jobs report as "terrific." Then, he demanded that the Federal Reserve (Fed) cut interest rates. The demand quickly escalated into an ultimatum: "Cut interest rates, or we will stop trading with countries where we have deficits." He wrote that this approach was "better than tariffs." He also asserted that the United States has "no obligation" to allow trade. He added that this could be executed with a single stroke of the pen.

Governments around the world were bewildered by the post. A central bank's interest rate decisions and bilateral trade with partner nations are entirely separate matters. The president, however, bound them together in a single sentence. It was a demand that if the U.S. central bank refused to lower rates, foreign nations would be forced to pay the price. The targets were countries running trade surpluses with the United States.

There was context behind this threat. The day before, on September 3, the U.S. Department of Commerce released the trade balance figures for July. The combined deficit in goods and services stood at $88.6 billion. This was an increase of 24.4% from June's $71.2 billion. It marked the largest trade deficit since March 2025. The surge was driven by a sharp rise in imports of semiconductors and computers for artificial intelligence data centers.

By country, Mexico accounted for the largest share at $27.5 billion. Vietnam followed at $23.3 billion, and China at $15.2 billion. The European Union (EU) came in at $8.9 billion. A year and a half had passed since tariffs were piled high. Yet instead of shrinking, the deficit had ballooned. For the president, these were deeply uncomfortable numbers.

Trump cited the Supreme Court as the legal basis for his threat. He claimed that the Court had recognized the president's "absolute authority." This assertion was far from the truth. The details of that ruling were covered in Chapter 13. In February 2026, the Supreme Court ruled that tariffs could not be imposed under the International Emergency Economic Powers Act (IEEPA). The rationale was that the power of taxation belongs exclusively to Congress. However, the statute does contain separate provisions for import bans (embargoes). Justice Brett Kavanaugh pointed this out during oral arguments in November 2025; he went on to dissent from the ruling. He described it as

a "strange doughnut hole," where tariffs were barred but import bans remained available. Immediately after the ruling, Trump declared: "I can ban imports, but I cannot charge one dollar."

The September threat targeted this very doughnut hole. Having been stripped of the ability to use tariffs, he reached for an even cruder tool: an outright import ban. Axios dubbed this Trump's "next trade weapon." Indeed, around the same time, he targeted the Canadian aircraft manufacturer Bombardier. In a post, he stated, "Bombardier can no longer sell in the United States." Backlash emerged first from within the Republican Party. Bombardier employs more than 1,000 people in Wichita, Kansas. It also relies on approximately 2,800 suppliers across 47 U.S. states. Kansas Republican lawmakers immediately voiced grave concern. Their worry was that an arrow shot at a foreign country could boomerang back to strike their own districts.

On September 13 and 14, Trump reiterated the threat. Speaking at the airport upon returning from a visit to Ireland: "I have no choice. We don't want deficits with other countries." "We want a surplus, or at least balanced trade." This was just two days before the Federal Open Market Committee (FOMC) meeting. Vice President JD Vance chimed in as well. He argued that the Fed must cut interest rates so that everyday Americans could afford to buy homes. Kevin Hassett, director of the National Economic Council, indicated that the administration's pressure would be "quite strong."

38.2 The Path of the Circulating Dollar: The Relationship Between Trade Deficits and Treasuries

To understand why this threat rattled financial markets to their core, one must first look at how the dollar flows.

Every year, the United States buys massive quantities of goods from abroad. In return, dollars flow out of the country. Surplus nations such as Japan, China, South Korea, and Germany accumulate these dollars. These countries do not leave their accumulated dollars sitting idle. They invest a substantial portion into U.S. Treasuries. This is because U.S. Treasuries were universally considered the world's most liquid and safe asset.

In economics, this mechanism is known as "dollar recycling" (dollar reflux). It means that dollars flowing outward return to the United States in the form of Treasury purchases. The United States uses this incoming capital to fund its fiscal deficit. Because foreign money buys Treasuries, interest rates remain low. American households enjoy cheap imported goods, while the U.S. government borrows at low interest rates. This is the structure that has sustained the global economy for decades since World War II.

Trade deficits and foreign capital inflows are two sides of the same coin. If the United States buys more goods, an equivalent amount of capital must flow in to balance the ledger. Therefore, severing

trade might reduce the deficit, but the capital available to purchase Treasuries will dry up as well. Trump's threat sounded like an intent to voluntarily sever this vital link.

Trump's logic inverted this structural reality. He questioned why the United States should pay higher interest when its credit is the world's best. He wrote: "We should have the lowest interest rate of any country in the world, as we always did." He even pointed to nations with low interest rates, like Japan and Switzerland. His complaint was that while America opens its markets to surplus nations, they borrow at cheap rates while the United States gets saddled with exorbitant interest expenses. This is where the title of this chapter originates: It amounts to a demand that if you want to make money in the American market, you must buy U.S. Treasuries at low interest rates and correct the trade imbalance. The explicit phrase "buy Treasuries" was not directly in Trump's September post. Yet the market interpreted the threat of a trade blockade as a direct menace to Treasury demand. If surplus countries cannot earn dollars, the money to purchase U.S. Treasuries vanishes as well.

This concept did not appear out of thin air. In November 2024, Stephen Miran authored a report titled "A User's Guide to Restructuring the Global Trading System." He later served as Chairman of the White House Council of Economic Advisers before becoming a Federal Reserve Governor. The report explored linking American security guarantees and market access directly to foreign holdings of U.S. Treasuries. It also floated the idea of forcing foreign holders to swap their existing Treasuries into ultra-long-term bonds. In market circles, this was referred to as the "Mar-a-Lago Accord" framework. The underlying premise was to extract the price of the alliance in the form of American sovereign debt. The September 2026 ultimatum was the crudest, most aggressive manifestation of that very idea.

The problem is that basic economics does not support this logic. The Korea Economic Daily characterized the situation as "Trump at War with Economics." Experts highlighted several critical fallacies: First, it views trade as a zero-sum game where one side's gain is necessarily the other's loss. The United States actually runs a sizable surplus in services trade. Moreover, the goods deficit is also the natural counterpart of incoming foreign capital that underwrites domestic consumption and investment. Second, it conflates a central bank's benchmark interest rate with a sovereign credit rating. The policy interest rate is a macroeconomic steering tool designed to manage economic overheating and recession. A stellar credit rating does not mean a central bank can simply keep benchmark rates artificially low. Third, long-term Treasury yields are not dictated by the president. They are determined by the market based on inflation expectations, fiscal deficits, and the supply volume of Treasury issuance.

38.3 Markets Moving in Direct Opposition to the President's Will

On September 4, the day the threat was issued, the bond market moved in the exact opposite direction of the president's desires. The 2-year Treasury yield surged by 0.091 percentage point in a single day to hit 4.425%. The 10-year yield touched 4.79%, reaching its highest level in a year. The probability of a September rate hike calculated by interest rate futures markets jumped from 49.4% to 58.4%. The president had demanded rate cuts, yet the market placed its bets on a hike.

The culprit was inflation. In late February 2026, the United States and Israel launched strikes against Iran. The course of those events was detailed in Chapter 7. With the Strait of Hormuz effectively blockaded, global crude oil prices surged by more than 40%. In some U.S. states, gasoline surpassed $5 per gallon. The Consumer Price Index (CPI) inflation rate, which stood at 2.4% in February, had recently climbed to 3.4%. Personal Consumption Expenditures (PCE) inflation—the Fed's preferred benchmark—had exceeded its 2% target for 65 consecutive months. Cutting interest rates under such conditions would only pour gasoline on inflationary fires. It was a basic calculation obvious to any market participant.

Sitting in the Federal Reserve Chair's seat was Kevin Warsh, handpicked by Trump himself. The conflicts with former Chair Jerome Powell were covered in Chapter 35. Trump had expected Warsh to deliver rate cuts. Yet Warsh remarked at the late-August Jackson Hole symposium that the Fed still had "work left to do." The market interpreted those words as an unmistakable signal for rate hikes.

On September 16, the Fed raised its benchmark interest rate by 0.25 percentage point. The target range for the federal funds rate rose to 3.75%–4.00%. It was the first rate hike since July 2023. All 12 voting members voted in favor. During the press conference, Warsh stated: "Inflation is too high, and it has stayed high for too long." When questioned about the president's political pressure, he drew a firm line: "Part of Fed independence means staying in our lane." A majority of committee members projected yet another rate increase before the end of the year. The projected timeline for inflation returning to 2% was pushed out to 2029.

The unanimous vote was no accident. Even the chair and governors appointed by the president voted in unison for a hike. It was an unmistakable message from the Federal Reserve to the White House. Diane Swonk, chief economist at KPMG, went even further. She diagnosed this inflationary bout as the longest since the late 1970s. It was a warning that even three rate increases might prove insufficient.

Immediately following the announcement, Wall Street tumbled. The S&P 500 dropped roughly 1%, sinking to a six-week low. Treasury yields continued to climb even as the press conference unfolded.

Within hours, Trump vented once again on Truth Social: "The interest rate in the United States should be 1% or less. We are the best credit in the world, BY FAR." Threats of a trade halt failed to budge the Federal Reserve. The U.S. online publication Talking Points Memo encapsulated the episode in a single line: "Trump's threats to stop trade couldn't keep the Fed from hiking interest rates."

Looking back, a remarkably similar drama had played out a year and a half earlier. In April 2025, Trump unveiled his so-called "Liberation Day" reciprocal tariffs. Within days, equities, the dollar, and Treasuries were dumped simultaneously. As the 10-year yield spiked uncontrollably, he announced a 90-day tariff suspension on April 9. He admitted himself that people had become "a little queasy" over the bond market. Back then, the bond market forced the president to back down. In September 2026, however, the president refused to back down. Instead, both the Fed and the markets charged in the opposite direction.

38.4 The Bond Market Tantrum: The Numbers of September 24

Even after the Fed's rate hike, the Treasury sell-off showed no sign of abating. In fact, it accelerated.

As recently as September 1, the 10-year yield hovered around 4.77%. By September 24 (local time), the 10-year yield closed at 5.223%. This was its highest level since June 2007. The 30-year yield spiked to 5.501%. It marked a 22-year high, the highest since 2004. The 2-year yield also reached 4.941%. In a span of merely three weeks, the 10-year yield had leaped by more than 0.4 percentage point.

Several proximate catalysts converged. U.S. business activity indices for September came in at their strongest levels in over five years. A consensus spread that with the economy running hot, the Fed would need to raise rates even further to tame inflation. The market-implied probability of an additional rate hike in October surged from the 50% range to over 70% in just one week. Global crude oil prices remained stubbornly elevated.

Buyers willing to take down U.S. sovereign debt were dwindling. Demand was dismal at the 5-year Treasury auction held on September 23. The unsold overhang had to be absorbed by primary dealers. Primary dealers are major financial institutions legally obligated to participate in Treasury auctions. If other investors refuse to buy, these dealers are effectively forced to mop up the remainder. The larger the portion they must absorb, the weaker the market's organic end-user demand.

The U.S. Treasury Department was desperately trying to intervene. On August 19, the Treasury announced that it would double the scale of its long-term Treasury buyback operations. A buyback involves the government repurchasing already-issued bonds directly from the market. It raised the

per-operation maximum limit for the 10-to-20-year and 20-to-30-year sectors from $2 billion to over $4 billion. This measure was scheduled to run from September 9 through November 4. The Treasury framed the operation as liquidity support. Yet even a $6 billion buyback executed on September 24 failed to stem the selling cascade. The Australian media outlet Crikey reported on backroom maneuvers within the Treasury. According to the report, Treasury Secretary Scott Bessent was considering expanding short-term Treasury bill (T-bill) issuance by $1 trillion to bypass long-term debt. Relying on short-term paper might save on coupon costs in the immediate term. However, if interest rates remain higher when those bills mature and roll over, the fiscal burden explodes. It was essentially a reckless wager that rates would not rise further.

In financial parlance, there is a term known as "bond vigilantes." When a government runs profligate fiscal policies, investors punish it by dumping government bonds and driving yields skyward. It refers to this investor collective that disciplines reckless policymakers. The term was first coined in the 1980s by American economist Ed Yardeni. The massive sell-off in September 2026 bore all the hallmarks of a bond vigilante strike. Investors demanded a far higher premium for holding long-duration debt. This premium is known as the "term premium." It represents the additional yield required to compensate for the greater uncertainty surrounding inflation and fiscal solvency over longer horizons.

Three distinct drivers pushed the term premium higher: First was inflation fueled by war and escalating tariffs. Second was runaway fiscal deficits and the relentless torrent of new Treasury supply. Sovereign debt and interest costs are examined in detail in Chapters 34 and 39. Third was policy unpredictability. Bonds issued by an administration that openly browbeats its central bank and threatens to sever trade ties with allies inherently look vastly riskier. The September 4 threat supercharged that third factor.

The spike in yields spilled over immediately into household finances. The 30-year fixed mortgage rate breached 7%. This was roughly 1 percentage point higher than before the Iran war. The borrowing burden on homebuyers escalated accordingly. It was the polar opposite of the "housing affordability relief" championed by the president and vice president.

The bond rout quickly metastasized across the globe. On the same day, Japan's 10-year government bond (JGB) yield climbed to 3.1%, its highest level since 1996. Germany's 10-year Bund yield topped 3.6%, reaching heights unseen since 2009. The UK 10-year Gilt yield had already soared to 5.22% in early September. As U.S. Treasuries—the global benchmark for fixed-income assets—convulsed, sovereign bonds around the world were dumped in tandem. To be fair, this contagion could not be blamed solely on the United States. Surging oil prices and expanding fiscal outlays across other major economies also contributed.

The behavior of gold prices also warrants examination. Conventional wisdom holds that mounting dollar anxieties drive gold prices up. Indeed, gold reached an all-time peak around

$5,500 per ounce in late January 2026. By early September, however, it had tumbled by more than 20% into the $4,360 range. Gold pays no yield. When interest rates spike aggressively, the opportunity cost of holding non-yielding bullion surges. Aggressive rate hike expectations had weighed down gold prices. This dynamic illustrates that the "flight from the dollar" does not progress along a straight, linear path. The gold purchases by global central banks and shifts in the dollar's reserve share were explored in Chapter 37.

38.5 Treasuries Drained from Allied Vaults

Which foreign nations hold the largest stockpiles of U.S. Treasuries? The answer: America's closest allies. Japan, the United Kingdom, Canada, France, and South Korea all occupy top ranks. The countries Trump threatened with trade cutoffs overlap heavily with the very nations that have faithfully absorbed U.S. debt.

On September 16, the U.S. Department of the Treasury released its Treasury International Capital (TIC) report for July. The TIC report tracks cross-border flows and foreign purchases and sales of U.S. securities. Foreign holdings of U.S. Treasuries stood at $9.248 trillion. This was a nine-month low. It represented a decline of $239 billion from the pre-Iran war level of $9.487 trillion in February.

The country-by-country breakdown revealed distinct trends: Holdings of the largest foreign creditor, Japan, dropped to approximately $1.1039 trillion. Mainland China's holdings fell from $633.4 billion to $618.0 billion. This was an 18-year low, the lowest since August 2008. Compared to its peak in 2013, China's holdings had been slashed in half. South Korea's holdings fell from $134.7 billion in June to $131.5 billion in July, a drop of roughly $3.2 billion. France's holdings declined to $348.4 billion, and Canada's to $426.3 billion. Conversely, the United Kingdom increased its holdings, rising to second place behind Japan.

There are caveats when interpreting these figures. Changes in recorded holdings reflect not just actual net sales, but valuation changes as well. When bond yields rise, the market value of existing bond portfolios falls. Consequently, total holdings can appear to shrink even without outright sales. Furthermore, in financial hubs like the UK, where custodial institutions and global investment banks congregate, transactions by third-party international investors are often bundled into the headline figure. Nevertheless, the overarching direction was unmistakable: America's allies were no longer absorbing U.S. Treasuries at the pace they once did.

Japan's experience provides a vivid look into the underlying dynamics of this retreat. In late July, the Japanese yen plummeted to near 164 yen per dollar. It was the yen's weakest level in four decades. Although the Bank of Japan raised its policy rate on July 30, yen depreciation continued unabated. In response, Japan's Ministry of Finance intervened in the currency market. Between

July 30 and August 26, it deployed a staggering 15.4 trillion yen. Equivalent to approximately $98.6 billion, this was an all-time record intervention.

This intervention featured an extraordinarily rare spectacle: On July 31, the U.S. Treasury stepped into the market alongside Japan. Secretary Bessent confirmed it as a "joint action in response to disorderly yen movements." Direct market intervention by the United States to defend another nation's currency is exceptionally rare. The U.S. Treasury's deployment was estimated at up to $26.3 billion. The Capitol Hill outlet The Hill reported on Bessent's strategic calculation: A key objective was to deter Japan from dumping massive amounts of U.S. Treasuries to fund its yen defense. Mark Sobel of the Official Monetary and Financial Institutions Forum (OMFIF) offered a similar analysis. He noted concerns that a free-falling yen could drag down Asian currencies across the board and drive U.S. Treasury yields dangerously higher. Sobel criticized this stopgap approach. He argued that the best way to prevent a surge in U.S. yields is not applying temporary band-aids, but restoring fiscal discipline.

The relief provided by the intervention was short-lived. The yen briefly rebounded into the 155-yen range. Yet by August 10, it had slipped back into the 159-yen territory. In August, Japan's foreign exchange reserves plummeted by $79.6 billion to $1.208 trillion. It was the largest single-month decline on record. Within those reserves, foreign securities contracted by $87.8 billion. This was widely interpreted as clear evidence that Japan liquidated assets such as U.S. Treasuries to raise dollars for its currency defense. Market analysts estimated that U.S. Treasuries accounted for around $60 billion of that liquidation. Japan's Ministry of Finance does not publicly disclose the specific maturity or breakdown of securities sold. Hence, this figure should be regarded as an estimate.

One cannot classify Japan's bond selling as a retaliatory strike against Trump. Tokyo simply needed dollars to defend its depreciating currency. Yet the end result was identical: At the very moment America was most desperate for buyers to take down its debt, its single largest customer unlocked its vaults and sold Treasuries. And precisely at that juncture, the President of the United States threatened to sever trade with surplus nations. Japan runs a massive trade surplus with the United States. If the U.S. cuts off trade, Japan's capacity to earn dollars narrows. Consequently, its ability to purchase U.S. Treasuries contracts further. Here lies the structural paradox: if the threat were ever executed, the U.S. Treasury market would be the first casualty.

China took a different path. China's holdings of U.S. Treasuries hit an 18-year low. During the same period, the People's Bank of China (PBOC) expanded its gold reserves for 22 consecutive months through August. It was a shift away from dollar assets and into gold and tangible reserves. China's expansion of yuan-denominated cross-border settlement networks was examined in Chapters 8 and 37.

38.6 Nations in the Crosshairs of the Ultimatum

Trump's September 4 post mentioned no specific countries by name. Yet the crosshairs were unmistakable: Nations with which the United States runs a trade deficit. According to U.S. Department of Commerce statistics for 2025, the largest bilateral deficits were: The European Union at $223.0 billion, Mexico at $203.2 billion, and China at $202.0 billion. Vietnam followed closely at $178.2 billion. South Korea ranked tenth at $58.2 billion. In numerous venues, Trump had explicitly singled out Japan, Switzerland, Canada, and South Korea as surplus nations.

(1) Canada: From Tariffs to Outright Import Bans

The country where the threat materialized into concrete action was Canada. The detailed narrative was covered in Chapter 14. Here, we summarize the trajectory:

On July 20, Trump signed a proclamation invoking Section 338 of the Tariff Act of 1930. Section 338 empowers the president to levy retaliatory duties of up to 50% against nations that discriminate against U.S. commerce. It was the first time that a U.S. president explicitly invoked this dormant statutory tool. It was an alternative pathway engineered after the Supreme Court invalidated tariffs under IEEPA. The tariffs were slated to take effect on August 19. They were granted a three-day reprieve after Canada offered to adjust negotiating terms. However, Canada broke off negotiations on August 21. The following day, August 22, the punitive 50% tariffs took effect.

On September 8, Trump issued five additional proclamations. These recalibrated the scope of the duties and instituted outright import bans on select categories of goods. The import bans were scheduled to take effect on September 29. Targeted items included bottled beer, wine, and spirits such as whiskey. Certain dairy products, such as whey protein, were also barred. Motorcycles with engine displacements exceeding 800cc were likewise subjected to the ban. The White House justified the ban by citing Saskatchewan's August 27 announcement of a 50% surcharge on American alcoholic beverages. It also took aim at Canada's tariff-rate quota administration for dairy and tariffs on U.S.-manufactured vehicles.

Canada refused to capitulate. It retaliated with countermeasures of its own and forged closer solidarity with Europe. Escalating beyond tariffs to outright import embargoes signaled that the September 4 threat of "stopping trade" was not empty rhetoric. Canada had become the first testing ground for this aggressive playbook.

(2) The European Union: "Cutting Off Trade with Europe"

The second target was Europe. On September 17, European Commission President Ursula von der Leyen floated a proposal to grant Canada "associate member" status. The plan aimed to expand tariff-free trade between Canada and the EU. An "associate member" represents a novel legal

concept previously nonexistent in EU institutional structures. Canada's pivot toward the EU was explored in Chapter 16.

Trump's reaction was instantaneous. He slammed the proposal as "ridiculous." He added that "Canada has been a terrible trading partner." Then he issued a blunt warning: "If we think it is hostile at all, we will put very severe tariffs on them or stop trading with Europe altogether." European businesses were gripped with anxiety. The hard-won 15% tariff cap agreed upon with the United States roughly a year earlier was suddenly thrown into jeopardy. That tariff ceiling had barely restored fragile stability to transatlantic supply chains. Canadian officials affirmed that, regardless of the White House's objections, dialogue with Brussels would proceed.

Europe is also a massive purchaser of U.S. Treasuries. France, Belgium, Luxembourg, and Ireland host major global asset managers and international custodial hubs. European pension funds and life insurers hold enormous portfolios of long-duration U.S. government paper. The threat to sever trade ties resonated loudly with the institutional owners of this sovereign capital. The EU had already been pushing forward its "Savings and Investments Union" initiative to channel domestic European savings into domestic investment. Washington's threats provided powerful justification and momentum for that initiative.

(3) Mexico, China, and Vietnam

In July alone, Mexico ran a $27.5 billion trade surplus with the United States. Joint reviews of the United States-Mexico-Canada Agreement (USMCA) were also underway. The invocation of Section 338 against Canada served as an implicit warning shot at Mexico. North American supply chains are deeply entwined and cannot be cleanly severed along national borders. Disrupting trade with Canada inevitably destabilizes cross-border component flows passing through Mexico.

China operated on an entirely different calculus. Beijing had already been steadily divesting from U.S. Treasuries. Threats of a trade embargo merely provided further rationale for China to accelerate its divestment. At the same time, China held potent leverage in the form of export licensing controls over rare earth elements. This leverage was examined in Chapter 6. With the U.S.–China summit looming, Washington could hardly afford to brandish total trade cutoffs against Beijing. Consequently, the full brunt of the threat fell squarely upon traditional allies heavily dependent on the American consumer market.

Vietnam, while maintaining a quiet profile, was among the most vulnerable and anxious. Its trade surplus with the U.S. reached $23.3 billion in July. For an export-driven manufacturing hub, the closure of the American market would deal a catastrophic blow.

(4) South Korea: A Surplus Nation and Major Treasury Holder

South Korea was far from immune to these threats, for two principal reasons: First, South Korea ranks among the United States' top ten bilateral deficit partners. In 2025, South Korea recorded a $58.2 billion surplus with the U.S. This surplus was propelled by robust exports of semiconductors, automobiles, and electric vehicle batteries. Second, South Korea holds well over $130 billion in U.S. Treasuries. Its July holdings stood at $131.5 billion, declining from the previous month. South Korean foreign exchange authorities have actively rebalanced Treasury holdings to defend the won and optimize reserve management.

During the 2025 tariff negotiations, South Korea pledged an unprecedented $350 billion in direct investment into the United States. Yet this was followed by federal immigration raids on a manufacturing plant in Georgia, during which roughly 300 South Korean workers were handcuffed and detained. This incident was chronicled in Chapter 21. Even after pledging astronomical capital investments, Seoul found itself targeted once again simply because it ran a trade surplus. South Korea sells goods to the American market, uses the earned dollars to purchase U.S. Treasuries, and builds state-of-the-art factories on American soil. Yet doing all that fails to insulate it from threats of trade cutoffs. The delicate "sandwich" dilemma facing the South Korean economy will be revisited in Chapter 50.

38.7 Scratches on the Dollar's Armor

It would be premature to assert that this market convulsion toppled the dollar's hegemony. The empirical figures present a more nuanced picture.

Consider the International Monetary Fund's Currency Composition of Official Foreign Exchange Reserves (COFER) data: In the fourth quarter of 2025, the dollar's share of global foreign exchange reserves dropped to 56.42%. This was an all-time low in the history of the data series. In the first quarter of 2026, it ticked up modestly to 57.13%. The IMF attributed this uptick primarily to valuation effects resulting from a stronger dollar. Data for the second quarter and beyond had not yet been released. The dollar's reserve share continues to fluctuate near historic lows. Yet the dollar remains the only currency accounting for well over half of global foreign reserves.

Nevertheless, undeniable scratches were carved into its armor. The phrase "Sell America" resurfaced across trading desks. It describes a synchronized liquidation of U.S. equities, sovereign Treasuries, and the dollar. The term had first gained currency during the tariff shock in April 2025. Crikey reported on September 23 that this dynamic had roared back. It cited France, Canada, South Korea, and Saudi Arabia among the nations where foreign holdings of U.S. debt were visibly retreating. On February 27, just prior to the strikes on Iran, the 10-year Treasury yield had stood at 3.94%. Over the ensuing seven months, it rocketed higher by more than 1.2 percentage points.

Shane Oliver, chief economist at Australia's AMP, observed: "If it weren't for Trump's tariffs and the war with Iran, the Fed would have already cut rates once more." The root cause driving yields

upward lay not with the Federal Reserve, but squarely inside the White House.

In the realm of finance, it is extraordinarily rare for a borrower to threaten its creditors. Under normal circumstances, it is the lender who dictates conditions. The United States enjoyed an exception to this fundamental rule for decades. Because the world desperately required dollars. Yet that exception was erected upon a bedrock of trust: The steadfast belief that the United States government honors its contracts, respects market mechanisms, and values its alliances. The September threats put that fundamental trust to a severe test.

38.8 Conclusion: A Debtor Brandishing Weapons at Its Creditors

The developments throughout September 2026 can be synthesized as follows: The president demanded that the Federal Reserve slash interest rates. When his demands were ignored, he threatened to sever trade with surplus nations. Those surplus nations were the very partners financing America's national debt. The Fed responded with a unanimous vote to raise rates. The bond market delivered its verdict in cold numbers: a 10-year yield of 5.22% and a 30-year yield of 5.50%. Foreign holdings of U.S. Treasuries sank to a nine-month trough. Mortgage rates breached 7%.

The ultimatum produced outcomes precisely the reverse of its intended goals. Trump sought lower interest rates. Yet his threats magnified the perceived risk of U.S. sovereign debt. When risk rises, investors demand higher compensation. Rhetoric meant to push rates down became the fuel that drove yields up. America had been able to borrow cheaply because the world believed in America. When you shatter that belief, the price of borrowing spikes.

The events chronicled in this chapter lead directly into the U.S.–China summit. Ahead of the bilateral meeting, Washington brandished trade cutoffs at its loyal allies. Yet against its foremost strategic rival, China, it dared not utter such threats. China had already scaled back its Treasury holdings and held a powerful stranglehold over rare earths. Intimidation only works against counterparties perceived as vulnerable. That those "vulnerable" counterparts happen to be America's principal creditors is the tragic irony at the heart of this market paroxysm.

The U.S. national debt has crossed $40 trillion. The interest bill mounts inexorably year after year. Who will step up to absorb this tidal wave of debt? The next chapter follows that very question into the plumbing of America's fiscal architecture.

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Chapter 39. The $40 Trillion U.S. National Debt Cliff and the Complete Bankruptcy of Supply-Side Economics

> The era of a $40 trillion national debt has arrived. Trump-style supply-side economics, which relied on tax cuts and tariffs, has collapsed in the face of surging Treasury yields and escalating inflation. This chapter examines that process.

39.1 The Signal Sent by the Bond Market the Week Xi Stayed in Washington

During the final week of September 2026, Chinese President Xi Jinping paid a state visit to Washington. The White House prepared lavish protocol. That same week, the New York bond market presented an entirely different scene.

On September 24, the yield on the U.S. 30-year Treasury bond climbed to its highest level since 2004. The following day, September 25, it surged to an intraday high of 5.53%. The 10-year yield also crossed 5.22%, rewriting multi-year highs. As recently as early July, the 30-year yield had hovered below 5%. In less than three months, long-term yields had jumped by more than 0.5 percentage points.

A rise in Treasury yields means bond prices are falling. It means investors are demanding more interest to lend money to the U.S. government. When the creditworthiness of a borrower wavers, creditors charge higher interest rates. Even U.S. Treasuries, once deemed the safest asset in the world, were not exempt from this fundamental principle.

A month earlier, the Treasury Department had released another sobering figure. On August 19, it announced that the federal government's gross debt had surpassed $40 trillion. According to the Treasury's tally, the exact figure was $40,012,700,000,000 ($40.0127 trillion). This translates to roughly $117,000 in debt for every American citizen.

Behind the stage of the summit, the American economy was reeling in this manner. This chapter connects the $40 trillion debt and the surge in Treasury yields along a single thread. The name of that thread is supply-side economics. It is the belief that cutting taxes accelerates growth and that tax revenues will naturally replenish themselves. The second Trump administration erected a new pillar alongside it: tariffs. The calculation was that tariffs collected from foreign countries would fill the fiscal void left by tax cuts. In the autumn of 2026, both pillars shook together.

39.2 The Weight of the Number: $40 Trillion

Forty trillion dollars is a number that defies easy comprehension. A few comparisons help put it into perspective.

In August 2016, the U.S. national debt stood slightly below $20 trillion. In just ten years, the debt had doubled. In the second quarter of 2026, U.S. gross domestic product (GDP) stood at slightly over $32 trillion on an annualized basis. The nation's debt had grown larger than the total value of all goods and services produced in an entire year.

Jodey Arrington, Chairman of the House Budget Committee, is a Republican. On the day the debt passed $40 trillion, he issued a statement. He pointed out that it took nearly 200 years for the United States to accumulate its first $1 trillion in debt. Today, he noted, that same amount accumulates in less than five months. He revealed that the federal government borrows $6 billion a day, more than half of which goes purely toward interest. He added that interest payments now exceed the entire national defense budget.

The pace was faster than experts had projected. In its February forecast, the Congressional Budget Office (CBO) projected the debt for this fiscal year at $39.4 trillion. By mid-August, the actual debt had already reached $39.9 trillion. The Washington Post cited lost revenue from invalidated tariffs as one of the primary causes. This point will be examined in detail in Section 39.5.

A clarification of terminology is in order here. The $40 trillion figure represents gross debt. This is the sum total including intragovernmental holdings—debt owed between government agencies. When counting only the marketable Treasury securities held by private investors, foreign entities, and the Federal Reserve, the amount is termed "marketable debt." At the end of August, this amount stood at $32.4 trillion. It had increased by $2.4 trillion compared to a year earlier. As a share of GDP, it was approximately 101%. The CBO projects that this ratio will reach 120% by 2036. This would surpass the historic record set immediately after World War II.

This does not mean the United States has instantly become an insolvent nation unable to service its debt. The United States borrows in its own currency, and the Treasury market continues to function. The problem lies not merely in the absolute magnitude of the debt, but in the cost of servicing it. A structure where interest payments crowd out other spending is becoming entrenched. The "cliff" referred to in this chapter points precisely to this structural trap.

39.3 The Promise and First Experiment of Supply-Side Economics

Supply-side economics gained traction in the United States in the late 1970s. Its core thesis is as follows: Lowering tax rates encourages people to work more and businesses to invest more. As the economy expands, total tax revenues can increase even with lower tax rates. Economist Arthur Laffer illustrated this idea with a single curve. This is the so-called "Laffer Curve," showing the relationship between tax rates and tax revenue.

The theory itself is not inherently flawed. If tax rates are excessively high, there is indeed a zone where cutting tax rates increases tax revenue. The question is whether U.S. tax rates are currently located within that zone. Most empirical research concludes that U.S. tax rates are already well below it. If that is the case, tax cuts simply reduce revenue and expand deficits.

The Ronald Reagan administration enacted massive tax cuts in 1981. As deficits widened, it raised taxes again in 1982 and 1984. During Reagan's presidency, the national debt roughly tripled. A similar pattern was repeated during Trump's first term.

In 2017, the Trump administration passed the Tax Cuts and Jobs Act (TCJA). It slashed the top corporate tax rate from 35% to 21%. It also lowered individual income tax rates across the board. At the time, Treasury Secretary Steven Mnuchin asserted that the tax cuts would pay for themselves. It was the classic supply-side logic: robust growth would generate sufficient tax revenue.

The outcome diverged sharply from the promise. In fiscal year 2018, corporate tax revenue dropped by roughly one-third compared to the prior year. Corporations deployed a substantial share of their increased profits into stock buybacks. Capital expenditures increased briefly before faltering again in 2019. Even before the COVID-19 pandemic, the federal deficit in 2019 neared $1 trillion. For a deficit to expand so substantially during an economic boom was an extraordinary anomaly.

39.4 The Second Tax Cut: The Invoice for the "One Big Beautiful Bill"

The second Trump administration interpreted the outcome of that first experiment differently. Their conclusion was that the results fell short only because the tax cuts had not gone far enough.

In July 2025, President Trump signed the "One Big Beautiful Bill Act (OBBBA)." The legislation made permanent the individual provisions of the 2017 tax cuts, which had been scheduled to expire at the end of 2025. It also incorporated new tax cuts, such as tax deductions for tips and overtime pay. Part of the cost was to be offset by curtailing Medicaid and Supplemental Nutrition Assistance Program (SNAP) benefits. Medicaid is the healthcare assistance program for low-income Americans.

The CBO calculated the cost of this legislation. It projected that the deficit would increase by $3.4 trillion from 2025 through 2034. Factoring in interest on the accumulated debt, the figure swelled to $4.1 trillion. In February 2026, the CBO released a "dynamic estimate" incorporating broader economic effects. Dynamic scoring is an estimating methodology that accounts for how policy affects economic growth and interest rates. The result was a $4.7 trillion increase in debt through 2035.

Dynamic scoring serves as a direct test of supply-side promises. If tax cuts stimulate growth, tax revenues should rise and deficits should shrink. The CBO's calculations yielded the exact opposite

outcome. The interest burden stemming from rising interest rates far outweighed the revenue gains generated by growth. When macroeconomic feedback effects were included, the overall cost actually grew by $125 billion.

Conclusions from research institutions generally favorable to tax cuts were not much different. The Tax Foundation estimated that only 16% of the cost of the tax cuts would be recouped through economic growth. The remaining 84%, in other words, would remain as added debt. Only the White House Council of Economic Advisers insisted that growth would offset more than half of the cost. The Committee for a Responsible Federal Budget (CRFB), a nonpartisan fiscal watchdog, characterized this estimate as a calculation completely divorced from the mainstream consensus.

The White House's Fiscal Year 2027 budget request rested on the same assumptions. The budget's supplementary materials projected the debt-to-GDP ratio to reach 94% by 2036. This was a glaring divergence from the CBO's 120% projection. The gap stemmed from assuming sustained 3% annual real GDP growth over the entire decade. The CBO, by contrast, projected economic growth around 1.8% annually beyond 2027. This was why critics derided the budget as one that substituted wishful thinking for arithmetic.

39.5 The Collapse of the Tariff Panacea

Tax cuts alone could not make the numbers balance. President Trump announced that he would fill the shortfall with tariffs. He called himself the "Tariff Man." He cited the late 19th-century presidency of William McKinley as his model. He repeatedly declared that tariff revenue could replace the income tax. He insisted that because foreign countries pay the tariffs, there would be no burden on the American people.

In fact, tariffs were the fastest-growing component of federal revenues in 2025. Monthly customs duties peaked in October 2025 at approximately $34 billion. Roughly half of that total consisted of tariffs levied under the International Emergency Economic Powers Act (IEEPA). IEEPA is a statute that grants the president authority to take economic measures during declared national emergencies.

On February 20, 2026, the Supreme Court tore down this pillar. In Learning Resources v. Trump, the Supreme Court ruled 6 to 3 against the administration. Chief Justice John Roberts authored the majority opinion. The Court held that the authority to "regulate" under IEEPA did not encompass the power to levy taxes. Tariffs are an exercise of the taxing power, and the taxing power belongs exclusively to Congress. All IEEPA tariffs—including the "Liberation Day" reciprocal tariffs—were rendered null and void.

The Tax Foundation had estimated that IEEPA tariffs would raise $1.4 trillion over ten years. With that ruling, approximately three-quarters of the new tariff revenues anticipated by the Trump

administration vanished. The IEEPA tariffs collected up to the ruling alone amounted to approximately $165 billion. The government was ordered to refund this money to importers.

Once refunds commenced, the balance sheet flipped upside down. In May, tariff refunds totaled approximately $21.97 billion. This slightly exceeded the $21.93 billion in customs duties collected that same month. In June, refunds reached $49.18 billion against collections of $23.63 billion. Net customs revenue plunged to negative $25.56 billion. Tariffs, intended to fill the national coffers, were now draining them. Furthermore, interest was accruing on the sums yet to be refunded.

The administration promptly reached for alternative statutory authorities. On February 24, it imposed an across-the-board 10% tariff under Section 122 of the Trade Act of 1974. Section 122 is a temporary provision permitting duties of up to 15% for a maximum of 150 days. The Court of International Trade ruled this tariff unlawful on May 7. As the government appealed, the ruling's enforcement was stayed, and the tariffs expired on July 24. That very day, the administration imposed new duties under Section 301 of the Trade Act. Citing investigations into forced labor, it slapped tariffs of 10% to 12.5% on dozens of countries. On select Canadian goods, it imposed a 50% tariff under Section 338 of the Tariff Act of 1930. This marked the first time Section 338 had ever been invoked to levy tariffs.

The Tax Foundation calculated that tariff policy had shifted more than 50 times since the second term began. Businesses were forced to make investment and hiring decisions without knowing what tariffs would look like the next day. While tariffs can be refunded, the damage inflicted by policy uncertainty can never be restored.

Treasury Secretary Scott Bessent claimed that replacement tariffs would leave this year's tariff revenues virtually unchanged. The CRFB's calculations showed otherwise. It concluded that even combined, Section 301 and Section 338 tariffs would replace less than 60% of the lost IEEPA revenues. On July 31, the CBO published its estimate of the ruling's fiscal impact. It projected that tariff revenue would drop by approximately $700 billion over the next decade. Compounded by $200 billion in additional debt interest, this blew an estimated $900 billion hole in the budget.

The repercussions showed up immediately in the deficit. In August, the CBO revised its fiscal year 2026 deficit forecast up to $2.1 trillion. That was $200 billion higher than its February projection of $1.9 trillion. The CBO projected that tariff revenues this year would fall $250 billion short of previous estimates. Spending moved roughly in line with prior projections. The expanding deficit was driven almost entirely by the collapse on the revenue side.

It is also worth examining who actually paid the tariffs. Tariffs are paid at customs by importing companies. Those importers pass a substantial portion of the cost along into sale prices. The Harvard Price Lab analyzed that a significant share of the tariff burden was shifted directly into consumer prices. While court-ordered refunds flow back to importers, consumers who already paid

higher retail prices receive nothing. The tariffs heralded as paid by foreign nations were, in reality, a tax borne by American consumers.

39.6 War Costs and the $1.5 Trillion Defense Budget

While revenues were crumbling, expenditures were surging. In late February 2026, the United States and Israel launched airstrikes against Iran. It marked the beginning of Operation Epic Fury. In March, Secretary of War Pete Hegseth formalized a request for a supplemental war budget. Reported figures for the request exceeded $200 billion.

On June 24, the White House formally requested an $87.6 billion emergency supplemental spending package from Congress. Of this, $67.1 billion was earmarked for defense. Ammunition replenishment alone accounted for $21 billion. Office of Management and Budget (OMB) Director Russ Vought stated on June 30 that war costs stood at approximately $30 billion. The Cato Institute estimated that war expenditures already incurred stood at approximately $113 billion. Whichever accounting one follows, all of it is money financed through borrowing.

The regular defense budget also jumped substantially. In January, President Trump announced plans to raise the fiscal year 2027 defense budget to $1.5 trillion. That was $500 billion higher than the $1 trillion previously signaled. The April budget proposal consisted of a baseline budget of $1.15 trillion augmented by separate allocations. The CRFB estimated that this plan would add $6.9 trillion to the national debt over ten years. This figure included the escalating interest costs. The CRFB evaluated it as the largest defense spending hike since World War II.

Revenues were slashed through tax cuts, while expenditures were driven upward by war and defense. The plan to offset the gap with tariffs hit a wall in the courts. With all three dynamics colliding simultaneously, the accumulation of debt accelerated dramatically.

39.7 The Bond Market's Warning: Interest Surpasses Defense Spending

When debt grows, interest payments grow. When interest rates rise as well, interest payments escalate even faster. In 2026, the United States experienced both simultaneously.

The CBO projects net interest outlays for fiscal year 2026 at $1.039 trillion. Net interest is the interest paid by the government minus interest received. This exceeds the projected defense spending of $885 billion for the same fiscal year. Interest has now become the second-largest line item in the federal budget, behind only Social Security. The Peter G. Peterson Foundation calculated that interest consumes roughly 19% of total federal revenue. It projects this share will climb to 26% by 2036. As a percentage of GDP, interest costs stand at 3.3% this year, surpassing the previous record set in 1991. The CBO projects that net interest will reach $2.1 trillion by 2036.

Some market analysts paint an even darker picture. Analyst Luke Gromen aggregated interest payments with Social Security, Medicare, and veterans' benefits. He argued that this combined total reached 105% of federal tax revenues. This implies that even if all taxes were collected, they would fail to cover interest and mandatory spending alone. This figure represents an individual analyst's calculation using a methodology different from official statistics. Even so, its conclusion—that virtually zero fiscal headroom remains—points in the exact same direction as official projections.

The bond market was the first to read these shifting tides. In May 2025, Moody's downgraded the U.S. sovereign credit rating by one notch from its highest tier. It had been the last of the Big Three credit rating agencies to maintain a top rating for the United States. In late March 2026, Treasury auctions for 2-year, 5-year, and 7-year notes met with consecutive bouts of tepid demand. On July 31, the 30-year yield touched 5.27%, marking its highest level since 2007.

To suppress yields, the Treasury Department announced it would more than double the scale of its long-duration Treasury buybacks. A buyback is an operation in which the government repurchases previously issued Treasuries directly from the secondary market. After a fleeting dip immediately following the announcement, the 30-year yield rebounded back above 5% within a single day. On August 13, a 30-year Treasury auction concluded at the highest yield since 2001. The bid-to-cover ratio also dropped below its one-year average. The bid-to-cover ratio measures the total amount bid relative to the amount offered. It was an undeniable signal that the pool of investors willing to buy U.S. debt was shrinking.

The drivers behind the surge in yields were multilayered. Bloomberg highlighted four primary factors behind the spiking long-term yields: First, mounting anxiety that surging oil prices would drive up inflation. Second, an expanding supply of Treasuries fed by unending budget deficits. Third, a sharp increase in corporate bond issuance fueled by the artificial intelligence investment boom. Fourth, dwindling demand from traditional buyers who had historically absorbed long-term Treasuries on a steady basis. Reports citing Treasury International Capital (TIC) data revealed that China's holdings of U.S. Treasuries had also dropped. In March, Chinese holdings fell to $652.3 billion, the lowest level since September 2008.

There is a well-known market phenomenon where bond investors sell government debt to put the brakes on a government's reckless fiscal policy. In market parlance, they are known as the "bond vigilantes." The 2026 spike in yields is widely interpreted as a stern warning fired by these vigilantes. Had the market truly believed that tax cuts would translate into self-funding growth, yields would have fallen. The market moved in the exact opposite direction.

39.8 Inflation Strikes Back and the Fed Hikes Rates

Supply-side economics also promised price stability. The underlying logic was that expanding aggregate supply would drive down prices. In 2026, U.S. inflation moved in exact opposition to that

promise.

The year started on a relatively benign note. Consumer price inflation stood at 2.4% in both January and February. The Iran war and the blockade of the Strait of Hormuz altered that trajectory completely. In August, consumer prices rose 3.4% year-over-year. Energy prices jumped 16.3%, while gasoline prices surged 27.4%. A single commodity—gasoline—accounted for more than a third of the August inflation rise. Producer prices jumped 5.4%, foreshadowing intensified inflationary pressures ahead. Crude oil prices hovered stubbornly around $100 per barrel throughout September.

Kevin Warsh assumed the chairmanship of the Federal Reserve in May 2026. He was a personal appointee handpicked by President Trump. The president relentlessly demanded that the Fed lower interest rates. At the Jackson Hole symposium in August, however, Chair Warsh voiced a very different view. He stated that the central bank bore responsibility for 65 consecutive months of elevated inflation.

On September 16, the Federal Reserve raised the benchmark federal funds rate by 0.25 percentage points. The target range was lifted to 3.75%–4.00%. It was the first rate hike since July 2023. Fed policymakers also signaled the possibility of one additional hike before the end of the year. The chairman appointed by the president had moved in direct defiance of the president's demands.

The burden of higher interest rates cascaded immediately to American households. On September 24, the 30-year fixed mortgage rate averaged 7.03%. That was more than 0.7 percentage points higher than the 6.30% recorded a year earlier. For young families attempting to purchase their first home, the burden increased accordingly. Treasury interest costs, corporate borrowing expenses, and household debt servicing burdens were all rising in lockstep.

39.9 Factory Jobs That Never Returned

The core justification offered for tariffs was a manufacturing revival. On April 2, 2025, the president announced the "Liberation Day" tariffs. He promised that jobs and factories would come roaring back.

Data from the Bureau of Labor Statistics (BLS) paint a starkly different reality. Between April 2025 and February 2026, 89,000 manufacturing jobs disappeared. That amounted to an average loss of roughly 9,000 jobs per month. Over the full calendar year of 2025, manufacturing employment fell by more than 90,000. It was the third consecutive year of contraction.

One of the culprits was the tariffs themselves. As tariffs drove up the price of imported components, factories relying on those inputs deferred hiring. In primary metal industries such as steel and aluminum, the cost of imported raw materials surged more than 17% in just ten months.

Spending on manufacturing factory construction also declined after peaking in 2024. This was heavily driven by a sharp drop in the construction of semiconductor and electronics plants.

There are differing interpretations. Proponents of tariffs counter that job losses were even larger during the 11 months prior to the second administration taking office. They also point to statistics showing that manufacturing productivity in 2025 posted its largest gain since 2010. Their argument is that it takes time for factory jobs to materialize. This debate remains unresolved. What is indisputable, however, is that the promised "revival" has so far failed to materialize in the data.

39.10 The Verdict of the Voters

The economic report card registered clearly in public opinion polls. The American Research Group (ARG) conducted a poll from September 16 to 20. President Trump's approval rating stood at 29%. It was the first time across both of his presidential terms that his approval rating had fallen below 30%. Approval for his handling of the economy languished at just 26%. A Reuters/Ipsos poll conducted around the same period placed his approval rating at 32%.

Figures varied across polling institutions. The average across major polls in mid-September hovered around 38%. In an NBC News poll, 55% of registered voters responded that the president's policies had hurt the economy. Heading into the November midterm elections, this was a deeply ominous trend for the Republican Party.

39.11 Counterarguments and the Limitations of This Chapter

To ensure an objective and balanced diagnosis, it is necessary to examine the opposing arguments.

First, the administration argues that economic growth will ultimately shrink the debt burden. The rationale is that supply-side tax cuts take time to manifest their full effects. Even the CBO projected that GDP growth in 2026 would be slightly higher thanks to the tax cuts. However, that very same CBO calculated that the escalating costs of higher interest rates far outweighed those growth benefits.

Second, the debt explosion is not solely the responsibility of the Trump administration. The national debt expanded substantially under both the Obama and Biden administrations. The rising cost of Social Security and healthcare programs driven by an aging population is an undeniable structural reality. This criticism is valid. What this chapter calls into question, however, is the policy choices layered on top of that baseline. With the national debt already at historic highs, the administration made permanent massive tax cuts. It then attempted to plug the resulting fiscal chasm with tariffs resting on fragile legal foundations.

Third, the United States has not defaulted. The United States borrows in its own sovereign currency, and U.S. Treasuries remain the most actively traded securities in the world. The "bankruptcy" diagnosed in this chapter does not mean sovereign insolvency or default. It means that the intellectual doctrine claiming tax cuts will pay for themselves has collapsed under the weight of reality. It means that the policy mix predicated on that doctrine has utterly failed in practice.

Fourth, interest rates and inflation were heavily influenced by external shocks, specifically war and global oil prices. This point must be acknowledged. Yet the war with Iran was itself a deliberate policy choice made by this administration. Furthermore, exhausting the nation's fiscal cushion in advance—leaving it vulnerable to external shocks—was likewise the direct consequence of its policy decisions.

39.12 Implications for South Korea and U.S.–China Relations

America's fiscal predicament is not an isolated domestic issue confined to Washington. When U.S. long-term interest rates rise, the global cost of capital rises alongside them. South Korea's government bond yields and domestic lending rates are inevitably pushed higher. South Korean pension funds and insurance companies holding substantial portfolios of dollar-denominated bonds face mounting valuation losses.

In U.S.–China negotiations, fiscal fragility functions as an invisible yet potent variable. The more indebted a nation becomes, the more hypersensitive it grows to the maneuvers of its creditors. China has steadily pared back its holdings of U.S. Treasuries. This reality alone affords Beijing silent leverage at the bargaining table. President Trump's urgency to secure visible, tangible deliverables at the summit can be understood as driven in no small part by escalating economic anxieties at home. In stark contrast to the opulent protocol of the state visit, the hand the president held at the negotiating table was perilously thin.

39.13 Conclusion

Supply-side economics has long served as the centerpiece of American conservative economic doctrine. It was built upon the solemn promise that cutting taxes would unleash growth that would naturally pay off the debt. The second Trump administration grafted a new instrument onto this promise: tariffs. The numbers of 2026 demonstrate unmistakably how that promise ended.

The national debt crossed $40 trillion. Annual interest payments surpassed $1 trillion, eclipsing the entire defense budget. The 30-year Treasury yield surged to its highest level since 2004. Net tariff revenue briefly plunged into negative territory due to court-ordered refunds. Inflation rebounded, compelling the Federal Reserve to hike interest rates for the first time in more than

three years. Factory jobs never returned. In multiple polls, the president's approval rating sank below 30%.

No single statistic can pass definitive judgment on an entire economic theory. Yet numerous data points point relentlessly in the exact same direction. The tax cuts failed to pay for themselves. Tariffs were paid not by foreign nations, but by American consumers—and even those were halted by the courts. The punishing costs of this debt are being borne not by abstract future generations, but by working households today.

There is an old and enduring adage: there is no such thing as a free lunch. In the autumn of 2026, the United States was handed the bill. Starting with the next chapter, this book examines the insidious corruption that took root in and around the corridors of power amid this escalating chaos.

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PART 8

Power Corruption and the Prediction Market Scandals

Chapter 40. Selling 'Truth API' for $100,000 a Month

50-Millisecond Faster Delivery of Presidential Posts

40.1 The President's Words Become a Commodity

On July 16, 2026, Trump Media & Technology Group announced a new product. It is the company that operates Truth Social. In this book, it is referred to in short as Trump Media. The product was named the 'Truth API.'

API stands for Application Programming Interface. It refers to a conduit through which computer programs exchange data with one another. It is not designed for a human to read on a screen. Rather, it is a method by which machines receive text and process it instantaneously.

Trump Media announced that this service would provide banks and trading firms with the fastest access to the posts of the 10 most influential accounts on Truth Social. On the day of the announcement, the company did not disclose the pricing.

The price was revealed two days later through media reports. The Financial Times and Reuters reported that Trump Media was pitching $100,000 per month. A condition was also attached offering a discount to $60,000 per month for signing a three-year long-term contract. Over the course of a year, that amounted to as much as $1.2 million.

The list of the 10 accounts was later confirmed in court filings. First was the personal account of President Donald Trump himself. The remainder included the official White House account, Vice President JD Vance, and White House Deputy Chief of Staff Dan Scavino. It also included Federal Bureau of Investigation (FBI) Director Kash Patel and White House Press Secretary Karoline Leavitt. Secretary of Transportation Sean Duffy and Secretary of Health and Human Services Robert F. Kennedy Jr. were included as well.

The list reveals the true nature of this product. The vast majority were incumbent high-ranking officials of the federal government—the very individuals who produce government decisions regarding tariffs, war, investigations, and regulations. The structure was designed to deliver their posts first to paying clients.

Kevin McGurn, interim Chief Executive Officer of Trump Media, stated in a press release: "The market already moves on Truth Social posts." He explained that this product was a strategy to monetize the company's unique assets, describing it as high-margin, recurring monthly revenue.

These remarks were remarkably candid as a business explanation. The company was touting the fact that the president's posts move markets as the core value of its product. It was precisely at this point that criticism began.

40.2 Who Sells This Product, and Who Profits?

Trump Media is a company listed on the Nasdaq. Its ticker symbol is DJT, the initials of Trump's name. President Trump is the largest shareholder of this company. His stake is reported to be approximately 41%. This stake is held in a trust managed by his eldest son, Donald Trump Jr.

Although the president placed his shares into a trust, this is not a blind trust. A blind trust is an arrangement designed to keep a public official unaware of how their assets are being managed. Trump's trust is managed by his family. When the company makes money, the value of the president's stake rises as well.

The company's financial condition was poor. In the first quarter of 2026, its revenue was $871,200. Advertising revenue of $617,500 and subscription revenue of $192,600 accounted for the vast majority. Its net loss for that same quarter was approximately $405 million. In the second quarter, it posted a net loss of $238.1 million. This was more than ten times the loss recorded in the same period a year earlier.

Monthly active visitors to Truth Social were also declining. The company turned its attention to other ventures, such as crypto assets, but failed to make up for the losses. The Truth API was one pillar of a turnaround plan conceived under these circumstances.

The math was simple. If ten clients paid $100,000 a month, $1 million would flow in every month. Over a year, that amounted to $12 million. For a company whose quarterly revenue fell short of $1 million, this was an immense sum.

Professor Jay Ritter of the Department of Finance at the University of Florida pointed out the profitability of this product. He observed that the Truth API was a product Trump Media could create at virtually zero cost. The posts already existed on the platform. The company only needed to build a conduit to transmit them at high speed.

Ultimately, the money trail unfolds as follows: The president and high-ranking public officials publish posts. Trump Media delivers those posts rapidly to paying clients and collects subscription fees. As the company's revenue grows, the asset value held by the president's side—the largest shareholder—climbs accordingly.

40.3 The Price of 50 Milliseconds

The core of the Truth API is speed. McGurn stated that the service delivers information with a '50-millisecond advantage.' A millisecond is one-thousandth of a second. Fifty milliseconds is 0.05 seconds—faster than the blink of a human eye.

To a human, this is a meaningless sliver of time. To high-frequency trading (HFT) firms, however, it is an entirely different story. High-frequency trading is a trading strategy in which computer algorithms execute numerous orders in a single second. These firms place their servers in close proximity to exchanges and shorten fiber-optic cable routes. They spend vast fortunes just to shave off a few milliseconds.

The complaint filed by the San Francisco City Attorney's Office quoted McGurn's statements verbatim: the post data feeds "directly into algorithmic trading platforms," allowing algorithms to "discern the context and determine what kind of trade to execute."

Unpacking this process reveals the mechanics: The president posts news of a tariff delay or a ceasefire. The Truth API transmits this text in a machine-readable format to the clients' servers. The clients' artificial intelligence programs interpret the meaning of the words. Based on that outcome, they instantly execute orders for equities, crude oil futures, Treasuries, and foreign exchange.

Ordinary retail investors receive push notifications on their smartphones and read the posts. Understanding the meaning and opening a trading application takes several seconds to several minutes. In the meantime, market prices have already moved. Industry insiders cited by Reuters explained that in large-scale trades, a difference of just a few milliseconds can determine hundreds of thousands of dollars in profit.

The service is often described as 'advance delivery,' but the phrase requires precise understanding. Trump Media contends that it does not send posts before they are published. Its explanation is that after a post is made public, it is delivered faster than standard push notifications. The San Francisco City Attorney and the press organizations that filed lawsuits see it differently. They take issue with the fact that paying clients receive the information ahead of ordinary users. The gap between these two stances forms the crux of the legal dispute in this case. This issue is examined in greater detail in Section 40.6.

40.4 Truth Social and Market Turbulence

The reason the Truth API could be sold was unmistakably clear: President Trump's posts had repeatedly moved markets in massive swings.

The first instance occurred on April 9, 2025. That morning, Trump posted on Truth Social: "Now is a great time to buy." At the end of the post, he tagged his own company's ticker symbol, DJT. A few hours later, he announced a 90-day pause on reciprocal tariffs imposed on multiple nations. The S&P 500 surged 9.5% that day, marking one of its steepest single-day gains since World War II.

This incident remained contentious for a long time. It appeared as though the president had encouraged stock purchases right before announcing a major policy decision. Democratic lawmakers demanded an investigation into potential insider trading.

The second instance took place during the 12-day war between Israel and Iran in June 2025. Trump announced a ceasefire between the two sides via Truth Social. Global crude oil prices tumbled sharply as war risks receded. The president's post reached the market ahead of any official government announcement.

The third instance came on March 23, 2026. It was a time when oil prices were soaring amid the war with Iran and the blockade of the Strait of Hormuz. Around 7:05 a.m. that morning, Trump posted on Truth Social that he was holding "productive" talks with Iran. Oil prices plunged and the Dow Jones Industrial Average leaped by more than 1,000 points.

The problem lay approximately 15 minutes earlier. Around 6:50 a.m., trading volume in crude oil futures and S&P 500 futures spiked abruptly. In a single minute, roughly $580 million worth of crude oil futures were traded. At that time, there was no other announcement capable of moving markets. This incident was analyzed in detail in Chapter 12 of this book.

These three cases demonstrate one undeniable reality: Truth Social had become, in effect, the official channel for U.S. government pronouncements. According to the lawsuit filed by The Intercept and others, Trump posted between 9,000 and 11,000 times following his inauguration in January 2025. A substantial number of those statements appeared exclusively on Truth Social without any separate release from the White House. The place where investors could learn of government decisions first was now the platform of the president's private company.

A distinction must be made, however. In the March 23 incident, the issue concerned trading that occurred prior to the post being published—sparking suspicions that someone had advance knowledge of the announcement. The Truth API, by contrast, is a product that sells post-publication speed. The two issues are different in character. Yet both stem from the identical fact: the president's posts constitute information that translates directly into financial gain.

40.5 After the Launch: Who Bought It?

The Truth API went live on Saturday, August 1, 2026. Trump Media stated that it had already secured several institutional clients prior to the launch. The service operates 24/7 and also provides historical archive data of posts dating back to 2022.

On August 11, Trump Media held its first earnings call. McGurn disclosed that the company had secured over ten client contracts, noting that most were high-frequency trading firms. Contract values generally ranged between $60,000 and $100,000 per month. He also stated that discussions were underway with major artificial intelligence operators, and hinted at future plans to expand into the retail investor market.

On August 24, McGurn appeared on CNBC and said the client base was "growing into the mid-teens." He defended the service by arguing that it was simply responding to market demand.

Major banks, on the other hand, kept their distance. According to reports, major financial institutions showed virtually no interest in subscribing. The rationale was that, unlike purchasing standard market data feeds, this entailed immense political risk. Senator Mark Warner sent letters to the heads of six financial industry trade associations, publicly urging that their member institutions refrain from participating in the service.

In the second-quarter earnings report, McGurn wrote that the company was facing factually incorrect criticism. Nevertheless, he asserted that the company would continue to expand its client base. Actual revenues remained modest; he characterized the money generated by the product thus far as "modest."

40.6 The Central Issue: Public Information or Nonpublic Information?

The legal crux of this controversy boils down to a single question: Is what the Truth API sells public information, or is it nonpublic information?

Trump Media's position has been consistent: The moment the president's post goes live, it becomes public information. The Truth API merely delivers that public information rapidly in a machine-readable format. The company argues that this is no different from news agencies or financial data vendors selling high-speed news feeds.

A company spokesperson launched blunt attacks against critics, claiming that Senate Democrats either hate the free market or do not understand the difference between public and nonpublic information. The company responded with the same logic to the San Francisco City Attorney's lawsuit, quipping that an AI chatbot understands the difference better than "the left-wing activists who brought this suit."

The logic of the critics runs as follows: The president's posts serve as official announcements detailing government decisions. If these are not disclosed to all citizens simultaneously and are transmitted first to paying clients, then for that brief window of time, the information remains nonpublic to the vast majority of the public. In its complaint, the San Francisco City Attorney's Office labeled this the "commercialization of nonpublic information derived from government service."

Several statutes are implicated here. First is the Stop Trading on Congressional Knowledge Act of 2012 (STOCK Act). This statute prohibits federal officials from profiting off nonpublic information derived from their official duties, and it applies to the president and vice president as well. Second are federal securities regulations prohibiting insider trading, which bar individuals with fiduciary or trust obligations from tipping nonpublic information to enable others to trade.

Third are constitutional issues. The Intercept and the Freedom of the Press Foundation based their claims on the First Amendment, asserting that everyone must have equal access to the

president's official announcements. Granting priority access exclusively to those who pay violates this principle, they argued. They also claimed violations of the Fifth Amendment's Due Process Clause.

This legal dispute has yet to be adjudicated by the courts. Whether the act of transmitting presidential posts with high-speed priority is illegal presents an unprecedented question. The possibility that the Trump side's defense might hold sway in court cannot be ruled out. What is undeniable is that the legal and regulatory framework never anticipated such a scenario. Reflecting this vacuum, a wave of new legislative proposals emerged in Congress in the wake of the incident.

One fact, however, is incontrovertible: A commercial product from which the president directly profits relies on the president's own official pronouncements as its raw material. Whether this crosses into criminal illegality is a matter for the judiciary to decide. But that it constitutes a conflict of interest is obvious from the undisputed facts alone. The president is the person who decides when and how to announce government decisions—while simultaneously serving as the largest shareholder of a company that monetizes the delivery of those very announcements.

40.7 Washington's Backlash

The backlash erupted immediately after the announcement. Donald Sherman, executive director of the nonpartisan watchdog group Citizens for Responsibility and Ethics in Washington (CREW), took the lead. He pointed out that the president was profiting from the money of those seeking expedited access to his posts, condemning the structure as "wildly unethical."

On July 28, Senators Elizabeth Warren and Adam Schiff sent a letter to Securities and Exchange Commission (SEC) Chair Paul Atkins. The two senators wrote that the service appeared to be an abuse of the presidency for private gain, arguing that it harmed everyday retail investors and eroded market fairness. Representative Ritchie Torres likewise called on the SEC to investigate.

On July 30, Representative Jamie Raskin, the Ranking Democrat on the House Judiciary Committee, launched an inquiry. In the opening sentence of his letter to McGurn, he demanded: "Are you aiding the President in selling early access to market-moving information?"

Raskin described the structure as a "feedback loop between the White House, Wall Street, and the Trump business enterprise," writing that it demonstrated the "corrupt essence of insider trading." He demanded communications records between company executives and government officials, the list of target accounts, client rosters, pricing and revenue projections, and marketing materials. The deadline for submission was August 13. Raskin's investigation is detailed in Chapter 41.

On August 3, immediately following the launch of the service, Senator Mark Warner introduced legislation entitled the NO PROFIT Act. The bill prohibited social media companies from selling priority access to posts from government officials' accounts. It also made it unlawful to trade stocks,

futures, swaps, or prediction market contracts using information obtained in this manner. Warner stated that a president's company selling such a product was corrupt and breached public trust. Senator Ruben Gallego also co-sponsored the bill.

On August 4, Senator Alex Padilla introduced the Stop Corrupt Trading Act. The bill aimed to prohibit the president, the vice president, and entities in which they hold financial interests from selling nonpublic information, while also barring third parties from purchasing such information. Senators Richard Blumenthal, Jeff Merkley, Gary Peters, and Sheldon Whitehouse joined as co-sponsors.

Criticism also surfaced within the Republican Party. Senator Bill Cassidy described the scheme as "wrong" and called it "a form of paid access." Cassidy had previously lost in that year's Republican primary to a candidate endorsed by Trump. No official response from the Republican leadership was documented.

Republicans held the majority in Congress. The likelihood that legislation introduced by Democratic lawmakers would pass was slim. Raskin's inquiry was also conducted under his authority as Ranking Member of the minority, which lacked subpoena power to compel witness testimony. Thus, the battleground shifted to the courtroom.

40.8 The Truth API Goes to Court

The first lawsuit was brought by the press. On August 12, the investigative news outlet The Intercept and the nonprofit Freedom of the Press Foundation (FPF) filed a lawsuit in the U.S. District Court for the Southern District of New York. The defendants were President Donald Trump, the Executive Office of the President, and the White House. Two aides who routinely published posts to the president's Truth Social account were also named as defendants: assistant Natalie Harp and Deputy Chief of Staff Dan Scavino.

The complaint labeled the scheme an "extraordinarily corrupt" arrangement, arguing that the president was granting market-moving government information to those capable of paying, thereby reaping private financial rewards. Ben Muessig, editor-in-chief of The Intercept, stated that Trump was seeking to privatize public information to line his own pockets.

Representation for the plaintiffs was led by CREW, the Media Freedom and Information Access Clinic at Yale Law School, the Public Integrity Project, and the law firm Altshuler Berzon LLP. Brendan Ballou, head of the Public Integrity Project, observed in an NPR interview that this case was completely unprecedented in American history.

On September 1, the plaintiffs filed for a preliminary injunction. They requested that the court prohibit the president and his two aides from posting official government announcements on Truth

Social as long as the Truth API remained operational. Annie Chabel, CEO of The Intercept, declared: "There is no paywall on the First Amendment."

On September 21, dozens of former federal prosecutors and government investigators filed an amicus brief in support of the lawsuit. They asserted that the business model of selling early access likely violated numerous federal criminal statutes, including prohibitions on insider trading.

That same day, the San Francisco City Attorney's Office also filed suit. San Francisco City Attorney David Chiu brought legal action against Trump Media in the San Francisco Superior Court. The complaint invoked California's Unfair Competition Law. It also alleged that Trump Media was aiding and abetting the president's violations of federal ethics laws. The City Attorney sought an injunction halting the service alongside civil penalties of up to $2,500 per violation. The lawsuit did not name the president individually as a defendant.

At a press conference the following day, Chiu remarked: "Trump Media has created a market facilitating insider trading, and Donald Trump profits directly from it." He emphasized that this mechanism converted the public trust into private gain, characterizing it as "pure and simple corruption." The San Francisco City Attorney's lawsuit is explored in detail in Chapter 41.

As of late September 2026, the courts have not issued rulings in either lawsuit. A decision on the preliminary injunction is expected first. In the meantime, the Truth API continues to operate.

40.9 The U.S.–China Summit and the Truth API

This controversy does not stand detached from the central theme of this book: the U.S.–China summit. President Trump has consistently made a habit of disclosing diplomatic breakthroughs first on Truth Social. Examples include announcements regarding purchases of Boeing passenger jets, imports of soybeans and beef, and tariff modifications—exemplified by the '5B Card' examined in Chapter 3.

Such announcements immediately sway equity and commodity markets. Boeing's stock price, soybean futures, the yuan exchange rate, and China-related equities all react in unison. As long as the Truth API is operational, such news is structurally routed first to the algorithms of paying clients.

The outcomes of summit negotiations are matters of profound consequence to the citizens of both nations. They are equally critical intelligence for third-country corporations and investors, including those in South Korea. Consider a structure in which that intelligence flows first to a handful of firms paying $100,000 a month. The Trumpian mindset—that diplomacy is merely a transaction—has ended up converting the very dissemination of information into an item to be bought and sold.

The crude oil futures trading examined in Chapter 12 and the prediction market controversies explored in Chapter 42 share the exact same root: the reality that the president's words and decisions constitute information worth hard currency. The Truth API differs only in that it affixed an official price tag to that information. Whereas the previous episodes involved suspicions of clandestine exploitation, here a company sold access to it in broad daylight.

40.10 Remaining Questions

In the Truth API controversy, the facts confirmed to date are as follows: A company whose largest shareholder is the president sells a commercial product delivering the posts of the president and high-ranking public officials at high speed. The price ranges from $60,000 to $100,000 per month. The customer base numbers in the mid-teens, comprising mostly high-frequency trading firms. The company's chief executive stated that this product confers a 50-millisecond advantage.

Other facts remain unconfirmed. The exact profits earned by specific clients using this service have not been revealed. Nor is the magnitude of the financial benefit reaped by President Trump known. Whether this conduct violated the STOCK Act or federal securities laws remains for the judiciary to decide.

Nevertheless, the question this incident poses is crystal clear: To whom do the official announcements of the president belong? In a democracy, words spoken by the government must reach every citizen at the exact same moment. That is the foundational condition for safeguarding market fairness and public trust in government.

Trump Media sold a sliver of time: 0.05 seconds. During that fleeting interval, the president's words belong not to the public at large, but to those who pay. Regardless of how the courts rule, this case will stand as an enduring testament to the glaring fissures in American public ethics. The next chapter examines the fight waged by Congress and the San Francisco City Attorney to close this breach.

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Chapter 41. Representative Jamie Raskin's Investigation and the San Francisco City Attorney's Sweeping Lawsuit Against Trump Media

> The struggle of the U.S. House of Representatives, which launched an investigation into what it called the largest insider trading scheme in history selling privileged information through the presidency, and the San Francisco City Attorney, who brought Trump Media to court over unfair business competition violations

Introduction

On July 16, 2026, Trump Media & Technology Group announced a new product. Its name was the Truth API. An API refers to an interface through which computer programs exchange data with one another. This product delivers posts from Truth Social's top 10 accounts directly in a machine-readable format. At the very top of the list is President Trump's own account. The accounts of Vice President JD Vance and White House Deputy Chief of Staff Dan Scavino are also included. The accounts of Secretary of Transportation Sean Duffy and Secretary of Health and Human Services Robert F. Kennedy Jr. were also included. The price was $100,000 per month. With a three-year contract, the price drops to $60,000 per month. The service went live on August 1.

Chapter 40 covered how this product works. This chapter covers the battle that erupted in its wake. Representative Jamie Raskin, Ranking Member of the House Judiciary Committee, was the first to launch an investigation. Senators urged the Securities and Exchange Commission (SEC) to investigate and introduced legislation to ban the practice. Media organizations and watchdog groups filed lawsuits in federal court. On September 21, the San Francisco City Attorney brought Trump Media to state court.

To whom does the right to read the president's posts first belong? Over this single question, Congress, the courts, local government, and civic groups all swung into action at once. Below, we trace that process in chronological order. We also examine what each party argued and how Trump Media pushed back. The litigation is still ongoing. Therefore, the allegations of illegality presented in this chapter are not facts confirmed by a court of law. It should be noted at the outset that these are claims asserted by plaintiffs and investigative bodies.

41.1 July 31: House Judiciary Committee Launches Investigation

Representative Raskin announced the launch of an investigation on July 31, just one day before the service's debut. He sent a letter to Kevin McGurn, interim Chief Executive Officer of Trump Media. The opening of the letter characterized the nature of the product as follows: Trump Media

was seeking to sell advance access to the president's Truth posts to the world's most sophisticated investment firms.

Raskin summarized this structure in a single sentence: The president is a public official holding the ultimate inside information—namely, what he plans to do next and what policies he will enact. Such a public official sells advance access to market-moving information to the highest bidder. Other investors unable to pay $100,000 foot the bill. Raskin described this revolving loop connecting the White House, Wall Street, and Trump's business enterprise as "the depraved essence of insider trading." Rendered into Korean, this translates to the most depraved essence of insider trading.

The letter cited specific scenarios as examples. Consider the moment when the president announces on Truth Social that a ceasefire is imminent. Or consider moments when the president leaks U.S. employment data ahead of its scheduled release. In those moments, subscribing clients can place trades before anyone else. Raskin warned that under this dynamic, retail investors, pension funds, and retirement accounts would suffer irreversible losses.

The letter also examined the president's past posting patterns. According to Raskin, Trump had promoted companies on Truth Social immediately after purchasing shares in more than twenty firms. Among them were government contractors. These were cases where the administration possessed the power to move those companies' stock prices. Raskin characterized the Truth API as a desperate final effort to extract profits from a struggling company. Indeed, Trump Media posted a net loss of $238.1 million in the second quarter of 2026.

The records Raskin demanded were as follows: Records concerning the development, pricing, marketing, and rollout process of the Truth API. He also demanded communications between Trump Media executives and government officials. Information on the accounts provided via the API and subscriber client details were also included. Revenue projection data and information regarding companies that subscribed prior to August 1 were requested as well.

This investigation faced clear limitations. The Republican Party currently holds the majority in the House. Raskin is the Ranking Member—the top minority member—of the Judiciary Committee. Minority-led congressional inquiries lack the authority to issue subpoenas. This meant that there was little enforcement power if Trump Media chose not to produce documents. As of late September, there were no confirmed public reports indicating that Trump Media had complied with the document requests.

This does not mean, however, that the investigation was meaningless. Raskin's letter became the starting point for nearly all subsequent criticism. The phrasing and logic articulated in the letter recurred continuously across press reports and court complaints. What a congressional minority can do is establish the issue as an official matter of record. Raskin accomplished that on the very eve of the service's launch.

This inquiry also connects directly to Chapter 12 of this book. Chapter 12 examined the anomalous trading in crude oil futures right before the announcement of a ceasefire in the Iran war. At that time, Raskin raised suspicions alongside Senator Elizabeth Warren. The oil futures controversy centered on who possessed advance knowledge of the information. The Truth API was distinct in that it openly commodified and sold that right of advance knowledge as a commercial product.

41.2 Senate Actions and Uneasy Voices Within the Republican Party

Senate Democrats moved even before Raskin. Senators Elizabeth Warren and Adam Schiff sent a letter to SEC Chair Paul Atkins. The letter was dated July 28. The two senators demanded an investigation into whether the Truth API violated securities laws prohibiting insider trading and market manipulation. The letter characterized the service as an abuse of the presidency for personal profit. The rationale was that it harmed everyday investors while enriching only Wall Street and wealthy insiders. The SEC declined to comment. Through early August, no public indication emerged that the SEC had opened an investigation.

Senator Mark Warner responded through legislative action. In July, he sent letters to financial industry associations. The letters urged member firms not to subscribe to the Truth API. On August 3, immediately following the service's launch, Warner introduced a bill. The bill was titled the NO PROFIT Act. It was an acronym encapsulating the intent to bar the preferential disclosure of federal information for trading purposes.

The bill prohibits social media companies from selling preferential advance access to public officials' accounts. The targets are accounts belonging to the president, vice president, members of Congress, and other federal government employees. Knowingly trading on information obtained in this manner is also designated unlawful. The scope encompasses not only equities, but also commodities futures, swaps, and prediction market contracts. A core element of the bill is a provision stating that a breach of fiduciary duty need not be separately proven. Why this provision is critical is explained again in Section 41.6. Violating platforms would face civil penalties equal to the entirety of the gross revenue generated from the illicit conduct.

Senator Alex Padilla of California also introduced separate legislation. It was titled the Stop Corrupt Trading Act. This bill prohibits a sitting president from selling expedited access to their own statements. Similar legislation was introduced in the House as well. However, with Republicans holding the majority in Congress, the likelihood of these bills passing was low. The bills remain stalled in their nascent legislative stages.

The reaction from Democratic leadership was blistering. Senate Democratic Leader Chuck Schumer called the Truth API "the exact definition of insider trading." Criticism from Democrats

was entirely expected. What was noteworthy was that criticism also emerged from within the Republican Party.

Senator Bill Cassidy (R-Louisiana) stated that the plan was wrong. He described it as "a form of buying access." Cassidy had lost a party primary earlier that year to a Trump-endorsed candidate. He asked pointedly how families struggling to make ends meet would perceive this situation. It was a question of why benefits should be conferred upon those who are already wealthy.

Senator Susan Collins (R-Maine) remarked that it did not appear appropriate. She added, however, that she did not know the details of the plan. Senator Lisa Murkowski (R-Alaska) called the plan outrageous. She stated that the president is not in a position to use the office to enrich his personal wealth. Senators Thom Tillis and John Curtis also raised ethical concerns.

Trump Media did not back down. Spokesperson Shannon Devine countered that the Truth API was an ordinary product catering to market demand. Republican criticism remained confined to remarks by a handful of lawmakers. It did not lead to party-wide investigations or committee hearings.

41.3 The Battle Moves to Court: Lawsuits by Media and Watchdog Groups

While Congress raised questions, civil society turned to the courts. The first lawsuit arrived on August 12. Investigative outlet The Intercept and the non-profit Freedom of the Press Foundation (FPF) were the plaintiffs. The two entities filed a complaint in the U.S. District Court for the Southern District of New York. The defendants were President Trump, the White House, and presidential aides Natalie Harp and Dan Scavino. The case number is 26-cv-6867.

The plaintiffs' arguments were two-pronged. The first was grounded in the First Amendment. The First Amendment guarantees freedom of speech and of the press. The plaintiffs argued that this provision guarantees equal access to the president's public announcements. The logic was that allowing only paying individuals advance viewing shatters that equality. The second rested on the Fifth Amendment. The plaintiffs claimed that demanding exorbitant sums for equal access to government information violates due process and equal protection. The complaint went so far as to call the plan an extortionate scheme.

What relief did the plaintiffs seek from the court? They asked that the White House be barred from posting official announcements exclusively on Truth Social as long as the paid subscription service remained in operation. On August 31, the plaintiffs also moved for a preliminary injunction. A preliminary injunction is a court order that temporarily halts conduct before a final ruling on the merits is issued.

Multiple legal organizations joined forces in this lawsuit. Government ethics watchdog CREW provided legal counsel. The Media Freedom and Information Access Clinic at Yale Law School also

served as legal representative. The Public Integrity Project and the law firm Altshuler Berzon also joined. Annie Chabel, CEO of The Intercept, put it succinctly: "The First Amendment doesn't have a paywall." It meant that there is no paywall behind the First Amendment.

Behind the plaintiffs' logic lay legal precedents. In 2019, the U.S. Court of Appeals for the Second Circuit ruled in Knight First Amendment Institute v. Trump. The court held that President Trump's blocking of critics on Twitter violated the First Amendment. The reasoning was that the comment space of the president's account constituted a public forum. However, after Trump left office, the U.S. Supreme Court vacated this decision in 2021 on grounds of mootness. In 2024, the Supreme Court established a new standard in Lindke v. Freed. It set the criteria for determining when a public official's social media activity constitutes state action. The plaintiffs emphasized that Trump uses Truth Social as his de facto primary conduit for official announcements.

The second lawsuit was filed on September 17. Watchdog groups American Oversight and Campaign for Accountability were the plaintiffs. The two organizations filed a complaint in the U.S. District Court for the District of Columbia. This lawsuit explicitly named Natalie Harp as a defendant. The reason was that Harp was the primary White House staffer who posted on Truth Social on behalf of the president. The plaintiffs argued that the Truth API created a two-tiered system for government information. A time gap emerged between those who paid and those who did not. The plaintiffs asked the court to declare this structure unconstitutional and unlawful. They also requested an order barring official information from being posted first or exclusively to accounts covered by the Truth API.

The complaint cited a specific example. On January 3, 2026, Trump posted on Truth Social. It was an announcement that the United States had struck Venezuela and captured then-President Nicolás Maduro. The outcome of a military operation had appeared on the president's social media before any government press release. The plaintiffs pointed out that such announcements exert a massive impact on the global economy.

On September 21, added weight was brought to bear on the New York case. Fifty-three former federal prosecutors and investigators submitted an amicus brief. An amicus brief is a document submitted to the court by third parties who are not litigants in the case to provide reference opinions. Signatories included Michael Bromwich, former Inspector General of the Department of Justice. Ty Cobb, former White House counsel during Trump's first term, also signed his name.

They contended that the Truth API could violate multiple federal criminal statutes. The Securities Exchange Act, illegal gratuities bans, and conflict of interest prohibitions were cited. Bans on outside compensation for federal duties and the Economic Espionage / Trade Secrets Acts were also included. The brief stated that the plan, far from being legitimate, was likely criminal. Therefore, the logic went, it could not advance any legitimate government interest. One signatory noted that criminal liability could even extend to subscribers who had already paid the $100,000 fee.

41.4 September 21: The San Francisco City Attorney Files Suit

On the same day, another lawsuit emerged on the West Coast. San Francisco City Attorney David Chiu filed a complaint against Trump Media. The venue was the San Francisco Superior Court. The case was titled People of the State of California v. Trump Media & Technology Group Corp. Trump Media was named as the defendant. Its largest shareholder, President Trump, was not included among the defendants.

First, let us examine the institution of the City Attorney's Office. San Francisco is a consolidated city-county. The City Attorney is elected by the voters. Prosecuting crimes is handled separately by the District Attorney. The City Attorney serves as the legal head of the city government, handling primarily civil litigation. This lawsuit was likewise not a criminal prosecution, but a civil suit. It was not a proceeding seeking prison time for Trump Media. It was a proceeding seeking to halt the business operation and impose civil penalties.

The San Francisco City Attorney's Office has a long history of battling the Trump administration. In January 2017, then-City Attorney Dennis Herrera filed the nation's first lawsuit against a Trump first-term executive order. It was an executive order seeking to cut federal funding to sanctuary cities. The trial court ruled in favor of San Francisco. City Attorney Chiu succeeded Herrera in 2021.

Outside lawyers joined this lawsuit. The Platkin firm, where former New Jersey Attorney General Matt Platkin is a partner, participated. The Washington Litigation Group also signed onto the case. The Democracy Defenders Fund (DDF), led by Norm Eisen, also served as co-counsel. The signature block of the complaint also featured the name of former Deputy Attorney General David Ogden.

The complaint asserted three claims: First, Trump Media violated California's Unfair Competition Law. Second, Trump Media aided and abetted violations of federal ethics and anti-corruption laws by the president. These federal laws prohibit public officials from using non-public information obtained through their duties for personal profit. Third, Trump Media violated other federal laws designed to prevent insider trading.

What served as decisive evidence in the complaint was statements made by Trump Media leadership. Interim CEO McGurn had previously stated that the Truth API transmits information 50 milliseconds ahead. He had also explained that the data feeds directly into algorithmic trading platforms. Fifty milliseconds is 0.05 seconds. To human eyes, it is an imperceptible interval. Yet in high-frequency trading, where computers automatically execute orders, it confers an enormous advantage. The complaint argued that this time gap alone allowed algorithmic trading firms to capitalize on market-moving information before anyone else.

The complaint asserted that the harm was not confined to equity markets. Information imbalances were also created across debt, foreign exchange, commodities, cryptocurrency, and

prediction markets. The prediction market issue is examined separately in Chapter 42. The victims were ordinary Californians outside of Wall Street. They participate in markets through retirement accounts, 401(k) plans, and public pension funds. They also hold 529 college savings accounts and individual brokerage accounts. The complaint noted that they were placed at a severe disadvantage compared to sophisticated firms capable of paying exorbitant fees.

The City Attorney sought two remedies from the court: One was an injunction prohibiting the Truth API and similar services. The other was civil penalties of up to $2,500 per violation. The City Attorney took the view that each individual post placed behind the paid subscription wall could be counted as a separate violation.

City Attorney Chiu held a press conference on September 22. He called the scheme a pay-to-play structure offering advance peeks at the president's market-moving decisions. And he defined it as corruption converting public trust into private profit. In his exact words: "corruption, plain and simple." It meant corruption, plain and simple. Chiu insisted that Californians should not be forced into unfair competition with wealthy trading firms. He added that he hoped the ruling in this lawsuit would protect all Americans.

Former Attorney General Platkin underscored the underlying principle: When the president makes market-moving decisions, that information is not something the wealthy can buy first. His core point was that the presidency is a public office, and communication conducted in that capacity cannot be commodified. Chairman Eisen said Trump Media had turned the right to view the president's posts first into "a personal profit center." It meant a personal revenue stream for the president.

Trump is the largest shareholder of Trump Media, holding an approximate 41% stake. This stake is held in a trust managed by Donald Trump Jr. The White House has maintained that the president's businesses are being run by his children. However, the beneficiary of the trust remains the president himself. Critics argue that this very structure erases the boundary between the president's public duties and his private interests.

41.5 The Unfair Competition Law as a Weapon

Why did City Attorney Chiu lead with state law rather than federal law? The answer lies in the structure of California's Unfair Competition Law. This law is codified in California Business and Professions Code Section 17200 et seq. It is commonly known by its English acronym, UCL.

The Unfair Competition Law prohibits three types of business practices: unlawful, unfair, or fraudulent acts. Among these, the unlawful prong is the centerpiece of this lawsuit. California courts have allowed the 'borrowing' of violations of other laws to serve as the basis for this prong. This means that if a business practice violates federal ethics laws or securities laws, it also constitutes an

unlawful act under state law. In effect, this opens a pathway to litigate federal law violations in state court even if federal agencies fail to act.

The unfair prong is also utilized. This prong is evaluated by balancing the utility of the business practice against the gravity of the harm it causes. The complaint asserts that Trump Media's conduct harms the public interest. And it noted that no statute or regulation anywhere permits such conduct.

This statute specifies which public entities have standing to file lawsuits. The state Attorney General and county District Attorneys can file suit. City Attorneys of cities with populations exceeding 750,000 can also bring actions. San Francisco exceeds this threshold. That is why City Attorney Chiu was able to file the lawsuit in the name of the People of the State of California.

When a public entity files suit, it can seek injunctive relief and restitution. It can also claim civil penalties of up to $2,500 per violation. Compensatory damages are not a remedy provided under this statute. Instead, the focus is squarely on halting the business practice itself. It was the appropriate tool for plaintiffs seeking to stop the Truth API.

Of course, this lawsuit also faces hurdles to overcome. Trump Media is a company headquartered in Florida. Therefore, whether California courts have jurisdiction to adjudicate claims against this company could be contested first. Trump Media could also attempt to remove the case to federal court. Arguments could also emerge that federal securities regulations preempt state law intervention. These are legal issues anticipated by the author; as of late September, Trump Media has not yet filed a formal responsive pleading.

41.6 Trump Media's Defense and Legal Issues

Trump Media reacted sharply to news of the lawsuits. A spokesperson sarcastically suggested that Californians outsource future lawsuits to artificial intelligence chatbots. The spokesperson called those who filed the suits left-wing activists masquerading as attorneys. They added that a chatbot would at least comprehend the basic distinction between public and non-public information. The company pushed back against the letter from Senators Warren and Schiff with the same logic. They claimed that the lawmakers either opposed the free market or failed to grasp the difference between public and non-public information.

Trump Media's logic can be summarized as follows: What the Truth API transmits are posts already made public on Truth Social. The company merely delivers public information faster and in a format optimized for machine readability. During the August earnings call, McGurn described the service as a machine-readable feed of public posts. The Q2 report stated that this product narrowed the latency gap for public information. The company claimed it was facing factually incorrect criticism. At the same time, it revealed that it was continuing to expand its institutional clientele.

There is some precedent for this logic. It is commonplace for financial data companies to sell speed. Exchanges sell dedicated high-speed feeds for receiving market quotes faster. News wire services also operate paid subscription products that deliver stories to institutional clients first. Conservative commentators argue that the Truth API is no different from a Bloomberg Terminal. Defenders explain that the API transmits information milliseconds after a post appears on the website.

The crux of the issue is chronological sequence. If a post appears on the website first and the API follows, it is a high-speed delivery product. If the API transmits first and the website follows, subscribers are effectively receiving non-public information. The plaintiffs cite McGurn's own words as evidence. His explanation of a '50-millisecond advantage' is interpreted to mean delivery prior to public dissemination. Raskin also pointed this out. Conventional data services sell speed on the receiving end. Raskin's distinction is that the Truth API sells priority access to the very source of information.

Even if it is proven to be non-public information, that is not the end of the legal hurdle. U.S. insider trading doctrine requires a breach of duty. The mere use of non-public information is not sufficient on its own. There must have been a breach of a duty of trust and confidence owed to the person who entrusted the information. The 1983 Dirks ruling and the 1997 O'Hagan ruling established this framework. The O'Hagan ruling recognized the misappropriation theory, holding that individuals who misappropriate confidential information can also be held liable.

A legal expert interviewed by NPR explained the Truth API through this framework: If presidential posts are sold for money and given first to a select few, that constitutes misappropriated information. The interpretation is that in doing so, the president breaches his duty of trust owed to the American people. The STOCK Act, enacted in 2012, supports this interpretation. The STOCK Act explicitly established that federal public officials owe a duty of trust regarding non-public information obtained through their official positions. It was a statute that made it crystal clear that public officials are not exempt from insider trading prohibitions.

However, there are also legal precedents cutting in the opposite direction. In 2022, the U.S. Court of Appeals for the Second Circuit issued an important ruling in the Blaszczak case. The court held that pre-decisional, non-public regulatory information held by a government agency does not constitute 'property' under federal fraud statutes. This ruling narrowed the pathway for prosecuting leaks of government information as criminal fraud. The U.S. District Court for the Southern District of New York falls under the jurisdiction of this very Second Circuit Court of Appeals. In treating the Truth API as a criminal matter, this ruling could pose an obstacle.

This is why Senator Warner's bill explicitly stated that there is no need to prove a breach of fiduciary duty. If Congress eliminates this requirement by law, it can bypass complex legal disputes. Conversely, this means that under current law, the path toward criminal punishment remains

fraught with difficulty. These circumstances also explain why the San Francisco City Attorney chose the Unfair Competition Law rather than criminal proceedings.

History offers similar precedents. In 2013, Thomson Reuters sent the University of Michigan Consumer Sentiment Index to select clients two seconds ahead of general public release. These were high-frequency trading clients who had paid premium fees. Then-New York Attorney General Eric Schneiderman launched an investigation. In July of that year, Thomson Reuters agreed to cease the practice. This case demonstrated that commercial businesses selling advance viewing rights can become a legal problem.

However, there are differences between the two cases. What Thomson Reuters sold was statistics compiled by a private university. What the Truth API sells are announcements from an incumbent president and cabinet members. And the largest shareholder of the selling company is the very president who makes the announcements. What weight this difference will carry in court remains to be seen.

Presidential immunity is also a variable. In the 2024 Trump v. United States decision, the Supreme Court recognized broad criminal immunity for a president's official acts. A president announcing policy on Truth Social could arguably be seen as an official act. However, this immunity concerns the president's personal criminal liability. It does not apply directly to civil lawsuits against the corporate entity, Trump Media. The City Attorney's move to omit Trump from the defendants and target only the company can also be read as reflecting this calculation. This portion reflects the author's analysis.

41.7 The Void in Federal Enforcement

What is striking in this battle is not who stepped forward, but who failed to do so. Primary responsibility for safeguarding the fairness of securities markets lies with the SEC. Authority to criminally prosecute insider trading belongs to the Department of Justice. Both agencies are led by appointees named by President Trump. Although Senators Warren and Schiff demanded an investigation in July, the SEC made no public move.

Therefore, the battle spilled into alternative channels. In Congress, the minority party without subpoena authority launched an investigation. In federal court, media organizations and watchdog groups brought constitutional lawsuits. At the state level, a municipal city attorney took up state law as a weapon. It was a dynamic in which these disparate actors divided and filled the void left by federal enforcement agencies.

This structure also has its weaknesses. Constitutional litigation contests the principle of equal access to government information. However, it cannot claw back profits reaped from trading or punish subscribers. An Unfair Competition Law lawsuit can halt the business operation. However,

the fine amounts may not be substantial relative to the scale of Trump Media. Congressional inquiries leave a record, but lack compulsive enforcement power.

Meanwhile, the Truth API continues to be sold. In the August earnings release, McGurn stated that the company had signed contracts with more than ten clients. In a late August CNBC interview, he said subscription clients were in the mid-teens. Analyses suggested that depending on pricing tiers, the service might have already generated more than $1 million in revenue. Financial industry insiders say that larger firms face even greater pressure to subscribe. Because they cannot afford to receive late the information that others are seeing first. An executive at one brokerage firm remarked that it would become a necessary product for major firms. The explanation was that the information moves markets.

41.8 Remaining Questions

As of late September, none of the lawsuits have reached a conclusion. Key points to watch going forward are as follows:

First, whether the U.S. District Court for the Southern District of New York will grant a preliminary injunction. With the submission of an amicus brief by 53 former prosecutors, intense attention surrounds the court's decision. If the court issues the injunction, the Truth API may be forced to halt delivery of the president's account.

Second, whether the San Francisco lawsuit will remain in California state court. Battles over jurisdiction and federal preemption are highly likely to unfold first. Only after clearing that hurdle can the case proceed to a trial on the merits addressing Unfair Competition Law violations.

Third, the outcome of the November midterm elections. If Democrats win the majority in the House, the nature of Raskin's investigation will transform. This is because subpoenas can then be issued under the authority of the committee. Investigators could then compel the disclosure of subscriber client lists and White House communication logs. This remains a hypothesis dependent upon the election results.

Fourth, whether other states and cities will follow suit. Consumer protection laws similar to the Unfair Competition Law exist in numerous states. If the San Francisco lawsuit crosses the initial threshold, other local governments may explore the same path.

The fight surrounding the Truth API encompasses issues that transcend any single company's commercial product. The president now announces war, tariffs, and personnel appointments via social media. The platform where those announcements are posted is owned by the president himself. And that company sells the right to view those announcements first. Never before in American history have these three elements coincided at once.

Raskin called this the essence of insider trading. Chiu called it corruption, plain and simple. Trump Media countered that it is an ordinary business delivering public information rapidly. Which side is legally correct will be determined by the courts. Yet the fact remains that even Republican lawmakers expressed deep discomfort. It was a repulsion toward the very idea of buying and selling the right to hear the president's words first.

The preceding chapters of this book examined the empty-handed negotiations of the U.S.-China summit and the fracturing of alliances. Part 8 examines the intertwining of power and money that unfolded behind that diplomacy. We live in an era where oil prices and stock indices fluctuate at a single word from the president. Who hears that single word first decides who makes money. The next chapter examines how this same dynamic played out in the prediction markets.

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Chapter 42. The Polymarket and Kalshi Prediction Market Scandals

Hundreds of Millions of Won in Bets Hit the Mark Just Before Iran War and Tariff Announcements

> Tracking the incidents where massive bets hit the mark right before highly classified operations and policy announcements—such as airstrikes and ceasefires in the Iran war and the capture of Maduro—on prediction platforms where Donald Trump Jr. served as an advisor.

42.1 Stakes on the Welcoming Ceremony for Xi Jinping

On September 22, 2026, a new contract was listed on the prediction market Kalshi. The subject was the welcoming ceremony for President Xi Jinping, scheduled to take place two days later on the South Lawn of the White House. It was a contract predicting which words President Trump would utter in his welcoming remarks. There were 27 words available to bet on. By the morning of September 23, 42,196 contracts had been traded. The word "Taiwan" was trading at 8 cents. This meant the market priced the probability of its mention at around 8 percent. "Rare earths" was trading at 16 cents, and "Melania" at 42 cents.

That same day, the Division of Market Oversight at the U.S. Commodity Futures Trading Commission (CFTC) sent an advisory letter to exchanges. The letter concerned "mention markets," in which money is wagered on specific individuals' remarks. The CFTC wrote that such contracts could be presumed to be susceptible to manipulation. The rationale was that the outcome depends not on an aggregate measure, but on the actions of a single individual. The letter pointed out that individuals with access to speech drafts or advance remarks are positioned closest to the outcome. Just a month earlier, a White House staffer who viewed Trump's speech drafts in advance had actually been sanctioned.

A scene from the U.S.–China summit had turned into a betting commodity. The president's mouth, military operations, and the timing of tariff announcements were all objects of trading. This chapter chronicles what transpired in that arena from 2025 to 2026. In the background lies the fact that the president's eldest son was affiliated with both major platforms.

Prediction markets are exchanges where money is wagered on the outcomes of future events. Participants buy and sell "Yes" and "No" contracts. Contract prices fluctuate between $0 and $1. If the event occurs, the "Yes" contract settles at $1; if it does not, it settles at $0. Thus, the price directly represents the probability perceived by the market. If a contract purchased at 10 cents hits, the principal yields a tenfold return. It is a structure where anyone with advance knowledge of a low-probability event can make a fortune.

The two companies differ in character. Kalshi is a U.S. exchange registered with the CFTC. Users can trade only after completing identity verification, and all trades are reported daily to the CFTC. Polymarket originated as an offshore platform trading in cryptocurrencies. While transaction records are publicly visible on the blockchain, the identities of wallet owners are not disclosed. In November 2025, Polymarket obtained CFTC approval and opened a U.S.-dedicated exchange as well. In 2025, trading volume across major prediction markets exceeded $44 billion. Within the United States, Kalshi accounts for approximately 90 percent of the market.

42.2 The President's Eldest Son, Advisor to Both Exchanges

Donald Trump Jr. joined Kalshi as a strategic advisor in January 2025. It was one week before his father's second inauguration. Tarek Mansour, CEO of Kalshi, stated that his arrival would accelerate business expansion. The New York Times reported that he received an equity stake in Kalshi worth over $300,000 in exchange for his advisory role.

In August of that same year, he also joined Polymarket's advisory board. This came immediately after 1789 Capital, the venture capital firm where he is a partner, invested in Polymarket. The initial investment was reported to be tens of millions of dollars, later swelling to approximately $200 million. On September 1, 2026, 1789 Capital led a $1 billion fundraising round for Polymarket. The capital injected in this round was approximately $300 million. Polymarket was valued at $21 billion. This was a 40 percent jump from its $15 billion valuation four months earlier. The total capital commitment to Polymarket disclosed by 1789 Capital reached approximately $500 million.

Two competing exchanges had effectively enlisted the very same person as an advisor. That person's father decides the policies on which wagers are placed on both exchanges. The president's media company, Trump Media, is preparing its own prediction market, "Truth Predict." It is a structure in which the first family stands simultaneously on the side creating the market and the side moving the market. To date, however, there is no public evidence that Trump Jr. traded on nonpublic government information.

The government's stance also changed. Under the Biden administration, the Department of Justice and the CFTC investigated Polymarket. The allegations involved offering unregistered contracts to U.S. users. Polymarket had already paid a $1.4 million civil penalty to the CFTC in 2022. The investigations by both agencies were closed in July 2025, following the inauguration of the second Trump administration.

CFTC Chairman Michael Selig is a figure friendly to prediction markets. He maintains the position that prediction markets fall under the exclusive jurisdiction of the federal CFTC. He is also locked in court battles with state governments that seek to regulate sports contracts as gambling. In the spring of that year, the CFTC even operated with only the chairman remaining on the

commission. During 2025 alone, the two companies spent nearly $1 million on lobbying. Kalshi spent $615,000, and Polymarket spent $360,000.

42.3 The $33,000 on the Eve of Maduro's Arrest

On January 3, 2026, President Trump announced that the U.S. military had captured Venezuelan President Nicolás Maduro. The operation was code-named "Absolute Resolve." Immediately following the announcement, a newly created Polymarket account drew attention. This account had bought up contracts on whether Maduro would leave power by January 31. At the time, the market priced this probability in the single digits. The account had wagered over $30,000 leading up to the eve of the arrest. In initial reports, the payout collected by this account was reported to be $436,759. The account soon changed its username and ceased activity.

Three months later, the owner of the account was unmasked. On April 23, the U.S. Attorney's Office for the Southern District of New York indicted U.S. Army Special Forces Master Sergeant Gannon Ken Van Dyke. He was 38 years old and stationed at Fort Bragg, North Carolina. According to the indictment, he had participated in the planning and execution of the operation beginning around December 2025. He had also signed non-disclosure agreements pledging to safeguard operational secrets. Yet on December 26, he created a Polymarket account. Subsequently, he placed a total of approximately $33,034 in bets on Maduro- and Venezuela-related markets. Prosecutors calculated his profit at approximately $409,000. In Korean won, that is more than 500 million won.

Five charges were brought against him. They were misuse of classified government information, theft of nonpublic government property, commodities fraud, wire fraud, and engaging in monetary transactions in criminally derived property. The CFTC also filed a civil enforcement lawsuit in the same court. It sought disgorgement of ill-gotten gains, civil penalties, and trading bans. Jay Clayton, U.S. Attorney for the Southern District of New York, characterized this as blatant insider trading. He stated that prediction markets are not a haven for profiting off stolen classified intelligence.

Van Dyke tried to erase his tracks. After seeing media reports on the suspicious trades, he requested that Polymarket delete his account. He also changed the email address on his cryptocurrency exchange account to one not under his name. However, exchange records and search warrant materials ended up in prosecutors' hands. Polymarket stated that it had proactively alerted the Department of Justice and cooperated with the investigation. Van Dyke pleaded not guilty on April 28. He was released after posting a $250,000 bond. This case went down as the first instance in which federal criminal charges were brought for insider trading on a prediction market.

When asked about the case by reporters, President Trump answered that he knew nothing about it. He then asked back whether the soldier had bet on the operation's success or failure.

Legislation moved faster than the indictment. On January 9, Representative Ritchie Torres introduced the Public Integrity in Financial Prediction Markets Act. The bill prohibits federal officials from trading policy-related contracts using nonpublic information acquired through their official duties. Its targets include elected officials, political appointees, executive branch employees, and congressional staff. Thirty Democratic lawmakers, including former House Speaker Nancy Pelosi, joined as co-sponsors. Torres remarked that the intersection where prediction markets meet the federal government might be the most corrupt place in Washington. Kalshi CEO Mansour supported the bill. By contrast, Polymarket CEO Shayne Coplan had previously advanced a different logic. His argument was that reflecting inside information into prices quickly could benefit society as a whole.

42.4 The Iran War and a 98% Win Rate

On February 28, 2026, the United States and Israel launched airstrikes against Iran. Hours before the airstrikes, six newly created wallets sprang into action on Polymarket. They purchased contracts predicting whether the United States would attack Iran by February 28. The price of this contract had fallen as low as 10 cents at one point. Combined, the six wallets raked in approximately $1.2 million. Across contracts asking about the timing of the airstrikes, a total of $529 million flooded in.

There was also an account named "Magamyman." This account wagered $87,000 about 71 minutes before news of the airstrikes broke. The payout exceeded $553,000.

On March 24, CNN reported on another trader. This individual had made nearly $1 million from Iran-related bets since 2024. For bets of $10,000 or more, the win rate was 93 percent. All of this came from correctly calling unannounced military operations. Todd Phillips, a professor at Georgia State University, observed that it appeared to be either tremendous luck or insider trading—one of the two.

The same pattern continued during the war. On March 23, Trump announced a five-day postponement of airstrikes on Iranian power plants. The reason given was that productive discussions were underway with Iran. Right before the announcement, a massive wave of sell orders betting on falling oil prices hit the crude oil futures market. Senator Elizabeth Warren and others called on the CFTC to investigate. This crude oil futures trading was covered in detail in Chapter 12.

On the evening of April 7, Trump announced a ceasefire with Iran on Truth Social. Hours before the announcement, at least 50 newly created Polymarket accounts bet on a ceasefire. Blockchain analytics firm Bubblemaps calculated that this cluster of accounts netted over $600,000. One of those accounts turned approximately $13,200 into $467,515.

Bubblemaps' most significant finding was revealed on May 17 on the CBS news program 60 Minutes. It involved nine interconnected Polymarket accounts. All were created just days before the first airstrikes in late February. They placed almost all their funds on the actions of the U.S. military. They correctly predicted the date of the first airstrikes, the Iranian Supreme Leader's loss of power, and the date of the ceasefire announcement. Across more than 80 bets, their win rate was 98 percent. Even though many wagers carried low implied probabilities, the outcome was the same. Their net profits surpassed $2.4 million. Nicolas Vaiman, CEO of Bubblemaps, stated that this was a figure that luck alone could not explain. The profits were routed out through exchanges such as Bybit, Binance, and HTX.

Drawing firm conclusions is premature, however. Even CEO Vaiman conceded there was no evidence that these accounts belonged to Americans. The username of one account being "Whopper Lover" was about the only clue. There was also room to deduce the timing of airstrikes through public information and logical deduction. It could also have been bets capitalizing on Trump's frequent tendency to make threats and then back down. Wall Street dubs this habit "TACO"—short for "Trump Always Chickens Out."

Yet statistics point in a different direction. The Anti-Corruption Data Collective, a nonprofit organization, analyzed Polymarket trades. They separately examined cases where more than $2,500 was bet on military-related contracts with implied odds of 35 percent or less. More than half of these bets won. The win rate for non-military bets under the same conditions was only 14 percent. The group viewed this as a sign of systematic insider trading. Bloomberg's examination of data from analytics firm Polysights reached a similar conclusion. Among trades classified as anomalous, roughly $45 million was linked to the Iran airstrikes and ceasefire. Political and geopolitical events accounted for the largest share of suspicious trading on Polymarket.

In Israel, a similar occurrence became a criminal case first. In February, Israeli prosecutors indicted one reservist and one civilian. The charge was that they bet on Polymarket using operational intelligence obtained during military service. The Israel Ministry of Defense stated that such bets pose a tangible threat to operations and national security.

Bubblemaps pointed out that prediction markets themselves represent a security risk. Because adversary nations can also monitor the public order books. When money suddenly concentrates on a specific date, it signals the operational timeline. During the Iran airstrikes, some civilians reportedly checked Polymarket prices to decide whether to evacuate.

Investigations remain underway. On August 28, The Wall Street Journal reported that another active-duty service member was under investigation. The allegations were that this soldier reaped over $1 million on bets related to the Iran and Venezuela operations. The identity was not made public.

42.5 Short Selling One Minute Before the Tariff Announcement

Tariffs have been the largest variable shaking markets during Trump's second term. Suspicious trades surrounding tariffs emerged in cryptocurrency derivatives and equity markets before prediction markets.

On October 9, 2025, China announced tightened export controls on rare earth elements. At 4:50 p.m. Eastern Time the following day, Trump posted a message on Truth Social. The content announced that a 100 percent tariff would be imposed on Chinese goods. The cryptocurrency market immediately plummeted. In a single day, more than $19 billion in leveraged positions were liquidated. It was the largest such liquidation in cryptocurrency history.

Right before that, a large account on the decentralized derivatives exchange Hyperliquid drew attention. This account had placed enormous bets on drops in the prices of Bitcoin and Ethereum. The position had been building since the day before the announcement, surpassing $1 billion at one point. The final additional short sale occurred just one minute before Trump's post. Immediately following the crash, this account closed out most of its position. Profits are estimated between $150 million and $200 million. Analysts linked this wallet to a former crypto exchange CEO. The individual denied having any inside information. Since China's rare earth measures had already been announced, U.S. retaliation could be anticipated. Still, short sales persisting right up to one minute before the post fueled suspicions.

A similar scene unfolded on April 9 of that year. On that morning, Trump wrote on Truth Social: "Now is a good time to buy." Hours later, he announced a 90-day pause on reciprocal tariffs. The S&P 500 index rose 9.5 percent in a single day. Democratic lawmakers demanded an investigation into insider trading.

Tariffs are popular contracts in prediction markets as well. Millions of dollars were wagered on how the Supreme Court would rule on International Emergency Economic Powers Act (IEEPA) tariffs. After oral arguments in November 2025, the probability of a Trump victory on Kalshi dropped from near 50 percent to around 30 percent. Leading up to the decision, this probability fluctuated between the 20 and 30 percent ranges. The "tariff dividend"—promising to distribute $2,000 to citizens from tariff revenues—also became a contract. Polymarket estimated the likelihood of it materializing within the year at 3 percent. The Supreme Court ruling and subsequent developments were covered in Chapter 13.

As yet, there has been no confirmed case of insider betting on prediction markets ahead of a tariff announcement. Yet the underlying structure is identical to the bets on the Iran war. There are people who know the timing and content of announcements beforehand, and there is a market pricing that information. On top of this, paid services delivering the president's posts 50 milliseconds faster have emerged. This issue was examined in Chapter 40.

42.6 Speech Drafts Leaked from Inside the White House

On July 16, 2026, CNBC reported on an internal incident within the White House. It reported that Gabriel Perez, Trump's teleprompter operator, had made money on Kalshi. A teleprompter is a screen device displaying scripts for a speaker. Perez had operated Trump's teleprompter since his first presidential campaign in 2016. He bet on mention markets wagering whether specific words would appear in presidential speeches.

On August 28, the CFTC issued a consent order. A consent order is a procedure in which the parties agree on violations and sanctions to resolve a case. According to the order, Perez opened a Kalshi account in December 2025. He was able to receive and view speech drafts about an hour before the speeches. He bought "Yes" contracts only for words contained in the text. When the president skipped portions of the draft, he even flipped his positions mid-speech. Across 14 markets, he was correct on 39 out of 43 wagers. His net profit was $107,539. Targeted events included the February 2026 State of the Union address and the January Davos speech.

Kalshi's surveillance system caught the abnormal trading first. Kalshi froze his account and referred the case to the CFTC. Perez disgorged all profits and paid a civil penalty of $65,000. Combined, that came to roughly $172,000. He was also barred from trading on prediction markets for three years. The White House placed him on unpaid administrative leave before letting him go. Press Secretary Karoline Leavitt stated that it was the president's decision. There was no criminal indictment, and the case was resolved through civil sanctions. This incident is covered in detail in Chapter 43.

Vulnerabilities in mention markets surfaced in other incidents as well. Former Representative George Santos wagered money on contracts predicting attendees at the State of the Union address. He bet on whether he himself would attend. He attempted to move prices by spreading untruthful statements regarding his attendance. In July, the CFTC ordered him to pay approximately $35,000. On August 31, Kalshi permanently banned him and levied a penalty of $71,356.

The September 22 CFTC advisory letter came after these incidents. Yet the letter banned nothing. It merely went as far as requiring stricter justification when exchanges list new mention markets. Previously listed contracts were left untouched. During the month of September alone, Kalshi launched 13 Trump mention markets. More than 7.34 million contracts were traded across them. The market for the Xi Jinping welcoming ceremony was one of them.

42.7 Who Polices the Market?

It is not that the CFTC did nothing. On February 25, the CFTC Division of Enforcement issued an advisory stating that insider trading prohibitions apply to prediction markets as well. On March 12, it issued an advance notice of proposed rulemaking for prediction market regulations. Around June,

it announced plans to track anomalous trading using artificial intelligence surveillance tools. However, Chairman Selig's focus was tilted toward industry growth. He focused his efforts on litigation to block regulation by state governments. Thirty-eight states submitted amicus briefs supporting state regulatory authority. Minnesota sought to punish the operation and advertising of prediction markets as a felony from August 1, but a federal court blocked the law with a preliminary injunction in late July, days before it took effect.

The White House made moves as well. On March 24, the White House Office of Administration sent an email to all staff. The email warned that trading on Kalshi or Polymarket using nonpublic information was subject to criminal prosecution. This was the day after suspicious crude oil futures trades surfaced. Yet President Trump's reaction was lukewarm. When questioned in April about bets on the Iran war, he replied that the world had become a sort of casino. He added that while he disliked it conceptually, that was the reality.

Legislation flooded into Congress. In March, Senator Chris Murphy introduced the BETS OFF Act to ban contracts wagering on war and government actions. On March 10, the DEATH BETS Act was introduced to ban contracts betting on assassinations and disasters. On April 30, Senators Kirsten Gillibrand and Dave McCormick introduced a bipartisan bill. The bill barred the president, vice president, members of Congress, and senior officials from trading on prediction markets. In late April, the Senate passed a resolution banning senators and staff from trading on prediction markets. On May 22, House Oversight Committee Chairman James Comer launched an investigation into both platforms. The investigation targeted identity verification procedures and anomalous trade monitoring practices.

There are gaps in these bills. They fail to directly address conflicts of interest involving the first family. Trump Jr. is not a public official. The president and vice president are exempt from federal criminal conflict-of-interest statutes. Proposals barring trades by the president, such as the Gillibrand bill, have not yet passed.

The platforms have also made self-policing efforts. Polymarket strengthened its rules against insider trading in late March. It stated that it had referred roughly 100 wallets to law enforcement by July. Kalshi introduced procedures to filter out relevant trades by politicians and athletes. Yet according to Bloomberg's analysis, suspicious trading did not abate. New methods to evade surveillance are also proliferating.

No one knows precisely how much money moved on insider information. Professors Joshua Mitts of Columbia University and Moran Ofir of the University of Haifa produced an estimate. They analyzed more than 210,000 Polymarket transactions from 2024 to early 2026. Anomalous profits totaled approximately $143 million. The researchers referred to this not as insider trading, but as "informed trading." They also explained that this was a conservatively estimated lower bound. Professor Harry Crane of Rutgers University criticized the findings, arguing that highly profitable

trades were overstated as suspicious. While the figures remain under debate, there is little dispute that the problem is real.

42.8 The Betting Ring Outside the Negotiating Table

The events in this chapter may appear detached from the summit stage. Yet the two are connected. This is because they revealed where signals of U.S. policy leak out first. Allies and competitors do not need to wait for White House announcements. They can simply watch the price movements on Polymarket. As CEO Vaiman put it, prediction markets have become tools of information warfare.

Beijing watches these ledgers as well. The signing of Taiwan arms sales, extensions of rare earth waivers, and tariff ceasefire deadlines can all become tradable commodities. If someone inside the U.S. government wagers money, that price becomes a signal to the negotiating counterpart. Bargaining power stems from information asymmetry. At this summit, the United States was leaking that asymmetry across public ledgers.

This is not someone else's problem for South Korea either. Under the South Korean Criminal Act, wagering money in this manner is deemed gambling. It is thus easy to regard it as a story distant from domestic investors. However, U.S. tariff and military announcements immediately rock Korean stock markets and exchange rates. Anyone who knows the timing of announcements in advance can profit in the Seoul market as well. The asymmetry of policy information originating from the United States is an invisible cost borne by Korean investors. Financial authorities need to monitor U.S. prediction market prices as policy signals. Establishing conduct regulations for domestic public officials who use overseas platforms is another task to address.

To date, those who have been punished are all working-level personnel: the non-commissioned officer who participated in the operation and the teleprompter operator who loaded the speech drafts. Meanwhile, the side that built the betting arena only grew in size. Polymarket, where the president's eldest son is affiliated, attained a valuation of $21 billion. No illegality was established in that process. Yet legality does not erase the conflict of interest. The president's decisions become traded commodities, and the president's son sits inside that exchange. With such a structure, who could possibly believe in the fairness of the market?

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Chapter 43. The White House Teleprompter Operator's Nonpublic-Information Trading and the Arrest of a U.S. Army NCO for Classified Speculation

> The Reality of Power-Based Insider Trading: A White House Teleprompter Operator and an Army Master Sergeant with Advance Knowledge of an Operation Caught Conducting Hundreds of Millions of Won in Speculative Bets on Prediction Markets

43.1 What the Two Sold Was Information

Throughout 2026, two names were repeatedly spoken in Washington. One was Gabriel Perez, a teleprompter operator working at the White House. The other was Gannon Ken Van Dyke, a U.S. Army Special Forces Master Sergeant.

The two men did not know each other. Where they worked and what they did were completely different. Yet they shared a single commonality: The allegation that they had turned state information, acquired before anyone else, into money.

Perez knew in advance what the president would say in his speeches. Van Dyke knew in advance the date when they would go to capture the president of Venezuela. Both men took that information to prediction markets.

A prediction market is an exchange where participants wager money on future events. They buy and sell "Yes" and "No" shares on questions such as "Will interest rates rise next month?" If the prediction is correct, a trader receives $1 per contract; if incorrect, they lose the money spent to purchase it. In the United States, Kalshi and Polymarket lead this market. Both companies are subject to oversight by the Commodity Futures Trading Commission (CFTC).

In Chapter 42, we examined the suspicions of massive bets placed ahead of the Iran war and tariff announcements. In most of those suspected cases, the identities of the traders never came to light. The two cases examined in this chapter are different. Names, accounts, and transaction records were all laid bare to the public. Consequently, these two cases provide a concrete demonstration of how information leaking from close proximity to power turns into money.

43.2 A New Gambling Arena Called the 'Mentions Market'

To understand the Perez case, one must first understand Kalshi's "Mentions market." A mentions market is an instrument designed to bet on whether a prominent figure will say a specific word during a speech. Money is wagered on questions such as: "Will the president say 'tariffs' in today's speech?" Questions like "Will he say 'Iran' more than three times?" are also offered.

Initially, this market seemed like lighthearted amusement. Even during Trump's inauguration in January 2025, substantial sums exchanged hands over words spoken in the address. One research firm estimated that $1.4 million poured into bets on the inaugural address's words alone.

The problem was that someone had advance access to the speech manuscripts. Until delivery, presidential speeches are seen by only a small handful of individuals: The writers, the reviewers, and the person who loads the text onto the screen. In a mentions market, someone who has viewed the speech draft in advance is like a test-taker holding the answer key.

43.3 An Hour Before the Prompter: The Gabriel Perez Case

Gabriel Perez was a technical aide to President Trump. He had handled Trump's teleprompters since the 2016 presidential campaign. A teleprompter is a device that displays a speech manuscript onto glass panels in front of the speaker. Federal personnel records show that he worked in both the first and second administrations. Even at an investment event in Miami Beach in March 2026, he was seen wiping down the prompter glass in front of the president.

According to the findings disclosed by the CFTC: Perez had access to presidential speech manuscripts approximately 60 minutes prior to delivery. During that one-hour window, he purchased contracts in Kalshi's mentions markets. He bought them already knowing the words the president would say.

The trading period spanned roughly three months, from December 2025 to February 2026. ABC News reported that he wagered on more than a dozen speeches. These included an evening address to the nation in December. They also included the January speech at the World Economic Forum in Davos, Switzerland. The February State of the Union address was included as well. The CFTC calculated that he netted $107,539.02 in profits from these trades.

It was not the government that caught him first, but Kalshi. Kalshi's trade surveillance team detected suspicious trading patterns. Kalshi froze his account, locking in more than $90,000 in profits within the account. After concluding its internal investigation, Kalshi referred the matter to the CFTC. Kalshi's rules prohibit trading on information obtained through one's employment duties.

The case became known to the world on July 16, 2026. ABC News was first to report Perez's name and the allegations. CBS News promptly confirmed the report. Robert DeNault, Kalshi's head of enforcement, stated that the company's surveillance team caught the transactions and referred them to authorities.

The White House initially placed him on unpaid administrative leave. Press Secretary Karoline Leavitt explained that this was done at the president's direction. Leavitt described the episode as

"deeply regrettable and frankly embarrassing." On July 28, a White House official confirmed that he was no longer employed by the federal government.

It is difficult to believe the White House was unaware of such matters. The White House Office of Administration had sent a memo to staff on March 24, 2026. It was a warning not to bet on prediction markets using non-public information. By then, however, Perez's trading had already concluded.

43.4 The Sanctions: Disgorgement, Civil Penalties, and a Three-Year Trading Ban

On August 28, 2026, the CFTC announced its settled order with Perez. He was required to disgorge the entire $107,539.02 earned from the trades. In legal terminology, this is known as disgorgement of ill-gotten gains. On top of this, a $65,000 civil monetary penalty was imposed. The two combined totaled $172,539.02.

The media frequently referred to this sum as a "$172,000 fine." However, the actual civil penalty was $65,000. The remainder represented the return of the money he had made. The CFTC noted that it reduced the penalty by approximately 40 percent because he had actively cooperated with the investigation. He was barred from trading on CFTC-regulated markets for three years. Kalshi likewise barred him from its platform for the same duration. In reaching the settlement, he neither admitted nor denied the allegations.

The CFTC determined that he breached the duty of trust and confidence he owed as a federal employee. Specifically, he used material non-public information obtained through his official duties for personal gain.

There was no criminal penalty. According to ABC News reporting, the CFTC notified the U.S. Attorney's Office for the Southern District of New York during the investigation. However, federal prosecutors did not open a criminal investigation. Consequently, Perez was neither arrested nor indicted. The price he paid was dismissal, disgorgement, a civil fine, and a trading ban.

A month earlier, on July 31, a similar enforcement action had taken place. Former Representative George Santos reached a settlement with the CFTC agreeing to pay approximately $35,000 over trades in Kalshi's State of the Union market. Santos had wagered in that market while publicly posting false statements regarding whether he would attend the State of the Union address. Sanctions surrounding prediction markets were thus handed down in succession within a single month.

43.5 'Burdensome-Mix': The Suspicious Account on the Eve of the Maduro Operation

If the Perez case was a matter of a single speech manuscript, the Van Dyke case was a matter of military secrets.

In the early morning hours of January 3, 2026, U.S. forces staged a raid on Caracas, the capital of Venezuela. The mission was designated "Operation Absolute Resolve." U.S. forces captured President Nicolás Maduro and his wife, Cilia Flores. The two were transferred aboard the amphibious assault ship USS Iwo Jima and subsequently transported to the United States. Maduro is currently standing trial in federal court in Manhattan, New York, on charges including narco-terrorism conspiracy.

On the day of the operation, political investigator Tyson Brody spotted a strange account on Polymarket. The account username was "Burdensome-Mix." This account had been created barely a week prior. Yet it held the single largest position of "Yes" contracts in the market "Will Maduro leave power before January 31?"

At the time, this market viewed the likelihood of Maduro's ouster as slim. A single "Yes" contract was trading at around 7 cents. This meant the market priced the probability at roughly 7 percent. Under these circumstances, the new account poured $32,537 into that single market.

When the operation succeeded, the contract settled at "Yes." From this single wager alone, the profit amounted to $404,222. The total payout, including the initial principal, was $436,759.61. The principal had multiplied by approximately 13.4 times.

Once reports surfaced, the username was changed to an indecipherable combination of letters and numbers. On January 5, NPR raised suspicions of insider trading regarding this account. Multiple internet sleuths attempted to track down the owner, but failed. One legal expert expressed skepticism that the matter could be prosecuted criminally. The reason was that it would be difficult to prove that the government suffered any tangible loss.

43.6 The Mask Comes Off: The Arrest and Indictment of Master Sergeant Van Dyke

The owner of the account, anonymous for more than three months, was revealed on April 23, 2026. The U.S. Department of Justice unsealed an indictment from the U.S. Attorney's Office for the Southern District of New York. The account owner was Van Dyke, a Special Forces Master Sergeant stationed at Fort Bragg, North Carolina. He was 38 years old at the time. Federal investigators had arrested him the night before the announcement.

The indictment outlined the sequence of events as follows: Van Dyke participated in the planning and execution of the operation to capture Maduro. He had received classified security training and signed non-disclosure agreements. The agreements contained pledges never to disclose operational information to anyone.

In late December 2025, he created a Polymarket account and deposited funds. Over the ensuing week, he placed 13 wagers across markets related to Venezuela and Maduro. Across four markets, the total wagered was $33,034. The Department of Justice calculated his overall net profit at approximately $409,881.

On the day of the operation, he withdrew most of his profits from the Polymarket account. The money was transferred to a newly created cryptocurrency wallet. The indictment stated that he concealed his connection location using a Virtual Private Network (VPN). He changed the email address linked to the exchange account. As media coverage mounted, he also requested that Polymarket delete his account.

Yet traces remained. After Maduro was brought aboard the USS Iwo Jima, a photograph was taken of Van Dyke in uniform holding a rifle. That photograph had been uploaded to his Google account. Prosecutors presented grand jury subpoenas, cryptocurrency exchange records, search warrants, and social media accounts as evidence. Polymarket also announced that it had identified a user trading on classified information and referred the case to the Department of Justice.

Prosecutors brought five charges against him: First, unlawful use of confidential government information for personal gain. Second, theft of non-public government information. Third, commodities fraud. Fourth, wire fraud. Fifth, engaging in monetary transactions in criminally derived property. If convicted on all counts, he faces a theoretical maximum of up to 60 years in prison. The CFTC also filed a separate civil enforcement action against him on the same day.

On April 28, Van Dyke pleaded not guilty in federal court in Manhattan. The court released him on a $250,000 bond. He had to surrender his passport and firearms, and his travel was restricted. His defense attorney, Mark Geragos, called him an "American hero." Geragos argued that his client had been indicted for actions that "are not a crime."

43.7 The Legal Battle: Are Prediction Market Contracts Swaps?

The Van Dyke case is the first federal criminal case involving prediction market insider trading to advance to trial. On June 8, 2026, the court tentatively set the trial date for December 7. The CFTC's civil lawsuit has been stayed pending the outcome of the criminal trial.

The defense team's counterattack is two-pronged.

One prong centers on classified information. Geragos argued that to prove guilt, prosecutors must disclose the operational decision-making process. They would need to reveal who was inside the White House Situation Room and who made the final decisions. This is a standard strategy employed by defendants in trials involving state secrets. If the government is reluctant to disclose classified intelligence, the prosecution's case can be thrown into disarray.

The other prong centers on statutory application. Prosecutors treated Polymarket contracts as "swaps" under the Commodity Exchange Act (CEA). A swap is a financial contract in which two parties agree to exchange payments based on a future value. If classified as swaps, CFTC regulations and statutory provisions against commodities fraud apply. In an August motion to dismiss the indictment, the defense attacked this core premise. They argued that prediction market bets are gambling, not swaps. If that argument holds, the legal foundation for three of the five counts is undermined. The defense team characterized the indictment as a government "experiment."

The CFTC requested permission from the court to submit an amicus brief on this issue. On August 24, the defense filed an opposition brief. The rationale was that the CFTC is not a neutral friend-of-the-court, but an interested party litigating its own concurrent case.

The outcome of this trial extends far beyond the fate of a single individual. If the court determines that the contracts are swaps, the entire prediction market industry will become subject to insider trading regulations on par with securities markets. If it rules the other way, individuals in possession of state secrets will find an escape route through the regulatory cracks of gambling law.

43.8 Perez and Van Dyke: Why Their Penalties Diverged

While the actions of the two men were similar, the outcomes differed dramatically. Van Dyke was arrested and faces a criminal trial on five felony counts. Perez was never arrested, concluding his matter through a civil settlement.

The divergence stems from the nature of the information. The information Van Dyke used was classified military intelligence. U.S. law treats the misappropriation of classified secrets for personal profit as a criminal offense. The speech drafts Perez handled were not classified documents. They were manuscripts set to be disclosed to the world an hour later. This context likely explains why prosecutors did not open a criminal investigation. However, prosecutors never publicly disclosed the reasons for not prosecuting.

The dollar figures and operational ramifications also differed. Van Dyke's profit of approximately $410,000 was nearly four times that of Perez. Moreover, the timing of his trades came just before troops were deployed into action. If operational intelligence is reflected in market prices beforehand, the enemy could be tipped off. For the same reason, Israeli authorities indicted a reservist and two civilians in February 2026. The two individuals were charged with wagering on

Polymarket using military operational intelligence. The Israel Defense Forces stated that such bets posed a tangible danger to military operations and national security.

43.9 Criticism That the Blade Strikes Only Downward

As the two cases came to light, the direction of criticism quickly pointed upward. The question was why lower-level operatives were being caught while the corridors of power remained untouched.

Critics cited several compelling points.

First is the relationship between prediction markets and the president's family. President Trump's eldest son, Donald Trump Jr., served concurrently as an advisor to both Kalshi and Polymarket. 1789 Capital, a venture capital firm in which he participates, invested in Polymarket. The agency overseeing both companies is the CFTC. Experts pointed out that because of these ties, it was difficult for the CFTC to deal aggressively with either company.

Second is the stock trading that took place within Congress during the same period. Senator Markwayne Mullin purchased shares of Chevron and RTX on December 29, 2025. This was just five days before the Maduro operation. The transactions were disclosed at between $15,001 and $50,000 for each stock. Chevron is the only major American oil company producing in Venezuela. RTX, formerly Raytheon, is a massive defense contractor for the U.S. Department of Defense. Mullin was a member of the Senate Armed Services Committee, which receives classified intelligence briefings. He was subsequently nominated as Secretary of Homeland Security. Mullin's office explained that a third-party asset manager handled all of his investments. To date, no evidence has surfaced indicating that he bought the stock with advance knowledge of the operation. Nor was any investigation opened.

Third is the weakening of the anti-corruption enforcement apparatus. The Department of Justice's Public Integrity Section (PIN) was created in 1976 in the aftermath of the Watergate scandal. It is an organization of prosecutors dedicated exclusively to public official corruption. In September 2025, the American news outlet NOTUS reported that the number of full-time prosecutors in this section had plummeted from 36 down to just two. The rest had quit under pressure, resigned in protest, or been reassigned elsewhere. It was the smallest headcount since the section's establishment in 1976.

These facts do not automatically prove illegality on the part of high-ranking figures. Yet the monitoring apparatus shrank, conflicts of interest grew entangled, and punishment landed exclusively upon operational staffers. This is why citizens felt that the sword of the law cuts only downward.

43.10 Institutional Loopholes and Legislative Attempts

The laws preventing insider trading in prediction markets remain ill-defined. In securities markets, decades of accumulated insider trading case law exist. In prediction markets, almost no such case law exists. This is why the Van Dyke trial serves as the de facto first litmus test.

Congress did take action. Democratic Representative Ritchie Torres introduced a bill shortly after the Maduro betting came to light. Its title was the "Public Integrity in Financial Prediction Markets Act of 2026." The measure covers federal elected officials, political appointees, executive branch civil servants, and congressional staffers. It bars them from buying or selling contracts related to policy or political outcomes using non-public information obtained—or obtainable—through their official duties. Thirty Democratic lawmakers, including former House Speaker Nancy Pelosi, signed on as co-sponsors. Kalshi CEO Tarek Mansour also expressed support for the bill. As of the writing of this manuscript, there has been no news of the bill passing into law.

There were movements from Republicans as well. In May 2026, Representative James Comer, Chairman of the House Oversight Committee, demanded documents from Polymarket. The request covered betting records and internal communication records related to Maduro.

The industry also belatedly bolted the doors. Kalshi amended its rules to require users to disclose their employer. Knowing a user's employer makes it possible to filter out in advance those who might trade on official duty information. Polymarket had previously drawn criticism when its CEO made remarks seemingly defending insider trading. Following this scandal, however, it stated publicly that insider trading has no place on its platform.

43.11 Conclusion: To Whom Does Information Belong?

The scale of these two cases is small compared to the suspicions surrounding oil futures examined in the previous chapter. The money Perez made was just over $100,000. The money Van Dyke made was roughly $410,000.

Yet the two cases left behind one unmistakable question: To whom does information generated by the state belong?

A presidential speech manuscript is written to be released to the public all at once. A military operational plan is a secret bought with taxpayers' money and soldiers' lives. Neither piece of information is the private property of the public servants who handle it. When someone who sees that information first wagers money, ordinary users on the other side lose their funds. The "wisdom of the crowd" championed by prediction markets crumbles at this very point.

The two cases also demonstrate that institutions did not entirely fail to function. Kalshi's surveillance team caught Perez. Polymarket handed Van Dyke over to the Department of Justice.

The CFTC and prosecutors each initiated enforcement actions.

The remaining question is how far this blade can reach. The staffer who polished the prompter and the NCO who deployed to the battlefield stood before the courtroom and the settlement agreement. Only when the same yardstick reaches upward to the seats where policy is decided will the claim that all are equal before the law finally earn trust. The trial of Master Sergeant Van Dyke, scheduled for December 7, will serve as its first test.

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PART 9

The White House War on the Press and the Violent Cuts to Social Welfare

Chapter 44. The White House Ban on CNN, MS NOW, and Politico and the Five-Broadcaster Press Pool Boycott

> A Chronicle of the Week When the Five-Network Pool Boycotted All Presidential Coverage in Protest After Major Outlets Were Barred from the White House over Critical Reporting

44.1 A Friday Afternoon Post

On Friday afternoon, September 18, 2026, President Trump posted a message on Truth Social. The message announced that CNN, MS NOW, and Politico were being banished from the White House. The post opened with a sentence stating that he was proud to announce the action. The president wrote that the ban would take effect immediately. As the rationale, he cited the three outlets' relentless reporting of "fake news."

He wrote that the media must not write fiction and lies about the president, the administration, and the United States. The final line warned that other fake news outlets would follow. A single post instantly became policy.

MS NOW is the former MSNBC. It changed its name after NBCUniversal's cable channel division was spun off. The three outlets have distinct characteristics. CNN is a 24-hour news network, and Politico is a publication specializing in Washington politics. The president had only one criterion for lumping them together: they frequently published stories unfavorable to him.

Reporters questioned him at the White House that day. When asked which outlets would follow, Trump singled out The New York Times and The Washington Post. Asked why now, he replied that it was not because of any single article. He explained that the cumulative body of coverage over a long period was the reason.

He asserted that these outlets deliberately wrote negative stories. It was an attempt, he claimed, to undermine the Republican Party and the Republican administration. When a Bloomberg reporter asked whether he was trying to intimidate the press, he retorted that he simply disliked dishonest media like them.

There was a preceding context to this post. Reports had emerged that U.S. military ammunition stockpiles had dwindled due to the Iran war. At the time, Trump branded the outlets carrying that news "treasonous scum." Reporting on the costs of the war incurred the president's rage, and that rage culminated in the ban.

On the same day, Trump also claimed that Politico had received government subsidies. Politico pushed back, stating that the allegation had already been established as false.

44.2 Saturday Morning, Hard Passes Confiscated at the Gate

The following morning, Saturday, September 19, the ban became reality. White House correspondents from the three outlets arrived for work as usual: Betsy Klein of CNN, Akayla Gardner of MS NOW, and Cheyenne Haslett of Politico.

None of the three were allowed through the front gates. Gardner reported the situation on live television. A security officer informed her that her badge had already been deactivated and confiscated her credential. The officer added that this decision was not made at his level. The MS NOW photojournalist's badge was also blocked. Yet a producer from the same network managed to enter the grounds. This meant that even the enforcement criteria for the ban were erratic and arbitrary.

Klein and Haslett also had their credentials confiscated. Politico stated that the Secret Service had barred its reporter from entering and seized her pass. The Secret Service is the federal agency tasked with presidential security.

The credentials confiscated here were the permanent access badges known as "hard passes." They are issued following a background check by the Secret Service. Journalists need this pass to enter the White House grounds and work each day. Behind the press briefing room beside the West Wing are designated workspaces for each outlet. That day, the workspaces of CNN and MS NOW stood empty.

A senior White House official defended the ban to NBC News. The explanation was that fake news outlets had spread falsehoods about the president and the administration for far too long. He argued that such reporting harmed the very foundation of American democracy. Another senior official struck a very different tone, admitting that several aides, including communications staff, had no advance knowledge of the president's plan. In essence, a state institution's press policy had been decreed through a single post without so much as a staff meeting.

The three outlets immediately issued statements. CNN declared that it stood by the fair and accurate reporting of its White House team. It added that the Constitution guarantees the right to report without government interference. Politico affirmed that it would continue to cover this White House and the next one fairly. MS NOW emphasized that the White House belongs to the American people and that the decisions made inside it are funded by taxpayers.

Responses from press organizations quickly followed. The White House Correspondents' Association (WHCA) noted that the president himself had described his action as a "ban on the free press." The association stated that the constitutional protections afforded to the press do not depend on the whims or preferences of a president. Brian Stelter, CNN's media analyst, remarked that this went far beyond CNN. His assessment was that it represented a defining test of free expression in America.

Reporters Without Borders (RSF) stated that White House access is not a privilege reserved for journalists; it is the right of American citizens to receive independent information. RSF announced it would examine legal action. Amnesty International criticized the president, stating that he was seeking to stifle criticism and evade accountability.

Jameel Jaffer, executive director of the Knight First Amendment Institute at Columbia University, unraveled an additional layer of the problem. He pointed out that if the president intended to strip the three outlets from the press pool as well, the constitutional violation would be twofold. The underlying reasoning was that the press pool constitutes a "public forum" under the First Amendment. In a public forum, the government cannot exclude individuals based on viewpoint.

Seth Stern of the Freedom of the Press Foundation put it even more trenchantly. He observed that it was difficult to conceive of a more blatant constitutional violation than expelling the press from the People's House simply for criticizing the government. He added that it was equally difficult to imagine a more foolish move.

There is a long-standing legal precedent underlying this debate: the 1977 ruling by the U.S. Court of Appeals for the D.C. Circuit in Sherrill v. Knight. The court held that so long as the White House makes facilities available to journalists, it cannot arbitrarily deny access. To deny access, it must provide factual grounds, offer an opportunity for rebuttal, and articulate the final decision in writing. Not a single one of these procedural requirements was met in the post of September 18.

44.3 How the Press Pool Operates

To understand why this crisis escalated, one must understand pool reporting. In pool coverage, a small contingent of reporters covers events on behalf of the entire press corps and shares the findings with all media outlets. Its structure resembles the representative pool coverage practiced by press corps attached to South Korean government ministries.

Not every journalist can follow wherever the president goes. Aboard the presidential aircraft, Air Force One, there are only 13 press seats. The Oval Office is likewise cramped. Thus, on any given day, a designated rotation of a few media outlets travels as pool representatives.

Pool reporters log the exact minute the presidential motorcade departs and when Air Force One takes off. They transcribe whatever remarks the president makes before boarding. The content is usually routine. Yet assembled together, these dispatches form the public record of the president's day. The strict principle of pool reports is that they must never incorporate commentary.

The television pool is the centerpiece of this apparatus. Five networks—ABC, CBS, CNN, Fox News, and NBC—rotate pool duty in alphabetical order. While they are commonly called the "five broadcast networks," there is technically a distinction: ABC, CBS, and NBC are terrestrial broadcast

networks, whereas CNN and Fox News are cable news channels. In this chapter, they are collectively referred to as the "five networks."

The designated pool network carries camera and audio equipment into the room. The raw video and audio feeds captured are fed directly to all other networks. Local affiliates, online streaming channels, foreign news organizations, and Capitol Hill broadcaster C-SPAN all rely on this feed. Most of what audiences worldwide see of the American president on television originates from this pool camera.

Pool reporters have witnessed the defining moments of modern American history. When President Franklin D. Roosevelt died in Georgia in 1945, three wire service reporters were by his side. When John F. Kennedy was assassinated in Dallas in 1963, pool reporters were riding in the motorcade. Pool reporters documented Richard Nixon's 1972 visit to China and the 1981 assassination attempt against Ronald Reagan. The same was true on September 11, 2001, when President George W. Bush was informed of the terrorist attacks at an elementary school in Florida.

For over a century, this system was administered by the White House Correspondents' Association. Journalists themselves, rather than the government, established the rotation and rosters. It was a safeguard designed to prevent the government from handpicking only compliant reporters.

In February 2025, the Trump administration upended this framework. The White House seized direct control over pool selection. Press Secretary Karoline Leavitt declared that participation in the pool was a privilege, not a legal right. Peter Baker of The New York Times wrote that the move recalled how the Kremlin seized control of its own pool to admit only submissive reporters.

That same month, the Associated Press became the first target. When the AP refused to change the "Gulf of Mexico" to the "Gulf of America," the White House excluded the wire service from Oval Office and Air Force One coverage. A federal district court ruled in favor of the AP, but an appeals court temporarily permitted exclusion from certain restricted spaces. That litigation remains unresolved. The AP case involved exclusion from confined spaces. The actions of September 2026 went a decisive step further by barring access to the White House grounds entirely.

44.4 Monday, the Cameras Go Dark

Over the weekend, the White House took an additional step. The designated TV pool duty for Monday, September 21, belonged to CNN. It was a rotation schedule fixed well before the ban. At 10:55 PM on Sunday night, the White House released the following day's schedule guidance. CNN's name had been erased from the guidance.

The remaining four networks refused to fill CNN's slot. On Monday, Bryan Boughton, chair of the TV pool, circulated a memo. Boughton was the Washington bureau chief for Fox News. The crux of

the memo was succinct: effective today, the TV pool would not cover events designated for presidential pool coverage. He clarified that pool coverage of other government entities, such as Congress, would proceed as normal.

The shared camera focused on the president ground to a halt. An unprecedented collective refusal by all five television networks to cover the president had begun. That the person declaring the boycott was the bureau chief of Fox News added profound symbolic weight.

The impact became visible that very afternoon. The president cut a ceremonial ribbon at the dedication of a new White House helipad. There was no joint network pool footage capturing the scene. The president's remarks were barely intelligible. The pool audio crew that customarily supplied crisp sound feeds was simply not there.

Solidarity spread beyond the broadcast networks. Still photojournalists adopted a similar stance. Public radio network NPR declared that it would refuse to air White House event audio for the duration of the standoff. Outside the AP booth on the White House grounds hung a sign of solidarity. It was a sign originally mounted after the AP's exclusion in 2025. On September 21, the names "CNN, MSNOW, POLITICO" were freshly affixed to it.

That same day, the three outlets filed a lawsuit in federal court. The course of this legal battle is examined in detail in Chapter 45.

44.5 Fox News's Choice and Navarro's Fury

In this boycott, the outlet that drew the most attention was Fox News. Fox is the conservative network most watched by Trump's base. Administration officials appear on Fox daily to deliver news and promote administration policies. Yet that very network joined ABC, CBS, and NBC in issuing a statement opposing the president's action.

The person inside the White House who reacted with the greatest fury was Peter Navarro. Navarro served as President Trump's senior counselor for trade and manufacturing. In 2024 he had served four months in prison for contempt of Congress. On Wednesday, September 23, he unleashed a flurry of posts on social media.

Navarro urged cabinet secretaries, agency heads, White House officials, and administration surrogates to refuse all appearances on Fox News and Fox Business. He also declared that Fox no longer held a monopoly over conservative media. While Fox might call this solidarity, he wrote, in his view they were taking revenge against a president they had never liked. He also leveled the charge that Fox was "wearing our uniform while playing for the other team."

He advanced the same claims when appearing on the pro-Trump outlet Real America's Voice. He asked why the administration was still supplying its talent to Fox. He accused Fox of wearing

Republican-colored clothing while assisting the other side to destabilize the president. He boasted that Real America's Voice could more than fill the void left by Fox.

There was prior history behind the feud between Navarro and Fox. Earlier that month, Fox had parted ways with longtime anchor Maria Bartiromo. Bartiromo was widely recognized as a staunch Trump supporter. According to reports, Bartiromo had fallen under suspicion of leaking internal management directives to Navarro concerning an interview that network leadership had canceled. Following that episode, Navarro had been publicly attacking Fox.

Yet Navarro's appeal failed to become administration-wide policy. The administration continued sending guests to Fox. Fox, for its part, refused to back down from the press solidarity.

This was not the first time Fox had stood alongside CNN. In July 2018, the White House excluded CNN reporter Kaitlan Collins from a Rose Garden event. The issue had been questions Collins shouted in her role as a pool reporter. At the time, Fox News President Jay Wallace issued a statement affirming strong solidarity with CNN. When the White House barred outlets including CNN and The New York Times from an off-camera briefing in February 2017, Fox similarly joined the TV pool chair's formal protest. In short, while the television networks fiercely competed against one another, they had consistently acted in concert when journalistic access was threatened.

The very architecture of pool reporting underpins this solidarity. If CNN could be stripped away today, any network could be eliminated tomorrow. The network on duty does not hold the camera for its own company; it holds it on behalf of the entire press corps. Exclusion targeting one network thus amounts to an assault on the pool as a whole.

44.6 Those Who Filled the Void

As mainstream networks withdrew, pro-Trump outlets stepped in to fill the vacuum. Prominent among them were Real America's Voice and Lindell TV. Lindell TV is owned by Mike Lindell, the businessman who has persistently denied the results of the 2020 presidential election. Real America's Voice was listed as a secondary camera crew for the president's events in New York. During the president's attendance at the United Nations General Assembly, it effectively served as the lead camera crew.

The outlet published footage captured from inside the presidential motorcade. It showed the vehicle carrying the president departing the UN and traveling through New York. Pro-Trump influencers celebrated the footage, hailing it as vivid proof of the immense challenges involved in presidential security. However, it is customary to avoid releasing footage from inside the motorcade for security reasons. Critics pointed out that assigning pool duties to an inexperienced outlet had led to a breach of basic security protocols.

Troubles recurred on Wednesday, September 23. The president spoke to reporters in front of Real America's Voice's camera. Yet the president's voice was virtually inaudible, drowned out by ambient noise. At this session, the president boasted about the White House exterior renovations and the controversial ballroom construction project. In this broadcast, questions directly affecting the lives of ordinary citizens—such as the Iran war, surging oil prices, or tariffs—were nowhere to be found.

The White House resorted to other tactics as well. On Monday evening, the White House launched a 24-hour streaming channel called "Trump TV." The channel aired presidential video feeds and speeches around the clock across YouTube and the White House website. Its debut broadcast was a recording of the president's speech at Mount Rushmore from the previous July. The White House promoted it as delivering only the critical news of the administration without extraneous noise. In truth, it was an effort to project images of the president completely unfiltered by journalistic questioning or editing.

Senior administration officials mounted a defense of the ban. Vice President JD Vance stated that special access to the White House could not be granted to outlets engaging in what was essentially far-left propaganda. He insisted that this was a matter of basic fairness. In an NBC interview on September 22, Secretary of State Marco Rubio argued that the administration was not shutting CNN down. He maintained that police or soldiers were not kicking down the network's doors to arrest anyone. His rationale was merely that the three outlets were no longer permitted to work within the White House workspace.

The official White House stance adhered to the same line of reasoning: the First Amendment protects the right to publish, but does not guarantee access to the White House, the briefing room, or the press pool.

That same day in New York, a starkly different scene unfolded. New York City Mayor Zohran Mamdani welcomed Trump at the mayoral residence, Gracie Mansion. Mamdani stated that he had informed the president he wanted all media outlets present at the gathering. He declared that regardless of an outlet's opinions or criticisms, all would be welcomed onto the lawn. This gathering did not rely on pool cameras. Because multiple news organizations were present in person, there were no hitches in video or sound.

Cracks also appeared in the president's posture. On Tuesday, September 22, he was asked what he would do if the court ruled against him. Trump answered that he would probably let the three outlets back in.

44.7 The Void during Summit Week

This crisis coincided exactly with the week of the U.S.–China summit examined in this book. On Tuesday, September 22, President Trump addressed the United Nations General Assembly. The UN

address was unaffected by the boycott because multiple media outlets broadcast it directly rather than relying on the pool system. Kaitlan Collins, CNN's chief correspondent, entered the UN hall and posed questions to the president. Beyond the White House grounds, the ban could not be enforced.

Next began the official itinerary of President Xi Jinping's state visit to Washington. As seen in Chapter 1, Trump had prepared for this visit with the highest caliber of imperial protocol. It was an event demanding spectacular imagery.

Yet on Thursday, September 24, Xi's White House itinerary proceeded without a shared network camera. By alphabetical rotation, the TV pool assignment for that day fell to ABC. The networks continued to withhold coverage while awaiting firm assurances that CNN would be permitted to resume its pool duties.

The American president welcoming the Chinese leader went unrecorded by the joint cameras of American networks. China is a country where the state controls the press. Yet at a reception hosting that nation's paramount leader, the American president banished critical media from the White House grounds. A glaring chasm opened between the open society America championed on the summit stage and the grim reality inside the White House. The Kremlin-style pool operation that reporter Peter Baker had warned of in 2025 had materialized on the stage of summit diplomacy.

44.8 The Lawsuit, and the Belated Justification of National Security

On Monday, September 21, the three news organizations filed suit in the U.S. District Court for the District of Columbia. The named defendants were President Trump, Chief of Staff Susie Wiles, Communications Director Steven Cheung, and Secret Service Director Sean Curran. The plaintiffs asserted two central claims.

First, a violation of the First Amendment: the government had penalized them based on the viewpoints expressed in their reporting. The three outlets argued that the ban was intended to coerce favorable coverage from them while deterring other media from publishing scrutiny critical of the president.

Second, a violation of due process: the fundamental constitutional principle that when the government deprives an individual of a protected interest, it must provide advance notice and a meaningful opportunity to be heard. They contended that the notice and opportunity for rebuttal mandated by the Sherrill precedent were entirely absent.

The case was assigned to U.S. District Judge Timothy J. Kelly. Judge Kelly had been appointed to the federal bench by President Trump in 2017. He had also presided over the 2018 case concerning the revocation of CNN correspondent Jim Acosta's White House press credentials. In that case as well, he had ruled against the White House.

On Tuesday night, September 22, the Department of Justice filed its response. The DOJ asserted that White House access is a privilege, not a constitutional right. It added the explanation that the president had determined that the three outlets reported classified or sensitive national security information. Therefore, the government claimed a compelling interest in limiting access to organizations that posed no security risks. It also argued that disclosing classified and sensitive national security details constituted, at a minimum, a severe breach of professional decorum.

The DOJ attached a letter sent by the White House to the three outlets dated that Tuesday. The letter contained a list of offending news reports. The White House noted that this list was non-exhaustive. Included was an allegation that CNN had reported classified details of East Wing bunker renovations. Another item charged that MS NOW had reported on suspected leak investigations. It also alleged that Politico had published White House ballroom budget documents, claiming the paperwork disclosed Secret Service security enhancement investments. Reporting on depleted ammunition stockpiles from the Iran war and sanctions against Russia were likewise cataloged on the list.

The letter instructed them to submit any rebuttal by 5:00 PM on Friday, September 25. It stated that if no rebuttal was received, the initial determination would become final. Formal notice and an opportunity to contest the decision were thus granted only three days after credentials had already been seized.

One item on the list appeared to have stemmed directly from a setting created by the White House itself: information provided by administration officials during an anonymous background briefing organized by the White House. A background briefing is a forum where the government briefs reporters on condition that the speaker's name not be disclosed. The rules of that forum had been set by the administration itself.

On Wednesday afternoon, September 23, Judge Kelly convened an emergency hearing via teleconference. The hearing lasted approximately 46 minutes. Representing the three news organizations was veteran First Amendment litigator Ted Boutrous. Boutrous pointed out that when the president announced the ban, he never once mentioned national security. The justification of national security surfaced for the first time days after the ban, only after litigation was underway. He remarked wryly that "a lightbulb went off" inside the administration after the fact.

DOJ attorney Michael Velchik reiterated the position that access is a privilege, not a constitutional right. The plaintiffs pointed to another telling fact: while Trump had publicly called ABC News "the worst," he had never banned ABC. This served to demonstrate that the criteria for exclusion rested not on security concerns, but on presidential animus.

From early in the hearing, Judge Kelly indicated that due process was the primary threshold issue to examine. In the early morning hours of Thursday, September 24, he issued an order temporarily restoring White House access to the three outlets. The judge wrote that what the president had cited

when announcing the ban was not national security; the president had taken issue with the truthfulness and negative tone of their coverage. The judge noted that the record raised serious doubts as to whether protecting national security was the genuine motive and whether revoking passes actually served security ends. The legal doctrine underlying the order and the battles that followed are examined in Chapter 45.

44.9 The Cameras Turn Back On

On Thursday, the day the court order was handed down, journalists from the three outlets were not immediately able to enter the grounds. Citing the fact that they were barred that morning, the three organizations promptly requested an immediate hearing before the court. Eventually that day, CNN reporter Betsy Klein returned to the CNN workspace outside the West Wing. That same day, CNN White House reporter Molly English was also back at work in the booth.

Yet the TV pool remained dark on Thursday. Judge Kelly's order did not explicitly adjudicate CNN's pool rotation slot. The networks demanded confirmation that CNN could resume its normal pool duties before going back on the air. If passes were restored but CNN remained barred from the pool, the ordeal suffered by the AP in 2025 would simply repeat itself. For this reason, President Xi's White House schedule on Thursday took place without shared pool cameras.

Another clash erupted on Thursday night. The occasion was the arrival of President Xi for the White House state dinner. The White House permitted CNN's photojournalist and sound technician to enter. But it turned away CNN's reporter and producer. MS NOW White House correspondent Laura Barrón-López was also denied entry. This occurred just hours after general access rights had supposedly been restored. Cameras were admitted, but the inquisitors who would ask questions were kept out.

On Friday morning, September 25, the press pool swung back into motion. The White House pool duty that day fell to CBS. CNN was assigned to the "out-of-town" city pool. The itinerary took President Trump and President Xi, accompanied by their spouses, to the National Archives. There, the two leaders viewed the original Declaration of Independence. The White House credentialed CNN to cover the event. Networks pulled CNN's footage to broadcast the president's brief remarks.

CNN anchor Pamela Brown reported on Friday morning that CNN's White House access had been restored. She noted that the television pool appeared to have returned to normal operation. Attorney Boutrous appeared on Jake Tapper's program on CNN. He stated his view that pool access was encompassed within Judge Kelly's preliminary order.

However, this order remained in effect for only 14 days. The underlying lawsuit on the merits continued. The deadline set by the White House letter for submitting rebuttals was that very Friday afternoon. The possibility remained open that the White House might attempt to finalize the ban

afresh using this administrative process. A week-long standoff had concluded, but the war was far from over.

44.10 What This Week Left Behind

From September 18 to September 25 was a span of eight days. In that brief span, the president banished three news outlets from the White House grounds with a single post. The remaining networks laid down their cameras. Conservative network Fox News stood firmly beside them. And in just six days, a federal court ordered access reinstated.

First, this crisis laid bare how White House press policy was formulated. A punitive measure unknown even to senior aides was decreed via a social media post. Notice and an opportunity for rebuttal appeared in paperwork only after a lawsuit had already been filed. The stated rationale for the ban shifted midstream from "fake news" to "national security." The very fact that the justification changed so readily revealed the true nature of the original motive.

Second, it affirmed that pool coverage is an indispensable public good. When the television networks turned off their cameras, the party most immediately disadvantaged was the president himself. The helipad dedication passed without broadcast footage. The president's voice was lost in ambient noise. Core moments of a historic state visit failed to be preserved on pooled video feeds. To the president, the press corps was an irritating nuisance, yet without the press, the president's words could not reach the nation.

Third, the solidarity of the journalistic community demonstrated tangible power. The vacuum left by excluded competitors could easily have represented an opportunistic opening for rivals. The four networks refused to seize that advantage. Their shared conviction was that a power capable of banishing one outlet is a power capable of banishing all. This very judgment had bound the networks together in 2017 and 2018 as well.

Fourth, the severe limitations of partisan alternative media were exposed. Pro-administration outlets stepped forward to fill the void, but promptly violated elementary security protocols. Their audio equipment failed to perform even basic functions. "Trump TV" broadcast presidential speeches around the clock, but there were no questions. Imagery devoid of questions may qualify as propaganda, but it cannot be called journalism.

Fifth, the moral authority and credibility of summit diplomacy suffered lasting damage. The United States had long criticized China's authoritarian censorship of the press. Yet during the very week America hosted the Chinese paramount leader, the American president banished critical media from the White House. In a summit already condemned as empty-handed negotiations, the United States discarded even its trump card: the moral high ground of democratic values.

The remaining challenges are equally clear. Judge Kelly's order was merely an interim measure. Should the White House re-impose the ban under the cover of formal administrative procedure, the court might reach a different conclusion. In the AP case, the appeals court temporarily permitted exclusion from confined spaces. Grounds access, pool rotation, and access to restricted spaces like the Oval Office can be treated as distinct legal questions. The fate of The New York Times and The Washington Post, which the president singled out as next in line, remains uncertain. With the November midterm elections looming, tensions between the White House and the press are unlikely to dissipate anytime soon.

The questions a nation's ruler must confront reveal the health of that nation's democracy. Over those eight days, the pool cameras in Washington went dark and then reignited. It was not the president who turned off the cameras, but the press. When the president pushed the press away, the press showed the world an image of a president left completely alone.

In the next chapter, this battle moves into the courtroom. We examine the judicial reasoning through which Judge Kelly, an appointee of Trump himself, brought the White House to a halt.

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Chapter 45. The Judiciary's Defense of Press Freedom: Judge Timothy Kelly's Injunction Grant

> The Process by Which Judge Timothy Kelly, Appointed Directly by Trump, Put the Brakes on the White House Media Ban

45.1 Reporters Head to Court to Reclaim Their Press Passes

On Friday, September 18, 2026, President Trump posted a message on Truth Social. The post announced that three news organizations—CNN, MS NOW, and Politico—were being expelled from the White House. He wrote that this measure was effective "immediately." The stated rationale was that these three outlets continuously reported fake news. At the end of his post, he added a warning that other media organizations would soon follow.

The following day, Saturday, September 19, reporters were halted in front of the White House gates. Secret Service agents confiscated their credentials. The credentials in question were permanent credentials, commonly referred to as "hard passes." A hard pass is an identification badge issued to journalists who access the White House on a daily basis. Without this card, a correspondent can access neither the briefing room nor the live broadcast positions on the North Lawn. Across the three outlets, a total of 78 journalists held hard passes. Overnight, they were pushed outside the White House gates.

As seen in Chapter 44, the response from broadcast networks was swift. Five networks—ABC, CBS, CNN, Fox News, and NBC—halted pooled presidential video coverage. When CNN was excluded from its turn in the pool rotation, the other networks refused to step in and take its place. This chapter covers the courtroom battle that ensued.

On Monday, September 21, the three news organizations filed a lawsuit in the U.S. District Court for the District of Columbia. The named defendants were President Trump and White House officials. Three journalists were named as individual plaintiffs on the complaint: Betsy Klein of CNN, Akayla Gardner of MS NOW, and Cheyenne Haslett of Politico. The plaintiffs first sought a Temporary Restraining Order (TRO). A temporary restraining order is an emergency order issued by a court before a final judgment on the merits to prevent immediate and irreparable harm. Its duration is typically short, lasting around 14 days. Under Korean law, it functions similarly to an urgent provisional disposition (gacheobun). For convenience, this book refers to it as an injunction or provisional disposition.

The case was assigned to Judge Timothy J. Kelly. Judge Kelly is a jurist nominated by President Trump in 2017. This created a dramatic confrontation where the president faced off against major news organizations before a judge he had selected himself.

45.2 The Plaintiffs' Arguments: Viewpoint Discrimination and Due Process

Representing the plaintiffs was attorney Theodore J. Boutrous Jr., a veteran of high-profile constitutional litigation. The plaintiffs' arguments rested on two main pillars.

First was a violation of the First Amendment. The First Amendment guarantees freedom of speech and the press. The plaintiffs argued that the White House had expelled reporters squarely because of the content of their reporting. In American constitutional jurisprudence, this is known as "viewpoint discrimination." It refers to governmental action that inflicts disadvantages because the government disfavors a particular opinion or perspective. American courts prohibit viewpoint discrimination with the utmost strictness. The plaintiffs also asserted that the ban constituted retaliation against legitimate newsgathering activities.

The primary evidence was the president's own words. In announcing the ban, Trump directly took issue with the reporting of the three outlets. The language he used included terms like "fake news," "fiction," and "lies." The plaintiffs contended that these statements amounted to the president's own admission of viewpoint discrimination.

Second was a violation of the Fifth Amendment. The Fifth Amendment guarantees due process of law. This is the constitutional principle that the government must adhere to established, fair procedures before depriving an individual of liberty or a protected interest. Its core requirements are prior notice and an opportunity to be heard. The plaintiffs pointed out that the White House revoked their passes without any prior notice whatsoever. Reporters were given no opportunity to explain themselves or challenge the decision.

Standing firmly behind this second claim was a venerable legal precedent: the 1977 decision of the U.S. Court of Appeals for the D.C. Circuit in Sherrill v. Knight. This landmark ruling established that a journalist's White House press credential enjoys due process protection. It held that if the White House seeks to deny press access, it must do so based on explicit, published standards and established procedures. Lower federal courts within the D.C. jurisdiction are bound to follow this appellate precedent. The plaintiffs pressed directly into this exact point.

45.3 The Government's Defense: White House Access Is a Privilege

The Department of Justice filed its opposition brief on the night of Tuesday, September 22. Representing the government was Senior Counsel Michael Velchik of the Justice Department. The central thesis of the brief was succinct: access to the White House is a privilege, not a right.

The Justice Department went several steps further. It argued that the president possesses the constitutional authority to take a journalist's viewpoint into account when deciding whether to grant White House access. It even argued that the Sherrill decision itself should be overturned. It

also drew support from an appellate ruling in the 2025 Associated Press litigation. This case is examined separately in Section 45.10.

The Justice Department additionally raised national security concerns as a justification. Attached to the brief was a letter that the White House had sent to the three news organizations. The letter was dated September 22. That was the day after the lawsuit had already been filed. The letter stated that the three outlets had violated standards of professionalism and decorum. It alleged that they had disseminated falsehoods regarding national security and published sensitive information. ABC News reported that the letter lacked a signature and was not written on official White House letterhead.

The articles cited by the letter were as follows: Against CNN, it cited reporting on construction of an underground bunker beneath the East Wing. Against MS NOW, it cited coverage of the war in Iran and reports concerning internal leak investigations within the administration. Against Politico, it cited coverage of budget documents for ballroom construction and reporting on Iran negotiations. Articles addressing shortages in munitions stockpiles were also included on the list. There was even a story about the atmosphere at a Republican midterm rally in Dallas, which the White House criticized for relying on anonymous sources to depict the rally as a flop.

A glance at this list reveals glaring incongruities. An article on the atmosphere of a political party rally has nothing to do with national security. Politico's reporting on the Iran negotiations was equally telling. That article drew directly from a background conference call hosted by the White House itself, where a senior administration official briefed journalists on condition of anonymity. In effect, the White House was treating information it had voluntarily disclosed to the press as an unauthorized national security leak.

The plaintiffs also drew attention to the timing of the letter. When the president originally announced the ban, he never once mentioned national security. The national security rationale surfaced only after the lawsuit was filed. The plaintiffs countered that this was an ex post facto justification concocted after the fact.

45.4 A President Who Attacked the Judge First

Even before the court convened, Trump took aim at the presiding judge. On Monday, September 21, he posted on Truth Social, claiming that the media outlets had drawn a judge favorable "to them." He wrote that Judge Kelly had previously sided with CNN in the Jim Acosta case, adding that the administration would appeal in any event. He asserted that media outlets that do nothing but write negative stories should never be allowed inside the workspace of the world's most powerful office.

On Tuesday night, September 22, the rhetoric intensified. Trump denounced Judge Kelly as a "totally disloyal" judge. In the same post, he launched coarse attacks against CNN correspondent Kaitlan Collins.

The word "disloyal" exposed the fundamental character of this confrontation. Federal judges are confirmed by the Senate and hold lifetime tenure. The entity to which a judge swears allegiance is the Constitution, not the president who appointed them. Yet Trump demanded personal loyalty from a judge he had appointed. These remarks laid bare his personal view of judicial independence.

The plaintiffs treated such statements as prime evidence to be leveraged in court, because the president was repeatedly demonstrating that the ban was imposed out of personal resentment toward their reporting.

Meanwhile, in response to reporters' questions on September 22, Trump also remarked that if the court ruled against him, he would "probably" let the journalists back in. He conspicuously avoided making an unambiguous commitment to abide by the court's ruling.

45.5 Who Is Judge Kelly?

Timothy James Kelly was born in 1969 in Glen Cove, New York. He served as a federal prosecutor and as senior counsel on the Senate Judiciary Committee. Nominated by President Trump in 2017, he became a judge on the U.S. District Court for the District of Columbia. Within legal circles, he is widely regarded as a conservative jurist.

This was not his first time presiding over such a dispute. In November 2018, the White House revoked the hard pass of CNN correspondent Jim Acosta, alleging that he had engaged in a contentious exchange with the president during a press conference. CNN filed suit, and the case was assigned to Judge Kelly.

On November 16, 2018, Judge Kelly ordered the White House to restore Acosta's press pass for 14 days. His legal basis was Fifth Amendment due process: he ruled that Acosta had been deprived of his credential without prior notice or an opportunity to be heard. Judge Kelly did not reach the First Amendment question. Following the order, the White House agreed to permanently restore Acosta's pass, and CNN voluntarily dismissed its lawsuit on November 19.

Eight years later, the same judge, the same legal questions, and the same president met again. Only this time, the stakes involved not just a single correspondent, but three entire news organizations and 78 journalists.

45.6 A 45-Minute Hearing

On the afternoon of Wednesday, September 23, Judge Kelly convened an emergency hearing. The hearing was open to the public and lasted approximately 45 minutes.

From the very beginning, Judge Kelly raised the issue of due process. He noted that the D.C. Circuit had recognized a protected due process interest in White House hard passes, and remarked that this precedent did not appear to have been observed in this instance. The fact that the government had provided no prior notice was undisputed by either party.

Attorney Velchik reiterated the government's stance that White House access is a privilege, arguing that the president holds broad executive authority to determine who enters the White House complex. He also reasserted the administration's national security concerns.

Attorney Boutrous stressed the urgency of time. President Xi Jinping was scheduled to visit the White House the very next day. He pleaded with the court to issue a ruling by that evening. Reporters tasked with covering this historic summit of the century were on the verge of being locked outside the perimeter fence.

Judge Kelly did not issue an immediate ruling from the bench. He stated only that he would deliver a decision as expeditiously as possible. In the 2018 Acosta case, the ruling had been issued two days after the hearing. This time, it came far faster.

45.7 A Ruling Delivered Past Midnight

Shortly past midnight on Thursday, September 24, Judge Kelly issued a temporary restraining order. The core directive of the order was encapsulated in a single sentence: to immediately return, restore, and reactivate the hard passes of employees from the three news outlets. The order was to remain in effect for 14 days.

Judge Kelly first acknowledged that the legal threshold for granting a TRO is high, and found that the plaintiffs had satisfied that demanding standard, meaning they had demonstrated a substantial likelihood of success on the merits.

The heart of the ruling rested on due process. Judge Kelly found that the press passes had been revoked without the due process required by the Constitution. The defendants had failed to provide the plaintiffs with prior notice and an opportunity to be heard— a fact that the defendants did not contest.

Judge Kelly also scrutinized the standard advanced by the government: the criteria of "professionalism and decorum" invoked in the White House letter. He wrote that these standards were far too vague to function as meaningful standards at all. He noted that there was no record

showing that any formal standards had existed prior to the conduct in question. What the Sherrill precedent demanded was pre-existing, published criteria; standards manufactured after the fact cannot satisfy that constitutional requirement.

The government had also contended that the emergency nature of the situation justified dispensing with procedural formalities. Judge Kelly rejected this argument as well. The articles cited in the White House letter had been published months, and in some cases years, earlier. Judge Kelly characterized these articles as conventional news reporting. Under such circumstances, it was difficult to discern any emergency compelling enough to bypass constitutional procedures.

His assessment of the government's national security argument was even more pointed. Judge Kelly wrote that nowhere in the pre-litigation record was there any indication of a national security motive. He noted that the statements made by the president when announcing the ban were entirely devoid of national security justifications. The court expressed skepticism that national security was the genuine motivation, and questioned whether revoking press passes would meaningfully advance national security in any way. The government had failed to explain which articles harmed national security and how. Judge Kelly added one more critical fact: the reporters who authored the disputed articles had never held White House hard passes in the first place. Revoking the passes of White House correspondents could not have prevented those stories from being published.

On the same day, Judge Kelly issued a separate scheduling order establishing future deadlines: the plaintiffs were to file their motion for a preliminary injunction by September 28; (a preliminary injunction is an order that maintains relief until a final judgment on the merits); the government was to file its opposition by October 2; and the plaintiffs were to submit their reply by October 5. Judge Kelly stated that he would rule promptly.

Here, it is essential to delineate the precise scope of this decision. The plaintiffs had asserted claims under both the First and Fifth Amendments. Judge Kelly based this ruling primarily on Fifth Amendment due process. A definitive ruling on the First Amendment claim of viewpoint discrimination was reserved for subsequent proceedings. This mirrored the exact approach he had adopted in the 2018 Acosta case. The judge grounded his decision on an issue governed by settled, unambiguous precedent, while deferring the more contentious constitutional questions. This is a standard, prudent course frequently chosen by trial court judges.

45.8 The Morning of the Order: Closed Gates

Although the decision was issued in the dead of night, the White House gates did not open in the morning. At around 9:00 a.m., CNN correspondent Betsy Klein and a photojournalist were turned away at the gate. MS NOW correspondent Laura Barrón-López reported that when she tapped her badge, a red light flashed. A Secret Service officer confiscated her pass on the spot once again. Even when she presented a copy of the court order, she was barred from entering. The plaintiffs informed

the court that morning that even correspondents who still had their passes had them seized that very morning.

The plaintiffs immediately filed a notice of non-compliance, asserting that senior White House officials were repeatedly violating the court's order. The plaintiffs requested an immediate emergency hearing, emphasizing that President Xi Jinping's visit events were scheduled for that evening. CNN was the designated television pool duty network for that day.

Judge Kelly ordered the government to respond by 12:30 p.m. Even veteran conservative Fox News anchor Brit Hume observed that the White House appeared to be actively defying the judge's order. Senate Republican Leader John Thune also weighed in, affirming that court orders must be followed, and that if the administration disagreed, its proper course was to appeal.

Shortly before the deadline, Micah Stoferic, White House Director of Press Operations, filed a sworn declaration. The declaration outlined the following timeline: 7:10 a.m.: Received instructions to restore press access. 7:25 a.m.: Commenced badge reactivation procedures. 9:07 a.m.: Secret Service confirmed that credentials had been re-enabled. 9:45 a.m.: The confiscated physical passes arrived at the White House operations team. Around 9:55 a.m.: The passes were delivered to the press entrance gate.

According to this timeline, the White House claimed it was attempting to comply with the order, asserting that system processes were simply delayed. Yet the morning experienced by reporters told a very different story. Barrón-López remarked on air that it was impossible to tell whether this was willful defiance or merely a bureaucratic system delay.

Around noon, Klein received her pass back and passed through the gate. By 12:29 p.m.—one minute before the court-ordered deadline—reporters from all three outlets had entered the White House grounds. Barrón-López reported live on air that she had re-entered through the Northwest Gate. Judge Kelly denied the plaintiffs' motion for an emergency hearing, ruling that because access had been restored, the necessity for a hearing had dissipated.

This was not the first time the White House had failed to comply immediately with a court order. A similar incident occurred in April 2025 during the Associated Press dispute. Even days after a federal judge ordered AP's access restored, the White House continued to exclude AP journalists from events. A pattern had established itself: stalling on the ground even after a court order had been handed down.

45.9 The Shadow Over the State Dinner

The restoration of press passes did not resolve the crisis. On the evening of September 24, President Xi arrived at the White House for the state dinner. At this event, journalists from CNN

and MS NOW were blocked once again. Barrón-López attempted to cover the arrival ceremony for the dinner, only to be denied entry.

The White House imposed conditions on CNN, stating that the network could send only sound technicians and camera operators to the dinner events, meaning that reporting correspondents and producers would not be admitted. That same day, Trump claimed that CNN and MS NOW were deliberately boycotting Xi's visit, alleging that they knew the event would be a success and refused to give him credit.

The television pool boycott by the five major networks continued through Thursday night, because the White House provided no firm assurance that CNN would be permitted to serve future pool duties. The consequence of this standoff directly intersects with the central theme of this book: American viewers could not watch the summit dinner between the U.S. and Chinese leaders through normal pool broadcasts. The diplomatic pageantry Trump had so meticulously orchestrated dissolved into empty screens. The lavish reception described in Chapter 1 was a spectacle conceived and staged entirely for television cameras. Yet it was the White House itself that had forced those cameras to be turned off.

There was another profound paradox. China is a country that has systematically curtailed press freedom across the mainland and Hong Kong. Yet at an event hosting the leader of that very country, the President of the United States barred his own nation's press corps. For the final event of his visit, President Xi toured the National Archives, home to the original Bill of Rights containing the First Amendment. The two leaders stood before that foundational document at the exact moment the press ban lawsuit was raging in federal court.

45.10 The Arc of Precedent: From Sherrill to the AP

Judge Kelly's ruling did not stand in isolation. It rested upon nearly fifty years of accumulated judicial precedent.

The starting point was the 1977 decision in Sherrill v. Knight. In that case, the White House had denied a reporter's press credential based solely on an unelaborated Secret Service recommendation. The D.C. Circuit rejected that practice. It held that once the White House opens its facilities to the press, it cannot deny access arbitrarily. Any denial must be governed by explicit, published standards, prior notice, and an opportunity to respond. This ruling became the governing benchmark for all subsequent White House press credential disputes.

The 2018 Acosta litigation reaffirmed this precedent for the modern era. In 2019, another controversy arose when the White House suspended the press pass of Playboy correspondent Brian Karem. In the 2020 case Karem v. Trump, the D.C. Circuit ruled in favor of the journalist, holding

that the White House could not discipline a reporter based on vague standards that had not been published in advance.

In 2025 came the Associated Press litigation. The White House excluded the AP from pool coverage because the wire service refused to adopt the term "Gulf of America" in place of the "Gulf of Mexico." In April 2025, Judge Trevor McFadden—another Trump appointee—ruled in favor of the AP, holding that once the government opens its doors to some journalists, it cannot close them to others based on viewpoint. However, in June of that year, a panel of the D.C. Circuit partially stayed that injunction, reasoning that intimate spaces such as the Oval Office and Air Force One are unique areas where the president exercises broad discretion. Crucially, at the same time, the appellate court reaffirmed the core doctrine of the Sherrill precedent: in spaces broadly open to the press, such as the White House Briefing Room, the government cannot exclude reporters based on viewpoint.

The legal issue in the present case was of an entirely different character from the AP dispute. The AP case concerned access to confined, intimate coverage spaces like the Oval Office. The 2026 case, by contrast, concerned general access to the entire White House complex—namely, the hard pass itself. Therefore, the Sherrill precedent applied squarely and directly. Legal scholar Professor Jonathan Turley observed that as a trial judge, Kelly had virtually no other choice, given that binding circuit precedent was unequivocal.

This also explains why the Department of Justice explicitly advocated for overturning the Sherrill precedent. The government knew full well that so long as that precedent stood, prevailing in district court was virtually impossible. The administration's true target was not Judge Kelly, but fifty years of settled judicial precedent.

45.11 The Power of Solidarity and Voices Outside the Courtroom

The entire journalistic community rallied behind this lawsuit. On September 23, nearly 50 news organizations and press freedom groups submitted an amicus brief in support of the plaintiffs. Such a filing is known as an amicus curiae ("friend of the court") brief, a legal mechanism that allows third parties not directly involved in litigation to offer relevant arguments to the court. The drafting of the brief was led by the Reporters Committee for Freedom of the Press (RCFP), with signatories including the White House Correspondents' Association (WHCA), the Associated Press, and NBCUniversal.

The core arguments of the amicus brief can be summarized in three points: First, the ban was a blatant, unvarnished act of viewpoint discrimination. Second, even where an individual has no inherent right to a government benefit, the government cannot revoke that benefit as a penalty for exercising constitutional rights. In American constitutional jurisprudence, this is known as the "unconstitutional conditions doctrine." Third, allowing such arbitrary retaliation to go unchecked

would inevitably force the entire press corps into self-censorship. The phenomenon where speech is suppressed out of fear of government punishment is known as the "chilling effect."

The collective action of the broadcast networks was even more forceful than any legal brief. When their competitors were banished, all five major networks lowered their cameras in unison. A similar episode took place in 2009 when the Obama administration attempted to exclude Fox News from a round of executive interviews; at that time, rival networks rallied together in protest, and the White House backed down. The venerable tradition of the press speaking with one voice on access issues—regardless of partisan affiliation—prevailed once again.

Immediately following the ruling, plaintiffs' counsel Ted Boutrous issued a brief statement, declaring that the decision had vindicated press freedom, due process, and the rule of law. Commentary across the legal community struck a similar chord. Professor Eugene Volokh of the prominent conservative legal blog The Volokh Conspiracy cited the same body of precedent to conclude that the administration's ban was legally indefensible. Across the political spectrum, from liberal to conservative analysts, the consensus was clear: the direction of binding precedent was unmistakable.

45.12 Remaining Issues: The Battle 14 Days Later

Judge Kelly's order was not the conclusion, but merely the opening skirmish. Three critical issues remain unresolved.

First is the preliminary injunction. A temporary restraining order expires after 14 days. To guarantee continued press access, the court must issue a preliminary injunction before that period lapses. Once the plaintiffs file their reply brief on October 5, Judge Kelly will hold a hearing and render a decision.

Second is the appeal. The White House vowed to appeal even before the ruling was delivered. As a general rule, however, a temporary restraining order cannot be appealed immediately. The government will have its opportunity to appeal only after a preliminary injunction is granted. At that point, the dispute will ascend to the U.S. Court of Appeals for the D.C. Circuit. That appellate court will serve as the primary stage where the Justice Department can formally press its case to overturn Sherrill v. Knight. Depending on the outcome, the case could ultimately reach the U.S. Supreme Court.

Third is the First Amendment question. The present ruling was grounded primarily on due process. Yet a due process ruling has inherent limitations: what happens if the White House establishes formal notice and hearing procedures and then revokes the passes again? This exact dilemma was raised in 2018. If that happens, the ultimate decision will turn on the question of viewpoint discrimination—the First Amendment claim. The public record documenting that the

president imposed the ban specifically because of the content of their coverage remains permanently intact. This factual record is likely to serve as compelling evidence for the plaintiffs in the next phase of litigation. Nevertheless, the final outcome remains undetermined.

When Trump originally announced the ban, he warned that other media organizations would follow. He has not retracted that warning. The administration could easily attempt to repeat the same punitive action while maintaining a superficial veneer of procedural compliance. It is therefore premature to celebrate this ruling as a definitive, final victory for freedom of the press.

45.13 What This Chapter Leaves Behind

The figure most deserving of attention in this saga is Judge Kelly. He was a judge selected by Donald Trump. Before the trial even began, the president publicly attacked him as disloyal. Yet inside the courtroom, Judge Kelly did not utter a single word in response to those attacks. He reviewed the precedent, examined the record, and drafted his judicial opinion. A judge's answer lies not in public squabbles outside the courthouse, but within the written opinion.

Judicial independence is demonstrated most vividly when a judge reaches a decision contrary to the wishes of the executive who appointed them. The Supreme Court's tariff ruling discussed in Chapter 13 was part of this same current: justices appointed by Trump placed constitutional checks on his tariff powers. Similarly, in the international student visa cases explored in Chapters 25 and 27, the federal courts drew the line against the executive branch. Judge Kelly's decision is another striking moment in this broader arc.

The timing of the decision is equally significant. The order came down just hours before President Xi Jinping arrived at the White House. Trump had envisioned this summit as a triumphant diplomatic stage ahead of the November midterm elections. Yet the spectacle the world witnessed that very week was something entirely different: a White House keeping its own domestic press corps waiting outside the gates even after a federal court order had been handed down. The Chinese delegation observed up close an American president waging a public war against his own country's press. In a venue where the strengths of democracy should have been showcased, the United States exposed its own acute vulnerabilities.

This episode is by no means an alien affair for Korean readers. The temptation for political power to control press access exists in every nation. The mechanisms that restrain that temptation are pre-established standards, fair procedures, and an independent judiciary. The United States demonstrated on this occasion that those mechanisms still function. At the same time, it revealed with alarming clarity just how easily those safeguards can be put to the test.

The next chapter examines the sweeping cuts to social welfare that unfolded concurrently with this suppression of the press. While political power sought to silence criticism, the kitchen tables of

the most vulnerable were already being shaken to their foundations.

Key Timeline

September 18 (Fri)	Trump announces White House ban on CNN, MS NOW, and Politico via Truth Social.
September 19 (Sat)	Secret Service denies entry to journalists from the three outlets and confiscates their hard passes.
September 21 (Mon)	The three outlets file a lawsuit and motion for a temporary restraining order (TRO) in U.S. District Court for the District of Columbia. Trump posts messages attacking the presiding judge.
September 22 (Tue)	White House sends letter to the three outlets. Department of Justice files opposition brief. Trump denounces Judge Kelly as "totally disloyal."
September 23 (Wed)	Judge Kelly holds emergency public hearing (approx. 45 minutes). Nearly 50 media organizations and advocacy groups submit amicus brief.
September 24 (Thu)	Shortly after midnight, 14-day TRO issued. Morning entry denied; notice of non-compliance filed. Court sets 12:30 p.m. response deadline. By 12:29 p.m., reporters from all three outlets re-enter White House. Evening state dinner arrival coverage denied to certain journalists. Television pool boycott persists.
September 28	Deadline for plaintiffs' preliminary injunction motion.
October 2	Deadline for government's opposition brief.
October 5	Deadline for plaintiffs' reply brief.

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Chapter 46. The EBT Food Stamp Cut Bomb: Depriving Low-Income Families of Free Meals and Unleashing Social Turmoil

A record of welfare retrenchment that drastically slashed food assistance for low-income households through tightened work requirements and time limits, confronting millions of impoverished families and children with hunger

46.1 Legislation Arrives at the Dining Table

In the United States, there is a public program that fills the grocery carts of impoverished families. Its official name is the Supplemental Nutrition Assistance Program (SNAP). Americans still widely refer to this system as "food stamps." This is because in decades past, physical paper coupons were distributed. Today, benefits are deposited each month onto an EBT card that looks and functions just like a bank debit card. EBT stands for Electronic Benefit Transfer. Recipients swipe this card to purchase groceries at supermarkets and authorized food retailers. Alcohol, tobacco, and food prepared in-store cannot be bought with it.

In the spring of 2025, the number of SNAP recipients surpassed 42 million. That represents roughly one in every eight Americans. Eight out of ten recipient households include children, elderly individuals, or people with disabilities. SNAP is the foundational bedrock shoring up the very bottom layer of the American social safety net.

On July 4, 2025, President Donald Trump signed a major legislative package into law. Its official title was the "One Big Beautiful Bill Act." The center of gravity of this omnibus statute was massive tax cuts. It made the 2017 tax cuts permanent and eliminated federal taxes on tips and overtime wages. A significant portion of the resulting lost tax revenues was offset by gutting social welfare programs. Medicaid, SNAP, and federal student loan programs were placed directly beneath the budgetary knife.

Under this law, nutrition assistance funding will be slashed by approximately $186 billion between 2025 and 2034. This reduction represents roughly 20 percent of the entire SNAP budget over that decade. Proponents defended the measure as a vital reform designed to weed out bureaucratic waste and fraud. Opponents, conversely, decried it as the single largest spending cut in the history of the SNAP program.

Placing the scale of the tax cuts side by side with the welfare reductions lays bare the essential character of the law. The Congressional Budget Office (CBO) projected that the statute would add $3.4 trillion to the federal deficit over ten years. The nonpartisan Bipartisan Policy Center (BPC) calculated that the spending cuts offset only about 25 percent of the net tax reductions. Food

assistance for the nation's poorest families was ruthlessly curtailed, yet the federal government's fiscal deficit grew substantially larger. This chapter traces the deep scars that this withdrawal of basic food assistance carved across American society over the span of a single year.

46.2 Whom Did the Work Requirements Target?

SNAP has long incorporated work requirements within its statutory architecture. The target demographic consists of able-bodied adults without dependents. In American administrative parlance, they are designated by the acronym ABAWDs. Under existing baseline rules, these individuals are required to work at least 80 hours per month, or roughly 20 hours per week. They can also fulfill these hours through approved vocational training programs or volunteer community service. If they fail to meet this threshold, they are restricted to receiving benefits for only 3 months within any 36-month rolling period. Once those 3 months are exhausted, monthly benefit deposits to their EBT card cease completely. To regain eligibility, they must maintain compliance with the work requirements for 30 consecutive days or document verified grounds for an exemption.

The new statute cast this regulatory net far wider and pulled its mesh far tighter. First, it raised the upper age limit from 54 to 64 years of age. Americans in their early 60s, standing on the threshold of retirement, are now compelled to document and verify their monthly working hours. Second, it lowered the child exemption age threshold. Previously, an adult caring for a dependent child under the age of 18 was exempt from the requirement. Under the new rules, an adult is exempt only if the dependent child is under 14 years of age. Parents raising children in middle school and above suddenly became newly subject to mandatory work requirements.

Third, the law stripped away statutory exemptions previously granted to particularly vulnerable populations. Military veterans and individuals experiencing homelessness were removed from the exempt categories. Young adults aged 24 and under who had aged out of the foster care system were likewise eliminated from protection. These specific exemptions had been newly codified during the bipartisan debt ceiling negotiations of 2023. In just two years, they were summarily wiped out.

Fourth, it drastically constricted geographic waivers. In the past, states could request temporary waivers suspending work requirements in economically distressed areas experiencing a severe lack of jobs. The new statute restricts such waivers exclusively to jurisdictions where the local unemployment rate exceeds 10 percent. The CBO projected that this single geographic provision alone would strip food assistance from a monthly average of approximately 1 million people. Across all work-requirement provisions combined, the CBO estimated an average monthly reduction of 2.4 million recipients.

Provisions designed to depress benefit levels were also inserted outside the framework of work requirements. In the standard formula used to compute household benefit amounts, the deduction for household internet utility expenses was eliminated. The CBO estimated that roughly 13 million

households would see their monthly food allotments cut by an average of $10 as a result. Furthermore, several categories of lawfully residing immigrants—including recognized refugees and asylees—were stripped of program eligibility. SNAP eligibility was restricted almost exclusively to U.S. citizens and lawful permanent residents (green card holders).

At this juncture, it is necessary to clarify the "two-year time limit" referenced in the title of this chapter. The federal Food and Nutrition Act governing SNAP contains no lifetime two-year cap on benefits. The formal time limitation embedded in SNAP is the aforementioned "3 months within a 36-month period" rule. The concept of a strict two-year cap actually originated in the realm of federal housing assistance. In its previous budget proposal, the Trump administration had sought a 40 percent reduction in rental assistance alongside a rigid two-year term limit. Congress rejected that legislative proposal. In response, the Department of Housing and Urban Development (HUD) published a proposed administrative rule on March 2, 2026. That proposed rule empowered local public housing authorities and private landlords participating in federal programs to impose work requirements of up to 40 hours per week. It also authorized them to cap tenancy and subsidy durations at as short as two years. Elderly individuals and persons with disabilities were largely exempted. Legal commentators viewed this administrative maneuver as an end-run around Congress to impose the administration's policy goals by executive fiat. This issue is examined at length in Chapter 47.

Across social media platforms, these two distinct policy initiatives were frequently conflated and went viral together. Widespread rumors asserted that "Food stamps will be terminated after two years" and "Recipients must now log 40 hours of work a week." These viral claims were factually inaccurate. Yet the pervasive dread experienced by low-income families stemmed from an undeniable underlying truth: time limits and conditional hurdles were increasingly being attached to basic government assistance. And with each passing year, those hurdles were being engineered to become ever more punishing.

46.3 November 2025: Cards with a Zero Balance

Even before the newly legislated work requirements could be fully phased in, a catastrophic shock wave hit the nation. On October 1, 2025, the federal government entered a funding lapse and shut down. The shutdown occurred because Congress failed to pass regular appropriations bills for the new fiscal year. This shutdown went on to become the longest government shutdown in American history.

On November 1, SNAP operational funding officially ran dry. For approximately 42 million Americans, their monthly food assistance benefits for November were not loaded onto their EBT cards. Approximately $4.6 billion remained in the Department of Agriculture's emergency contingency reserve fund. However, the Trump administration initially took the hardline stance

that it would refuse to tap this reserve fund. Its official rationale was that because congressional appropriations had lapsed, the underlying program itself was legally suspended.

State attorneys general, municipal governments, and civil rights organizations immediately filed emergency lawsuits in federal court. Judge Indira Talwani of the U.S. District Court for the District of Massachusetts ruled that the administration's interpretation of the law was erroneous. Judge John McConnell of the U.S. District Court for the District of Rhode Island went a step further. He sharply reprimanded the administration from the bench, accusing it of wielding poor families' food benefits as a political hostage and bargaining chip. Judge McConnell issued a nationwide injunction ordering the federal government to disburse full SNAP benefits for the month of November. The administration resisted, arguing that if forced to pay, it should be permitted to disburse only 65 percent of normal benefit amounts rather than the full allocation.

The moment Judge McConnell's injunction was handed down, several states took immediate action. More than a dozen states governed by Democratic executives tapped state funds or administrative reserves to deposit full benefits directly onto recipients' cards. Yet late that very night, Supreme Court Justice Ketanji Brown Jackson entered an administrative stay temporarily freezing the lower court's enforcement order. The Department of Agriculture immediately demanded that states that had already paid out full benefits take steps to "claw back" the funds. The State of Wisconsin had its federal administrative reimbursement funds frozen by federal authorities. Within the borders of the very same nation, what a low-income family could put on their dinner table in November depended entirely on the state in which they lived.

In emergency briefs filed before the Supreme Court, the administration brought up federal school lunch appropriations. It asserted that federal child nutrition funds designated for school meals could not legally be raided or repurposed to backfill SNAP. Its stated logic was that it would not feed one group of tables at the expense of other children's school lunches. In response, plaintiffs' attorneys told the Supreme Court that families had been going without food money for ten days.

The government shutdown finally ended on November 12. The compromise spending package enacted by Congress included guaranteed funding for SNAP through September 2026. With the underlying crisis resolved, the pending court actions were dismissed as moot. Yet one chilling realization remained permanently seared into the collective memory of recipient families: whenever the federal government chose to do so, the balance on their EBT cards could be wiped to absolute zero at a moment's notice.

Administrative chaos persisted well after the shutdown concluded. Secretary of Agriculture Brooke Rollins made public statements suggesting that every single SNAP recipient nationwide would be required to undergo a comprehensive reapplication process. State welfare administrators and legal scholars reacted with outrage, demanding to know what statutory authority justified such a sweeping demand. The USDA subsequently walked back Rollins's assertions. Nonetheless,

millions of vulnerable families were left in agonizing limbo, unable to ascertain whether their food aid would continue or vanish.

Certain early drafting notes and raw background materials for this book erroneously labeled this episode as the "November 2026 EBT Freeze." In reality, the nationwide cutoff unfolded in November 2025. While the calendar year in those early notes was mistaken, the fundamental lesson remains identical: when government budgets grind to a halt, the kitchen tables of the impoverished are the very first casualties to collapse.

46.4 Four Million Dropped from the Rolls in a Single Year

Beginning in the autumn of 2025, state social service agencies began mailing out official warning notices to SNAP recipients. The notices warned recipients that their benefits would be terminated if they failed to document compliance with the newly expanded work requirements. As federal geographic waivers expired across the vast majority of jurisdictions, time limits began snapping into effect in communities nationwide. Certain states, such as New York, implemented the new mandates in March 2026. Two major metropolitan regions in Pennsylvania delayed enforcement until September 2026.

The enrollment rolls plummeted at an astonishing speed. When the omnibus law was enacted in July 2025, total nationwide SNAP enrollment stood at approximately 41.6 million individuals. By June 2026, that number had plunged to roughly 36.3 million. In the span of a single year, more than 5 million people were dropped from the program. In the five-month window between August 2025 and January 2026 alone, approximately 3.4 million recipients vanished from the rolls.

The Center on Budget and Policy Priorities (CBPP), a prominent progressive research institution, released research documenting a nearly identical trajectory. The CBPP estimated that between July 2025 and April 2026, more than 4.5 million individuals were terminated from the program. Crucially, it found that more than 1.5 million of those terminated were children. Although the work mandates were legally targeted at adult caretakers, benefit terminations operated at the household level, dragging entire families off the rolls.

State-by-state disparities were staggering. In Arizona, the total number of SNAP recipients collapsed by 54.8 percent over that same period. State welfare administrators acknowledged that agency call centers were overwhelmed by unprecedented call volumes and that processing backlogs for mandatory verification documents had paralyzed the system. When administrative machinery grinds to a halt, even households that fully meet every eligibility requirement end up missing arbitrary bureaucratic deadlines. In New Mexico, more than 18,000 individuals lost their food assistance in rapid succession.

The Department of Agriculture celebrated this steep drop as a major administrative victory. An agency spokesperson publicly lauded the fact that SNAP enrollment had fallen below 40 million for the first time since the COVID-19 pandemic. Conservative supporters framed the reduction as proof that millions of dependent Americans were successfully transitioning into economic self-sufficiency. Under ordinary circumstances, when the broader economy is thriving, a decline in SNAP participation is indeed a natural cyclical phenomenon.

However, rigorous empirical research told an entirely different story. The Hamilton Project at the Brookings Institution conducted an exhaustive meta-analysis synthesizing decades of academic literature on welfare work mandates. Its unequivocal conclusion was that work requirements do not increase employment or earnings among low-income adults. Instead, their sole demonstrated effect is to sharply depress program participation. A landmark 2026 working paper published by the U.S. Census Bureau reached the exact same conclusion. Analyzing detailed longitudinal administrative data across five states, the Census Bureau researchers found that the new work mandates reduced overall program participation by 7 percent. Labor supply did not increase in any statistically meaningful way. Those who were dropped from the rolls were overwhelmingly concentrated among individuals with the absolute lowest baseline incomes. The researchers concluded that the resulting societal costs—measured in deepened poverty and worsened health—vastly outweighed the federal government's budgetary savings.

Even when low-income individuals do work, satisfying the rigid bureaucratic reporting rules often proves impossible. This is particularly true for low-wage workers trapped in seasonal jobs, irregular shift work, or the informal gig economy. A low-wage worker who clocks 79 hours of labor in a given month is, strictly on paper, deficient and legally non-compliant. Lauren Bauer, an economic fellow at the Hamilton Project, voiced deep alarm over the implications for future macroeconomic downturns. In a recession, workers who are laid off through no fault of their own will be stripped of their basic food assistance precisely because they have lost their jobs.

The progressive Center for American Progress (CAP) published an even grimmer epidemiological projection: it estimated that the massive wave of SNAP disenrollments could lead to approximately 70,000 avoidable premature deaths. While this figure represents a modeled projection based on statistical assumptions rather than a finalized death count, the causal link between food insecurity, chronic disease, and elevated mortality has been documented across countless public health studies.

During this same period, social media feeds were flooded with viral videos of distraught individuals protesting catastrophic cuts to their monthly benefits. Anecdotes claiming that "My monthly benefits were slashed from $2,800 to $350" racked up millions of views and reposts. Many of these viral claims were impossible to independently verify. Indeed, several of the cited figures far exceeded the statutory maximum benefit allowable for a household of that size. Moreover, the underlying reasons for benefit reductions varied widely—ranging from household income fluctuations and changes in allowable utility deductions to work-mandate sanctions. Official

government statistics were far more measured and sober than viral TikTok videos. Yet the systemic scale documented by those official statistics was far larger and more devastating than anything depicted in individual online videos.

46.5 Children's Lunch Trays and Food Banks' Empty Freezers

SNAP is structurally and inextricably interwoven with the nation's school meal programs. Under federal law, children living in households enrolled in SNAP automatically qualify for free school breakfasts and lunches without their families needing to submit a separate application. This administrative mechanism is known as "direct certification." SNAP enrollment also serves as an automatic gateway to other vital nutritional safety nets, including the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). When a struggling family is purged from the SNAP rolls, the administrative gateway closes, and doors to other essential assistance programs slam shut simultaneously.

Furthermore, there is a federal mechanism that provides free school meals on a universal, school-wide basis: the Community Eligibility Provision (CEP). Under CEP, if the proportion of students from low-income households in a school or school district exceeds a designated statutory threshold, every single child in that school receives free meals every day. During the 2025–2026 academic year, more than 27 million American schoolchildren received daily nourishment through this program. The metric used to determine whether a school qualifies for CEP is directly anchored to the number of enrolled students from SNAP-recipient households. As millions of families are purged from SNAP, a school's direct certification percentage plummets. Child nutrition experts warned that thousands of public schools would inevitably lose their eligibility to provide universal free meals to their student bodies. The subtitle of this chapter—"depriving low-income families of free meals"—became a grim reality through this precise institutional domino effect.

School vacation periods proved even more perilous. During the summer months, when public schools are closed and school meal programs shut down, low-income families have historically relied on SNAP to bridge the hunger gap. The summer of 2026 was the very first summer operating under the new restrictive federal regime. A senior official with the Colorado Food Bank Association described the cascading policy changes as the single most devastating regression in the entire history of federal nutrition policy.

The crushing burden of feeding hungry families was shifted directly onto the shoulders of private charitable relief organizations. Feeding America, the nation's largest network of charitable food banks, published alarming calculations: the cumulative nutritional shortfall resulting from the federal SNAP cuts could amount to as many as 9 billion lost meals per year. That figure exceeds the total volume of meals distributed across the entire nationwide Feeding America network over the

preceding year. Charitable leaders have repeatedly said that for every meal SNAP cuts, they struggle even to provide one replacement meal.

Denis McDonough, the chief executive of Feeding America, offered a sobering counter-narrative to the administration's claims: the fact that official enrollment rolls have shrunk does not mean that the number of hungry people in America has decreased. Food banks across the country were forced to purchase bulk food commodities at unprecedented volumes using exhausted private reserves. They also scrambled to expand on-site intake desks to help bewildered families navigate the maze of new reapplication paperwork. Even so, charitable organizations remained on high alert, bracing for autumn demand to surge to the catastrophic levels witnessed during the federal government shutdown of the previous year.

At Roadrunner Food Bank in Albuquerque, New Mexico, frontline workers reported that local demand had skyrocketed. An official with the food bank described SNAP as the nation's indispensable first line of defense against hunger. Charitable food pantries, she emphasized, represent merely the last line of defense. When the nation's first line of defense collapses, the last line cannot possibly hold the line on its own. Across the charitable sector, frontline workers issued the same frantic warning: their warehouse freezers were running completely empty.

Compounding the crisis, the institutional stamina of the charitable sector had already been severely depleted. In the spring of 2025, the Trump administration abruptly terminated federal programs that had previously funneled more than $1 billion in emergency commodity support to schools and food banks. These were programs that had purchased fresh produce and dairy directly from American family farms and distributed them to emergency food networks. Meanwhile, retail food prices surged under the combined pressure of new tariffs and persistent inflation. Private philanthropic donations dwindled, even as the lines of hungry Americans stretching outside food pantry doors grew longer with each passing day.

46.6 The Banner of "Fraud and Abuse"

Throughout this campaign of retrenchment, the justification most relentlessly invoked by the administration was the eradication of "fraud and abuse." In July 2026, Agriculture Secretary Brooke Rollins convened a high-profile press event to tout her agency's enforcement achievements. She proclaimed that the USDA had identified approximately $10 billion in suspected fraudulent SNAP activity and had executed more than 1,000 criminal arrests. Rollins insisted that the level of program fraud permitted and neglected by prior administrations had reached an astounding and unacceptable scale.

Independent policy analysts and oversight watchdogs demanded to see the empirical data behind these claims. They pointed out that while Secretary Rollins loudly alleged tens of billions of dollars in systemic fraud, the department refused to release the underlying primary data or methodologies

supporting her assertions. The primary statistical metric routinely weaponized by the administration was the national "payment error rate." In fiscal year 2025, the national payment error rate was officially calculated at 10.62 percent. Combining both overpayments and underpayments, this represented roughly $10.1 billion in questionable disbursements. Crucially, the overwhelming bulk of this dollar amount was driven by benign administrative blunders—such as bureaucratic paperwork processing errors, delayed casework entries, or mathematical calculation mistakes by overworked state caseworkers. Conflating bureaucratic processing error rates with deliberate, criminal benefit fraud represents a gross and deceitful distortion of reality.

Nevertheless, one sensational criminal case was elevated by the administration as the ultimate poster child for its crackdown: the federal prosecution of Arlasa Davis, a rogue employee who worked inside the very USDA division charged with detecting and preventing SNAP fraud. Davis had systematically photographed secret terminal authorization numbers and leaked them to an organized retail crime syndicate. Using these purloined codes, the criminal ring deployed fraudulent EBT payment terminals into unauthorized, illicit storefronts. The aggregate volume of fraudulent transactions executed through this scheme surpassed $66 million. In court filings, prosecutors detailed how Davis accepted thousands of dollars in cash kickbacks, referring to the bribes in text messages as "birthday gifts" and "flowers."

When Davis was originally indicted in May 2025, the combined statutory maximum prison terms for the charges leveled against her totaled 75 years. However, when she was formally sentenced in December 2025, the federal judge handed down a sentence of 2 years in prison, accompanied by a restitution order of $36 million. Early raw research notes compiled during the preparation of this book had erroneously recorded this episode as "Alisa Davis, sentenced to 75 years." Both the spelling of the defendant's name and the actual prison sentence in those early notes were factually incorrect.

Yet the ultimate lesson of the Davis scandal is deeply paradoxical: this multi-million-dollar criminal enterprise was orchestrated not by impoverished families struggling to buy groceries, but by a corrupt federal insider collaborating with unscrupulous merchant rings. Nevertheless, the Trump administration seized upon this sensational prosecution as definitive proof that the entire social welfare system was rotten to the core. And in the wake of that propaganda campaign, the punishing burdens of intrusive document verification and harsh work mandates were dumped squarely onto the backs of the poorest citizens.

The question of "what recipients are permitted to buy" also erupted into a bitter culture war battlefield. The USDA granted formal administrative waivers allowing conservative state governments to prohibit SNAP recipients from using their benefits to purchase soft drinks and candy. This initiative was closely aligned with the "Make America Healthy Again" (MAHA) campaign championed by Health and Human Services Secretary Robert F. Kennedy Jr. On January 1, 2026, Indiana, Iowa, Nebraska, Utah, and West Virginia became the first five states to enforce

these retail bans. More than 1.4 million SNAP recipients were immediately impacted in those five states alone. Louisiana followed suit in February, Texas instituted its ban on April 1, and Florida implemented its restrictions on April 20. Florida went even further, barring recipients from purchasing energy drinks and pre-packaged desserts. Within months, the total number of states granted federal approval to restrict food choices expanded to 22.

Proponents of the bans argued that taxpayer funds should never be used to subsidize junk foods that exacerbate chronic obesity and diabetes. Opponents countered by pointing to the USDA's own extensive body of nutritional research: those studies consistently proved that low-income recipients do not consume less nutritious food out of ignorance, but rather because of severe financial poverty and the high cost of fresh, perishable foods. In urban and rural "food deserts," where full-service supermarkets are miles away, low-income shoppers face severely constricted choices. Civil rights organizations filed federal lawsuits challenging the administrative legality of these state waivers.

Federal regulations targeting retail merchants were aggressively ratcheted up as well. On May 8, 2026, the USDA finalized a new federal rule dramatically elevating mandatory staple food stocking standards for all SNAP-authorized retailers. The rule more than doubled the minimum variety of perishable and staple food items that stores must continuously keep on their shelves across four primary food categories. The regulation was slated to take full effect on November 4, 2026. Coalitions of small independent grocers, corner bodegas, and rural convenience stores filed formal petitions pleading for an implementation delay, pointing out that the federal government had failed to issue the necessary technical guidance. For low-income families without personal automobiles, these neighborhood corner shops often represent the only food retailers within walking distance. If small merchants unable to comply with the onerous inventory mandates are stripped of their SNAP retailer authorization, entire low-income neighborhoods will be left with nowhere to swipe their EBT cards.

Throughout this period, conservative media outlets and right-wing political influencers relentlessly depicted SNAP recipients as lazy "free riders." Short video clips showing shopping carts allegedly brimming with junk food and soda were amplified across conservative media ecosystems. A toxic political narrative was aggressively reinforced: honest, hard-working taxpayers were being exploited by freeloaders living off the public purse. In reality, the overwhelming majority of non-disabled adult SNAP recipients are already active participants in the labor force. They remain reliant on nutritional assistance simply because their meager wages and unstable working hours leave them trapped below the poverty line. Social stigma was wielded as the political battering ram to gut the program; and the newly gutted program, in turn, subjected vulnerable families to ever greater social humiliation.

46.7 Demands to Hand Over the Rolls

The Trump administration's aggressive posture extended beyond benefit cuts to the systematic harvesting of recipients' private personal data. In May 2025, the USDA issued a sweeping directive ordering all state welfare agencies to hand over comprehensive, individualized databases on every SNAP recipient dating back to 2020. The demanded records included full legal names, dates of birth, home addresses, Social Security numbers, and precise histories of monthly benefit disbursements. The federal government established a rigid compliance deadline of July 30, 2025. The USDA threatened that any state that failed to surrender its records would face the immediate cutoff of all federal administrative funding for its social welfare programs.

Twenty-eight states acquiesced to the directive and transferred their state databases to Washington. However, a coalition of states—including California, New York, Massachusetts, Minnesota, and Illinois—refused to comply. Ultimately, twenty-one states and the District of Columbia filed suit against the federal government to halt the data grab. In February 2026, a federal district court issued a preliminary injunction against the USDA. The court prohibited the federal government from retaliating against noncompliant states or cutting off their administrative funding. In its ruling, the court highlighted grave legal concerns that the USDA intended to disseminate and share this sensitive personal data far beyond the statutory boundaries authorized by federal privacy laws. Had the funding threats been carried out, California alone stood to lose up to $338 million in federal administrative funds every single quarter.

The administration refused to back down. On June 29, 2026, the Department of Justice escalated the fight by filing federal lawsuits against Kentucky, Pennsylvania, Michigan, and Minnesota. The DOJ complaints demanded that federal judges compel these states to turn over five full years of detailed applicant and recipient records. Secretary Rollins issued a blistering statement accusing these state governments of openly defying federal law for nearly a full year.

What truly terrified low-income communities was the ultimate destination of their personal information. Official notices published by the USDA contained sweeping language granting the department broad authority to share the harvested databases with other executive agencies and law enforcement entities. Investigative journalists repeatedly pressed administration officials on whether this sensitive data would be shared with immigration enforcement authorities, including ICE. Recalling the brutal realities of mass immigration roundups documented in Part 6 of this book, these fears were anything but theoretical. If a single member of a mixed-status immigrant family holds an undocumented or precarious legal status, the entire household frequently chooses to abandon public assistance altogether. The demand for data stoked widespread terror that an administrative program designed to alleviate hunger was being weaponized into an omnipresent surveillance registry to track down vulnerable residents.

46.8 Passing the Bill to State Governments

The next calculated phase of the federal retrenchment strategy was shifting the massive financial burden of the program directly onto the ledgers of state governments. Since the modern inception of the Food Stamp Program, actual SNAP benefit outlays had been funded 100 percent by the federal government. Operational administrative expenses had been split equally, 50-50, between Washington and state capitals. The One Big Beautiful Bill Act shattered this half-century-old fiscal architecture.

Beginning on October 1, 2026, the federal government will slash its contribution to state administrative costs to just 25 percent. The remaining 75 percent must now be absorbed entirely by state taxpayers. As of this writing, this monumental shift is set to take effect in just a matter of days. The nonpartisan Food Research & Action Center (FRAC) calculated that this administrative cost shift will dump approximately $17 billion in new expenditures onto state governments over the next five years.

Beginning on October 1, 2027, states will be forced to shoulder a direct financial share of the benefit costs themselves. Under the statutory formula, any state whose payment error rate equals or exceeds 6 percent will be legally mandated to pay between 5 and 15 percent of the total SNAP benefits disbursed within its borders. The higher a state's administrative error rate, the higher the percentage of food benefits it must fund from its own treasury. Based on the national error rates recorded for fiscal year 2025, more than 40 states would immediately be subjected to this punitive cost-sharing mandate. Preliminary fiscal projections estimate annual state liabilities of approximately $1.9 billion for California and $1.15 billion for New York. Florida faces an estimated annual bill of roughly $900 million, while Texas faces approximately $725 million.

Yet the statute contains a bizarre and perverse structural loophole: states whose payment error rates exceed a staggering 13.33 percent are granted a statutory safe harbor, allowing them to delay the onset of their benefit cost-sharing obligations for one to two years. In an astonishing administrative paradox, states with the most dysfunctional administrative systems are temporarily spared from paying, while states with moderate error rates are immediately hit with crushing financial penalties. Six states and the District of Columbia currently qualify for this bizarre delay.

Faced with these looming fiscal cliffs, state governments are left with few viable alternatives. They must either slash other vital state services, such as education and infrastructure, or enact substantial state tax hikes. A third, more insidious option is to intentionally make the SNAP application and recertification process so complex, bureaucratic, and hostile that desperate families give up, thereby artificially depressing the state's caseload. Furthermore, in their desperate scramble to lower error rates, states are intensifying caseworker scrutiny to such an extent that countless eligible, starving families are wrongfully rejected. The Pew Charitable Trusts designated this federal cost shift as one of the single greatest fiscal crises confronting state legislatures in 2026.

Some conservative policy circles have even begun floating the once-unthinkable option of states withdrawing from the federal SNAP program entirely.

Even within Congress, lawmakers grew alarmed by the impending fiscal trainwreck and attempted to slow the pace. On August 6, 2026, the Senate Agriculture Committee marked up a bipartisan draft of the federal Farm Bill. The committee's draft text included a provision that would postpone the state benefit cost-sharing mandate by one full year. However, congressional leaders failed to bring the bill to the Senate floor before the pre-election recess. Moreover, the version of the Farm Bill passed by the House of Representatives contained no such delay. Advocacy coalitions, including Feeding America, are currently waging an uphill lobbying fight on Capitol Hill to persuade lawmakers to delay the implementation deadlines before state budgets suffer irreparable damage.

46.9 Summit Soybeans and Empty Tables

The earlier chapters of this book documented the theatrical spectacle of the 2026 Washington Summit. As detailed in Chapter 3, President Donald Trump aggressively touted multi-billion-dollar Chinese purchase commitments for American soybeans and beef as crowning diplomatic triumphs. His central political narrative was that forcing China to buy vast quantities of U.S. agricultural commodities would revitalize the heartland and ensure the prosperity of rural America. Yet at the very same historical moment that Washington was celebrating these foreign export agreements, the food-purchasing power of millions of low-income American families was being systematically hollowed out from within.

Dollars disbursed through the SNAP program flow directly and instantaneously into local neighborhood supermarkets and grocery stores. Those retail supermarkets, in turn, purchase goods from food processors, dairy distributors, and domestic agricultural producers. In a landmark 2019 economic study, the USDA's Economic Research Service utilized its input-output multiplier model to quantify the broader economic impact of food assistance during an economic downturn: every $1 billion increase in SNAP disbursements generates approximately $1.54 billion in national Gross Domestic Product (GDP). Conversely, slashing basic food assistance drains billions of dollars from local economic circulation, dragging down revenues across rural communities, freight logistics, and the food retail sector alike. A foreign policy that relentlessly hawked soybeans to Beijing unfolded in grotesque synchronization with a domestic policy that stripped basic groceries from the shopping carts of its own citizens.

Facing the critical November 2026 midterm elections, the Republican congressional majority has relentlessly promoted the One Big Beautiful Bill Act as its signature legislative achievement. According to official figures released by the Department of the Treasury, approximately 7.5 million service workers benefited from the elimination of federal taxes on tips. Roughly 29 million workers

benefited from tax-exempt overtime pay, while 35 million seniors benefited from expanded standard deductions. Democrats, meanwhile, have universally denounced the statute as the "One Big Ugly Bill." Under the auspices of that exact same legislative act, the number of vulnerable Americans receiving basic nutritional assistance plummeted by more than 4 million individuals. Those who celebrated tax windfalls and those whose families lost basic food security were bound together within the confines of a single, contradictory statute.

46.10 Conclusion: A State Proclaiming "He Who Does Not Work Shall Not Eat"

The ideological rationale defending mandatory welfare work requirements possesses a well-established intellectual pedigree. It is grounded in the foundational conviction that public assistance should function not as a permanent entitlement, but as a temporary stepping stone toward personal independence and economic self-reliance. The demand that public welfare programs must be transparently accountable to the taxpayers who fund them is an equally valid democratic principle. Rooting out systemic fraud, waste, and criminal abuse is an elementary responsibility incumbent upon every legitimate government.

The tragedy lies in the instruments chosen and the human carnage produced. Decades of empirical economic research demonstrate that imposing rigid work mandates does not increase employment or elevate wages among the poor. What declines is not the number of jobless individuals, but the number of impoverished citizens capable of successfully navigating an intentionally Byzantine bureaucratic paper chase. The axe of disenrollment falls most heavily upon the poorest and most vulnerable members of society. Children were never the legal targets of these work mandates, yet more than 1.5 million innocent children were unceremoniously cast off the nutritional rolls. Overburdened public school cafeterias and hollowed-out charitable food banks cannot possibly bridge the massive chasm left in the wake of the federal retreat. Crushing financial liabilities are being dumped onto the ledgers of state governments, and the fiscal bills are only just beginning to come due.

This book defines this deliberate, calculated process as welfare violence. A state does not need to deploy guns, tear gas, or batons to inflict severe physical deprivation upon its own people. A single cold bureaucratic notice, a missed document verification deadline, an EBT card whose electronic balance is abruptly wiped to zero—these administrative instruments are more than sufficient. The nationwide funding shutdown of November 2025 demonstrated that terrifying vulnerability in a single instant. The work mandates, regulatory bans, and cost shifts of 2026 are actively cementing that vulnerability into permanent, institutionalized state policy.

Inside the ornate rooms of the summit venue, President Trump boasted loudly of transactional diplomatic metrics: the numbers of Boeing commercial jetliners sold, the metric tons of soybeans

purchased, and the containers of American beef shipped abroad. Yet during that very same year, an entirely different set of numbers accumulated at supermarket checkout counters across the United States: 4 million destitute Americans erased from the food assistance rolls, and up to 9 billion meals stolen from hungry mouths. Which of these two sets of numbers a government chooses to prioritize reveals the true moral character of a nation. Chapter 47 turns from the kitchen table to the roof overhead, chronicling the plight of millions of Americans who, having lost their food, are now being stripped of their homes.

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This text was written based on the previous manuscript materials of this book, news reporting and research published between July 2025 and September 2026, and general institutional knowledge of relevant programs.

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Chapter 47. The Push to Cut Section 8 Housing Assistance: Massive Evictions of Single-Parent Families and Low-Income Households onto the Streets

Attempts to Curtail Low-Income Rental Assistance (Section 8) and Their Repercussions

47.1 Another Scene from Summit Week

On September 23, 2026, President Xi Jinping touched down at Joint Base Andrews. Washington buzzed with state visit ceremonies and festivities for two full days. During that very same week, public housing authorities across the United States were consumed by an entirely different crisis: funding for the Emergency Housing Voucher (EHV) program was slated to run out completely by the end of the year. A housing voucher is a certificate through which the government subsidizes and pays a portion of rent on behalf of a tenant. A substantial share of households receiving these vouchers were families who had previously experienced homelessness.

On September 16 of that same month, a federal appeals court ruled in favor of the Trump administration. The court affirmed the administration's authority to alter the allocation formula for $4 billion in federal homelessness assistance grants. The administration's plan was to redirect funding away from permanent supportive housing and pour more money into temporary shelters. On September 23, a report on infant and toddler homelessness was also released. It revealed that 1 in every 29 children in the United States aged three and under had experienced homelessness.

This chapter examines the federal housing assistance program widely known as Section 8. The second Trump administration sought to radically downsize this system. It sought to slash its budget by over 40 percent and dismantle the federal entitlement program into state block grants. It also sought to impose a strict two-year time limit on work-capable households. Congress rejected the proposed budget. Nevertheless, the administration relentlessly pressed forward in the same direction through administrative rulemaking, funding notices, and selective budget execution.

One crucial point must be made clear from the beginning: as of September 2026, the Section 8 program has not been abolished. The vast majority of existing recipient households continue to receive assistance today. What this chapter chronicles is not a wholesale, sudden shutdown of the system, but rather the process by which lifelines were severed or placed in grave jeopardy along multiple pathways. And that threat struck first at single-parent households—above all, single mothers raising their children alone.

47.2 What Kind of Program Is Section 8?

The designation "Section 8" originates from the section number of the United States Housing Act of 1937; the current rental assistance program was written into that section by the 1974 amendments. Its official name today is the Housing Choice Voucher (HCV) program. It constitutes the largest federal rental assistance program in the United States. More than 2 million low-income households—encompassing over 5 million people—rely on these vouchers to secure housing. The federal government provides the funding, while approximately 2,000 local public housing authorities (PHAs) nationwide administer operations.

Its structure operates as follows: tenants generally pay roughly 30 percent of their adjusted income toward rent. The local housing authority pays the remaining balance directly to the private landlord. Tenants select their desired housing on the open private rental market. This fundamentally distinguishes the voucher model from traditional public housing, where tenants move into government-constructed residential complexes.

The primary beneficiaries of this program are seniors, people with disabilities, and families with children. Among working-age recipient households without disabilities, the vast majority do, in fact, work. As of 2024, 65 percent of non-elderly, non-disabled voucher households were currently working or had worked recently. An in-depth analysis of 2016 data by the Center on Budget and Policy Priorities (CBPP) also bears this out: the typical working voucher household was a 39-year-old mother supporting two school-age children. Moreover, nearly 90 percent of all families residing in homeless shelters nationwide are headed by women.

Housing vouchers have always been in chronically short supply. Long-standing empirical analyses have consistently demonstrated that only about one in four eligible low-income households actually receives a voucher. Waiting lists routinely remain shuttered for years on end. The San Diego housing commission briefly opened its waitlist on February 1, 2026, only to quickly close it again. Fairfield, California, opened its waiting list for the first time since 2018. This is precisely why families who obtain a voucher guard it with their lives: once lost, securing one again is extraordinarily difficult.

47.3 The FY2026 Budget: A 43% Cut and State Block Grants

In May 2025, the Trump administration submitted its budget proposal for Fiscal Year 2026. The proposal called for stripping approximately $32.9 billion from the budget of the Department of Housing and Urban Development (HUD). Cuts to rental assistance accounted for roughly $26.7 billion of that total proposed retrenchment. This represented a 43 percent cut to the federal rental assistance budget.

Carrying even heavier consequences than the funding cuts was the planned structural overhaul. The administration sought to consolidate five core, separate programs into one: the Housing Choice Voucher program, Public Housing, Project-Based Section 8, supportive housing for the elderly (Section 202), and supportive housing for persons with disabilities (Section 811). Its plan was to convert these disparate programs into a single block grant dubbed the "State Rental Assistance Program." A block grant operates by transferring lump-sum funding from the federal government to the states and leaving specific fund allocation to state discretion. In practice, it amounted to drastically slashing funds while offloading the burden of responsibility onto the states.

Tacked onto this was a strict time limit. Under the proposal, households without elderly members or individuals with disabilities would be permitted to receive voucher assistance for a maximum of just two years. HUD Secretary Scott Turner testified before Congress to explain this policy direction. He stated that rental assistance must serve as a temporary bridge to help people overcome obstacles, emphasizing that it was never intended to be a permanent crutch to lean on for life.

Independent research institutions immediately calculated the potential human fallout. The CBPP estimated that imposing time limits would place more than 3 million people at risk of eviction and homelessness. Half of them were children. Researchers at New York University estimated that roughly 1.4 million households could lose their assistance. The vast majority were working families raising children.

State governments were thrown into deep distress. They lacked the fiscal capacity to fill the massive shortfall left by federal withdrawals. State budgets were already under immense strain from overhauls to Medicaid and food stamps (SNAP). The food stamp crisis was examined in detail in Chapter 46. A New York City municipal housing official warned that an across-the-board two-year limit was a prescription for sheer chaos. Private landlords likewise voiced deep concern: to property owners, voucher tenants represented dependable, stable clients whose rent checks never arrived late.

47.4 Congress Did Not Accept It

The President proposes the budget, but Congress holds the purse strings. In July 2025, the House Appropriations subcommittee stopped at trimming HUD's budget by $939 million. This was a far cry from the $26-billion-plus cuts demanded by the administration. The administration's plan to convert rental assistance into state block grants was not included in the legislation either.

That did not mean all concerns evaporated, however. Analyses indicated that under the House version, approximately 410,000 fewer people would receive vouchers. The Senate version was also projected to result in a reduction of roughly 240,000 recipients. When funding fails to keep pace with rising market rents, the same pool of money can assist fewer households. In the summer of

2025, HUD sent formal warning letters to numerous public housing authorities across the nation. The letters cautioned that a substantial number of agencies could face voucher funding shortfalls that year. Some housing authorities stopped reissuing vouchers when households surrendered them.

In the autumn of 2025, a federal government shutdown further compounded the crisis. While scraping by on stopgap continuing resolutions, housing authorities delayed issuing new vouchers. The final budget was not enacted until February 3, 2026. The Consolidated Appropriations Act, 2026 passed the House of Representatives by a vote of 217 to 214. President Trump signed it into law the same day.

The final outcome stood in direct opposition to the administration's demands. HUD's overall budget came in at $77.3 billion, an increase of more than $7.2 billion over the previous fiscal year. Tenant-Based Rental Assistance (TBRA) funding reached $38.4 billion, an increase from the $36.0 billion allocated the previous year. A full $34.9 billion was appropriated solely to renew existing vouchers. Funding for Tenant Protection Vouchers (TPVs) also expanded to $600 million. Neither the block grant consolidation nor the two-year time limit made it into the statute.

Yet even this law cast long shadows. HUD's administrative salary and expenses budget reflected a 24 percent reduction in agency personnel. Staff layoffs that had begun in the spring of 2025 were now permanently locked into the statutory budget. At the end of the day, voucher programs are administered by human beings. When staff dedicated to eligibility screening, housing inspections, and landlord contracts are cut, the delivery of assistance inevitably slows to a crawl.

In its Fiscal Year 2027 budget proposal, the administration quietly discarded the block grant construct. Instead, it demanded cutting HUD funding by approximately $10.7 billion and freezing the issuance of new vouchers. In June 2026, the House subcommittee approved an appropriations bill providing approximately $71.4 billion. While roughly 8 percent below FY2026 funding levels, it was a far milder cut than the President had sought. As of this writing, with the new fiscal year set to begin on October 1, the budget remains unfinalized.

47.5 Blocked in Legislation, Pursued Through Rulemaking: 2-Year Time Limits and 40-Hour Workweeks

When Congress blocked its legislative path, the administration pivoted toward regulatory rulemaking. Administrative regulations can be established directly by executive agencies without going through Congress. In September 2025, investigative news outlet ProPublica obtained and reported on a draft HUD regulation. On March 2, 2026, HUD formally published the proposed rule in the Federal Register. The rule was titled "Establishing Flexibility for Implementation of Work Requirements and Term Limits."

Its provisions were sweeping: public housing authorities and private owners of Project-Based Rental Assistance properties were empowered to establish two major restrictions. The first was a work requirement: they could mandate up to 40 hours of work per week for non-exempt adults between the ages of 18 and 61. Individuals with disabilities and certain designated caregivers were exempted. The second was a time limit: they could impose term limits of two years or more on non-elderly, non-disabled households. Failure to satisfy these requirements would result in termination of housing assistance.

HUD emphasized that the adoption of these measures was voluntary rather than mandatory. Agencies choosing to introduce term limits and work requirements were also required to provide self-sufficiency support services in parallel. Secretary Turner unveiled the proposal at the Housing Authority of Champaign County in Illinois. This particular agency had long operated local work requirements under special demonstration status. The Secretary also launched a supportive coalition of advocacy groups dubbed the "Alliance for Work and Dignity." HUD explained that this rule would free up voucher slots for households on waiting lists: the logic was that as assisted families transitioned to self-sufficiency and exited the program, the next needy family in line could take their place.

Historically, such administrative experiments had been exceedingly rare. Fewer than 1 percent of all public housing authorities nationwide had ever instituted work requirements. Out of approximately 140 agencies designated under special demonstration programs (Moving to Work), only a few dozen had actually put them into practice. Some agencies that had tested time limits ended up rescinding them. Evaluations consistently showed that outcomes fell far short of expectations. A handful of jurisdictions, like San Mateo County in California, maintained a five-year term limit tied directly to supportive education and training programs.

Backlash was fierce. The National Low Income Housing Coalition (NLIHC) and other advocacy groups countered that the vast majority of voucher recipients were already working. The core issue was not that people refused to work, but that entry-level wages were far too low relative to soaring rents. Elder care organizations expressed deep concern that frontline care workers and low-wage caregivers could be trapped by this rule. The public comment period closed on May 1. Nearly 2,000 public comments were submitted, the overwhelming majority in staunch opposition.

HUD announced that it would publish the final rule in the autumn of 2026. As of late September, the final rule has yet to be issued. Currently, agencies outside existing demonstration authorities cannot impose two-year time limits. Once the final rule is issued, however, the playing field will fundamentally change: state or local governments could pressure or require housing authorities to adopt these restrictions. The bipartisan housing supply legislation enacted in July 2026—the "Road to Housing Act of 2026"—chose a different path. That statute mandated that HUD must first conduct comprehensive research on the actual socioeconomic effects of work requirements in demonstration agencies before expanding them.

That same spring, another proposed rule was unveiled. This proposal targeted households where family members held differing immigration statuses—so-called "mixed-status" families. It required that housing assistance be terminated within 30 days if even a single household member lacked documented immigration status. This revived a controversial policy originally pushed during Trump's first term that had previously been shelved. Undocumented immigrant parents raising U.S.-citizen children were caught directly in its crosshairs. On August 10, HUD also announced plans to eliminate the "disparate impact" standard long used to determine housing discrimination under the Fair Housing Act. The realities of aggressive immigration enforcement were documented in Chapters 30 through 33.

47.6 The First Vouchers Cut Off: Emergency Housing Vouchers

Unlike abstract budget battles, there was one form of housing assistance that was already being terminated in practice: the Emergency Housing Voucher (EHV) program. Established under 2021 COVID-19 relief legislation, it set aside a dedicated $5 billion fund. Its target population comprised individuals experiencing homelessness, households at imminent risk of homelessness, and survivors of domestic violence. Nationwide, between 56,000 and 58,000 households had secured housing through these vouchers.

This funding was originally designed to be available through 2030. However, market rents rose far faster than anticipated, causing the funds to deplete at an alarming pace. In March 2025, HUD announced that funding would be completely exhausted by the end of 2026. The Trump administration requested no additional appropriations to bridge the gap. On October 20, 2025, the Marin County Housing Authority in California sent letters to 94 participating families. It was a notification that their assistance, once thought secure through 2030, would abruptly terminate in 2026.

New York City had the largest number of Emergency Housing Voucher recipients in the country. The New York City Housing Authority (NYCHA) sought to transition approximately 5,200 households to standard Section 8 vouchers. However, the agency itself had fallen into a severe budget shortfall. NYCHA stated that it had formally requested waivers and relief from the federal government, only to be denied. The Housing Authority of the City of Los Angeles assisted 3,365 households through the program. That agency stopped accepting new applicants and issued program termination notices. The California State Auditor warned that within California alone, approximately 2,300 households could lose their homes.

One real-life case illustrates the human stakes of this program: a woman living in New York had been housed alongside her son under an Emergency Housing Voucher since 2023. She was a survivor of domestic violence. In March 2026, she received notice that her voucher would soon expire. In an interview with local media, she laid bare her terrifying dilemma: the fear of being

forced back into homelessness, or having to return to her abuser. Emergency Housing Vouchers had served as a vital exit ramp enabling women like her to escape violence.

The Consolidated Appropriations Act, 2026 provided partial, temporary relief. It authorized Tenant Protection Voucher funding to be utilized to cover shortfalls in the EHV program. Certain housing authorities used these funds to successfully transition all their EHV households into regular Housing Choice Vouchers. The Housing Authority of the City of Los Angeles also climbed out of shortfall status. HUD, however, interpreted this legislative provision narrowly: it maintained that the funds could only cover deficits occurring within 2026 and could not serve as legal authorization to issue replacement vouchers. Public housing executive associations warned that once the year ended, vast numbers of families could lose their housing assistance entirely. As January 2027 draws closer, the anxiety gripping these vulnerable families continues to mount.

47.7 Courtroom Battles Over Homelessness Assistance Funding

The overarching direction of federal homelessness policy underwent a radical shift as well. For nearly two decades, the United States had adhered to the "Housing First" principle: providing homeless individuals with stable housing first, and offering supportive healthcare and employment services afterward. Sobriety, addiction treatment, or employment were never imposed as prerequisites for entering housing.

In July 2025, President Trump turned his back on this principle with an executive order. The order framed unsheltered street homelessness primarily as an issue of public disorder and criminality. It directed that federal grant funding be prioritized for local jurisdictions that aggressively cracked down on homeless encampments. It also contained instructions to expand procedures for involuntarily institutionalizing individuals suffering from severe mental illness and addiction. The U.S. Supreme Court had previously allowed municipal bans on homeless camping in its 2024 Grants Pass ruling (City of Grants Pass v. Johnson).

HUD translated this policy direction into financial leverage. On November 13, 2025, it published the Notice of Funding Opportunity (NOFO) for the Continuum of Care (CoC) program. CoC is the nation's premier federal homelessness initiative, distributing over $4 billion annually. The new funding notice placed a strict 30 percent cap on the proportion of grant funding that could be allocated to permanent supportive housing. Prior to this, nearly 90 percent of CoC funds had been dedicated to permanent housing. The NLIHC estimated that approximately 170,000 people would face imminent risk of losing their homes.

Local governments and advocacy groups immediately filed lawsuits to halt the policy. Plaintiffs included the cities of Boston, Tucson, and San Francisco, Santa Clara County, and the National Alliance to End Homelessness (NAEH). Several state governments also filed separate legal challenges. HUD withdrew the notice in December, only to re-issue a revised version. The U.S.

District Court for the District of Rhode Island granted an injunction blocking implementation of the new notice. On March 31, 2026, the U.S. Court of Appeals for the First Circuit upheld the preliminary injunction. The court found that HUD's plan would inflict immediate, destabilizing harm on communities. Congress inserted a provision in the FY2026 appropriations act mandating a 12-month extension for all expiring CoC grant projects.

On June 29, the federal district court ruled the 2025 NOFO unlawful and vacated it. The court held that HUD had arbitrarily overturned proven, evidence-based policy without reasoned justification. HUD had already issued a new FY2026 NOFO on June 1. This time, it omitted the explicit 30 percent cap. Instead, it carved out $1.3 billion specifically for emergency shelters and supportive services projects. Plaintiffs argued that this reshuffling would still result in approximately 97,000 individuals being pushed back into homelessness. On August 7, U.S. District Judge Mary McElroy vacated the entire 2026 NOFO as well.

On September 16, however, the legal tide turned once again. A panel of the First Circuit Court of Appeals granted an administrative stay pausing the district court's vacatur order. The appellate court noted the practical reality that HUD had to obligate and distribute grant funds by December 1. With this ruling, the administration regained the ability to push ahead with shifting funds away from permanent housing and toward temporary shelters. Plaintiff organizations expressed deep dismay and began weighing their next legal steps. The housing stability of approximately 200,000 individuals residing in permanent supportive housing hangs in the balance of this courtroom battle.

47.8 Homelessness in Numbers: Declining Statistics and Rising Infant Homelessness

Official homelessness statistics sent sharply conflicting signals. On May 29, 2026, HUD released its 2025 Annual Homelessness Assessment Report (AHAR) to Congress. The report was published several months behind schedule. Based on the single-night Point-in-Time (PIT) count conducted in January 2025, the total homeless population stood at 745,652. This represented a 3.3 percent decrease from the 771,480 individuals recorded in 2024. It marked the first nationwide decline recorded since 2016. The number of people in homeless families with children totaled 230,366, an 11 percent drop.

Looking beneath the surface, however, paints a very different reality. Unsheltered individuals living directly on the streets totaled 266,320. Chronic homelessness and homelessness among seniors aged 65 and older reached all-time record highs. Homelessness increased in 28 states. More than 90 percent of the entire national decrease came from just two states. Furthermore, this count was conducted just weeks after Trump's second term commenced. Consequently, it cannot reasonably be viewed as reflecting the effects of current policies.

Interpretations diverged sharply along political lines. Secretary Turner claimed the numbers proved that a decade of Housing First had failed. HUD press releases credited the reductions to shifting conditions in so-called sanctuary cities. Homelessness advocacy organizations drew the opposite conclusion: they argued that it proved housing-centered policies work when adequately funded.

Moreover, the Point-in-Time count suffers from fundamental structural limitations. The single-night survey counts only individuals physically present in shelters or visible on the street. Families with children rarely set up camp on open sidewalks; instead, they drift from couch to couch in others' homes or sleep inside cars. Many parents deliberately stay out of public view for fear of having their children taken away by child protective services. Data compiled by public schools reveal a problem of a vastly different magnitude. During the 2023–24 school year, more than 1.5 million children and youth experienced homelessness. Of those, only 4.4 percent lived unsheltered on the streets. The vast majority doubled up with relatives or moved between cheap motels.

On September 23, the youth homelessness advocacy group SchoolHouse Connection and researchers at the University of Michigan released a landmark report. An estimated 500,000 infants and toddlers aged three and under experienced homelessness in the United States during the 2023–24 period. That equates to 1 out of every 29 infants and toddlers nationwide. California had the highest tally in the country, with approximately 86,000 homeless infants and toddlers. This represented 5.19 percent of all infants and toddlers in the state, up by roughly 15 percent compared to the prior year. Experts identified crushing costs of living and the expiration of pandemic-era housing protections as primary drivers.

These figures, however, must be read with caution. Because they reflect data from 2023–24, they are not the result of second-term Trump administration policies. They also carry methodological limitations, being estimates derived from homelessness rates among first graders. Yet the broader trajectory is unmistakable: long before the administration began moving to reduce housing assistance, America's youngest children were already growing up without homes. Now, voucher retrenchment and the dismantling of supportive housing policies are being piled directly on top of that crisis.

47.9 The "Parasite" Discourse and Street Protests

The clash over budget reductions swiftly erupted into a war of public narratives. Certain conservative commentators and online streamers singled out long-term voucher recipients as public targets. They weaponized cherry-picked anecdotes, spotlighting individual households who had lived on vouchers for decades. Their logic was simple: honest, hardworking citizens pay exorbitant rents, while others coast by on taxpayer dollars. Rumors even circulated claiming that recipients had children simply to pass down their vouchers to their offspring. Many of these claims were either

gross exaggerations of isolated cases or entirely unfounded fabrications. Under federal regulations, a voucher is not an inheritable legal right. Remaining family members must undergo an independent eligibility screening to continue receiving assistance.

Videos from the opposite perspective went viral as well. A prominent narrative featured single mothers who used to pay tens of dollars a month suddenly receiving notices demanding thousands of dollars in rent. Yet many of these viral stories proved difficult to verify in terms of sources and underlying facts. A blanket, nationwide termination of vouchers never occurred. Actual terminations of assistance occurred through specific institutional channels, such as the expiration of Emergency Housing Vouchers or local public housing authority funding deficits. Exaggerations from both sides served only to inflame public anger.

Tensions with landlords also flared. Tenant advocacy groups had long complained that certain landlords routinely ignored repair requests, exploiting the vulnerability of voucher holders who find it extremely difficult to relocate. In March 2026, a New York State appellate court struck down a state statutory provision that prohibited landlords from discriminating against voucher holders. This opened the door for landlords to legally reject voucher recipients. The State Attorney General appealed the ruling, and a final decision from the state's highest court has yet to be issued.

Direct public protests did take place. In March 2025, terminated federal employees and community activists held a rally outside HUD headquarters. Representative Maxine Waters joined the protest, harshly criticizing the cancellation of fair housing grant programs. That same year in Boston, tenant organizations demonstrated against the proposed budget in front of the Massachusetts Republican Party headquarters. In Los Angeles and other cities, clashes erupted between protesters and enforcement personnel during sweeps of homeless encampments.

However, this is as far as verified facts go. Claims circulated online alleging that massive urban riots erupted out of outrage over Section 8 cuts. No major news reporting or official records substantiate such claims. Allegations that federal authorities rounded up protesting homeless families and locked them in warehouse-style facilities are similarly unfounded. Repurposed warehouse detention facilities were actually used for immigrant detention, an issue examined in Chapter 32. This book rigorously distinguishes verified protests from unverified rumors.

There is a specific reason why public outcry did not escalate into mass riots: people losing housing assistance are dispersed and isolated. Termination notices arrive silently, one mailbox at a time. A mother raising children does not immediately take to the streets; she first searches desperately for a relative's home or a cheap motel. This mirrors the very reason homeless families remain invisible in official government counts. And thus, this crisis unfolds in agonizing silence.

Local government responses were also mixed. In New York City, the administration of Zohran Mamdani transferred authority over homeless encampment clearings from the police to homeless services agencies. In September, it decided not to automatically dispatch police officers first when

encampment complaints were received. From January through August of this year, approximately 8,650 encampment-related complaints were filed in New York City. Homeless advocacy groups pointed out that who responds first matters far less than the chronic shortage of actual housing and medical care. When federal support diminishes, even these local municipal efforts inevitably hit an insurmountable wall.

47.10 Unsevered Lifelines, but Shaken Roofs

The contents of this chapter can be summarized as follows: the Trump administration sought to eliminate or drastically gut Section 8. Congress rejected this in the FY2026 budget, instead increasing overall voucher funding. The administration then pursued end-runs through regulatory rulemaking and revised funding notices. Proposed regulations for a two-year time limit and 40-hour weekly work requirements await a final rule. The redirection of homelessness assistance funding was revived through the courts. Emergency Housing Vouchers face an imminent funding cliff at year's end. HUD's workforce was slashed by nearly a quarter.

The damage did not arrive in a single cataclysmic shock. It crept in piecemeal: a funding shortfall at a single housing authority, a termination notice in a single envelope, a tweak to eligibility criteria in a single funding announcement. Standing at the receiving end of these blows were, overwhelmingly, women raising children alone: survivors fleeing domestic violence, immigrant mothers raising citizen children, and single mothers working at minimum wage.

A housing voucher is the most proven, effective homelessness prevention tool available to impoverished families. When housing is stable, children do not have to endure disruptive school transfers. Parents can hold onto their jobs and break free from domestic violence. Conversely, trying to rebuild a family after they have lost their home costs society vastly more: it triggers mounting expenses for emergency shelters, hospital emergency rooms, and child protective services.

Certain facets of the administration's stated rationale do warrant examination: vouchers are scarce, and applicants languish on waiting lists for years. If existing recipients remain in the program indefinitely, there are no vacancies for new families in need. The broad goal of fostering self-sufficiency is not inherently flawed. However, churning recipient slots through arbitrary time limits does nothing to expand the size of the pie. If a terminated household fails to achieve financial independence, all that results is one more person pushed onto the street. This is the very reason why the majority of public housing authorities that piloted time limits ultimately scrapped them.

During the very week the two superpower leaders enjoyed state banquets in Washington, this struggle ground on unabated. President Trump touted big-ticket sales of Boeing jetliners and massive soybean exports as the crowning achievements of the summit. Behind those flashy figures, tens of thousands of families were consumed by dread over how they would pay their rent come

January. The pageantry of the diplomatic stage and the crumbling fissures in the domestic social safety net are the two faces of the exact same administration. On October 1, the new fiscal year begins. On November 3, the midterm elections will take place. The ultimate fate of Section 8 rests upon congressional appropriations, HUD's final rules, and federal court rulings. Until all three are decided, the roofs sheltering millions of families will continue to shake.

Key Timeline

June 28, 2024	U.S. Supreme Court upholds municipal bans on homeless encampments in Grants Pass ruling (City of Grants Pass v. Johnson).
March 2025	HUD announces Emergency Housing Voucher funding will be fully exhausted by the end of 2026.
March 2025	Protest rally held outside HUD headquarters opposing federal workforce reductions.
May 2025	FY2026 federal budget proposal released (43% cut to rental assistance, block grants, 2-year time limits).
July 2025	House Appropriations subcommittee approves a $939 million reduction to HUD budget.
July 2025	President Trump signs executive order addressing unsheltered street homelessness.
September 2025	ProPublica exposes HUD's draft proposed rule on work requirements and term limits.
October 20, 2025	Marin County Housing Authority issues termination notices to 94 Emergency Housing Voucher households.
November 13, 2025	HUD publishes Continuum of Care (CoC) funding notice capping permanent supportive housing at 30%.
December 2025	Municipal governments and advocacy groups file lawsuits; federal district court halts implementation.
February 3, 2026	Consolidated Appropriations Act, 2026 signed into law ($77.3 billion for HUD, voucher funding increased).
March 2, 2026	HUD formally publishes proposed rule on work requirements and term limits in the Federal Register.
March 31, 2026	First Circuit Court of Appeals upholds preliminary injunction against CoC funding notice.
May 1, 2026	Public comment period on HUD proposed rule closes (nearly 2,000 submissions).
May 29, 2026	HUD releases 2025 Annual Homelessness Assessment Report (counting 745,652 individuals).
June 1, 2026	HUD issues new FY2026 CoC Notice of Funding Opportunity.

June 2026	House Appropriations subcommittee approves approximately $71.4 billion for HUD in FY2027 bill.
June 29, 2026	Federal district court vacates HUD's 2025 CoC funding notice as unlawful.
July 2026	Road to Housing Act of 2026 enacted.
August 7, 2026	Federal district court vacates HUD's 2026 CoC funding notice.
August 10, 2026	HUD announces intent to eliminate disparate impact rule under Fair Housing Act.
September 16, 2026	First Circuit Court of Appeals issues stay pausing vacatur of 2026 CoC funding notice.
September 23, 2026	SchoolHouse Connection publishes report on infant and toddler homelessness.
October 1, 2026	Fiscal Year 2027 begins (HUD appropriations unfinalized).
Circa December 31, 2026	Emergency Housing Voucher program funds projected to be completely exhausted.

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PART 10

Psychological Flaws and the Cliff of the 2027 Global Collision

Chapter 48. Behind the Mask of the 'Madman Theory': Experts' Warnings of Narcissistic Personality Disorder and Cognitive Decline

> Reading the Unpredictability of Trump's Diplomacy Through the Assessment of 27 Mental Health Experts

48.1 "He Knows I'm Crazy": The Madman Card Played by Trump

In October 2024, just three weeks ahead of the presidential election, Donald Trump sat down with the editorial board of The Wall Street Journal. Paul Gigot, the editorial page editor, brought up the Taiwan question. He asked whether Trump would deploy military force if China were to blockade Taiwan. Trump replied that he would not need to do so. He said it was because Xi Jinping respects him and knows that he is completely crazy. This response, laced with profanity, was widely quoted as Trump's own unveiling of the blueprint behind his foreign policy.

In making this statement, Trump brandished his own unpredictability as a weapon. The calculation was that if an adversary cannot fathom his next move, they will back down first. In international relations, this approach is known as the "Madman Theory" (狂人戰略). Trump's base and certain conservative commentators had long rationalized his erratic statements and behavior through this analytical lens. Their argument was that tariff salvos, insulting tirades directed at allies, and threats to annex Greenland were all part of a calculated performance.

Two years later, in September 2026, Xi Jinping arrived in Washington for a state visit. Trump went all the way to the tarmac at Joint Base Andrews to greet him. Yet by the time the summit concluded, virtually no substantive achievements remained in Trump's hands. A $14 billion arms sales package for Taiwan was frozen. China's export controls on rare earth elements remained firmly intact, accompanied only by the asterisk of a 12-month waiver. The side that was supposedly meant to fear the "madman" instead calmly and effortlessly reaped concrete strategic gains.

This chapter begins with this glaring disconnect. Was Trump's unpredictability genuinely a designed strategy? Or was it simply the byproduct of an uncontrolled personality and cognitive aging masquerading under the mantle of strategy? This chapter retraces the warnings issued in 2017 by twenty-seven American mental health professionals and the extensive record accumulated thereafter. However, the assessments addressed in this chapter do not constitute clinical diagnoses derived from direct examinations. They are professional evaluations formulated on the basis of observable public words and actions, and they have met with substantial pushback and counterarguments. This chapter records those inherent limitations alongside the analysis.

48.2 Nixon's Madman Theory: A Calculated Performance by a Sane Leader

The term "Madman Theory" originated with Richard Nixon. H. R. Haldeman, Nixon's White House chief of staff, recorded a revealing scene in his 1978 memoir. Around the time of the 1968 presidential election, Nixon described his concept to Haldeman as the "Madman Theory." His plan was to convince North Vietnamese leadership that Nixon was capable of doing anything to end the war. The calculation was that by hinting at the potential use of nuclear weapons, he could coerce the other side into making concessions.

In October 1969, Nixon put this concept into practice. B-52 bombers armed with thermonuclear weapons flew toward the Soviet Union over Alaska. This show of force, later known as Operation Giant Lance, failed to produce the intended effect. Neither the Soviet Union nor North Vietnam altered their stance. The Vietnam War dragged on for several more years.

The theoretical roots of the Madman Theory run even deeper. In his 1960 work The Strategy of Conflict, economist Thomas Schelling examined the credibility of commitments and threats. He explicated how deliberately relinquishing control over a situation can be used to compel an adversary. In a 1959 lecture, Daniel Ellsberg analyzed the "political uses of madness." Both thinkers shared the same foundational premise: the leader employing the threat must themselves remain fundamentally cool-headed and rational.

This premise represents the absolute core of the Madman Theory. The Madman Theory is the craft whereby a sane leader stages a performance of irrationality. For such a performance to succeed, three conditions are essential: First, the leader must possess an unequivocal grasp of their strategic objectives and remain steadfast. Second, the advisory staff must calibrate the intensity and nuance of the performance with precision. Third, threats must be brandished sparingly, and whenever invoked, genuine resolve to carry them out must be demonstrated. At Nixon's side was Henry Kissinger, and the threats were trained strictly upon hostile nations.

Scholarly appraisals of this strategy are unsparing. Political scientist Roseanne McManus conducted empirical research investigating whether projecting a madman image enhances bargaining leverage. Professor Jamie Rowen of the University of Massachusetts, drawing on that research, summarized the dynamic as follows: If a leader appears to possess extreme preferences only in specific circumstances, coercive pressure may prove effective. However, if an adversary perceives the leader as truly unhinged or irrational, the efficacy collapses. This is because meaningful negotiations cannot be conducted with a genuine madman. There is no rationale for offering concessions to a counterpart whom one cannot trust to keep their word.

This distinction serves as the starting point for understanding Trump. If Trump's erratic behavior is a staged performance, it must be underpinned by unshakable objectives and meticulous internal coordination. Conversely, if that behavior stems from underlying personality pathology or cognitive

deterioration, the equation changes entirely. In that case, invoking the "Madman Theory" is nothing more than an ex post facto veneer plastered over dysfunction.

48.3 The Warning of the 27: The Dangerous Case of Donald Trump

Public warnings from mental health professionals regarding Donald Trump's psychological fitness began in earnest during the first year of his first term. In April 2017, Dr. Bandy X. Lee, a forensic psychiatrist at Yale School of Medicine, convened an academic conference at the university. The gathering was organized to discuss the perils that the president's mental state posed to public safety. In October of that same year, Lee edited and published a volume titled The Dangerous Case of Donald Trump. Its subtitle read: "27 Psychiatrists and Mental Health Experts Assess a President." The book climbed onto The New York Times bestseller list, and a Korean translation was published in 2018.

The credentials of the contributors were formidable. Psychiatrist Robert Jay Lifton introduced the concept of "malignant normality" in the prologue, referring to the phenomenon whereby repeated abuses of power by authorities are gradually accepted by society as routine and normal. Dr. Judith Lewis Herman of Harvard Medical School is a preeminent authority in trauma studies. Philip Zimbardo of Stanford University is the renowned social psychologist behind the famous "Stanford prison experiment." Tony Schwartz, the ghostwriter who penned The Art of the Deal, also joined the list of contributors.

It is noteworthy that the book deliberately avoided the word "diagnosis" in its title. Several contributors later explained that the book's primary focus was on "dangerousness" rather than a clinical label. That is, rather than attaching a diagnostic code for a specific mental disorder, their intent was to warn of the grave danger that his observable behavioral patterns posed to the public. Nevertheless, specific analyses of personality pathology were woven throughout the volume. These analyses can broadly be grouped into four categories.

The first category is pathological narcissism. Diagnostic criteria in psychiatry define Narcissistic Personality Disorder (NPD) by several hallmark traits: a grandiose sense of self-importance, an insatiable demand for excessive admiration, and a profound lack of empathy for others. The contributors observed that these traits had been manifested consistently across decades of Trump's public words and conduct.

The second category is antisocial behavior—namely, sociopathic tendencies. Psychoanalyst Lance Dodes took charge of this section. Dodes focused on a pattern characterized by habitual dishonesty, the exploitation of others, and an utter lack of remorse or guilt.

The third category is paranoid ideation. This reflects a mindset that divides the world strictly into friends and enemies, interpreting any criticism as a mortal attack. His routine labeling of the press

as the "enemy of the people" was cited as an archetypal manifestation.

The fourth category is "extreme present hedonism," put forward by Philip Zimbardo and Rosemary Sword. This refers to a disposition driven entirely by the impulses and emotions of the immediate moment, without regard for lessons of the past or consequences for the future. The two scholars depicted Trump through a diagram of three overlapping circles: the precise intersection where extreme present hedonism, narcissism, and bullying behavior converge.

The concept that synthesizes these four dimensions into a unified whole is "malignant narcissism." Psychologist John Gartner, formerly on the faculty of Johns Hopkins University School of Medicine, spearheaded this framing. The term malignant narcissism was first coined by psychoanalyst Erich Fromm in 1964. Fromm formulated the term to describe the mortal peril of authoritarian rulers becoming so trapped in self-infatuation that they sever touch with reality. Subsequently, psychoanalyst Otto Kernberg refined it into a clinical syndrome, defining it as the toxic convergence of narcissism, antisocial behavior, paranoid features, and sadism. Gartner argued that Trump exhibited all four of these components simultaneously.

The testimony of Tony Schwartz arrived at the same conclusion from an entirely different vantage point. Schwartz spent nearly eighteen months at Trump’s side while co-writing The Art of the Deal, published in 1987. He wrote that he could find no capacity for deep introspection or inner voice within Trump. What drove Trump, Schwartz observed, was nothing more than an insatiable drive to win and the pursuit of momentary stimulation. This confession from Trump’s ghostwriter sparked reverberations as massive as the bestseller’s commercial sales.

Though not among the twenty-seven authors, Dan P. McAdams, a personality psychologist at Northwestern University, put forward a remarkably similar analysis. McAdams had dedicated his career to studying how human beings construct narrative identities by weaving their lives into coherent stories. In his 2020 book, he characterized Trump as "the episodic man." Trump, he argued, does not experience life as a connected continuous narrative, but rather lives each moment as an isolated, standalone scene. In each discrete episode, all that matters is winning; whether yesterday’s declarations directly contradict today’s assertions is of zero consequence to him. Viewed through McAdams's theoretical framework, expecting long-term strategic coherence from Trump is fundamentally futile.

The warnings from these experts did not halt with the first term. The updated and expanded edition in 2019 featured thirty-seven contributors. In 2024, a follow-up volume, The More Dangerous Case of Donald Trump, authored by forty mental health professionals, was published. Lee continued to sound the alarm at the helm of an organization named the World Mental Health Coalition. To these clinicians, the cascading chaos of Trump’s second term in 2026 was received as definitive vindication of the warnings they had raised years before.

48.4 The Architecture of Pathological Narcissism: Grandiose Exterior and Fragile Core

To understand pathological narcissism, one must dissect the facade from the interior core. The outwardly visible manifestation is grandiosity. The individual claims to be the smartest, the most successful, and the most universally adored. Yet psychoanalytic theory views this grandiose exterior as a defense mechanism: a desperate inflation of the outer self designed to conceal profound inner anxieties and feelings of inferiority.

Within this psychological structure, criticism poses an intolerable, existential threat. Even the slightest correction or perceived slight destabilizes the entire inflated self-image. Psychiatry terms the reflexive reaction to this injury "narcissistic rage." Narcissistic rage does not seek to counter arguments through logic; rather, it lashes out by demeaning, smearing, or retaliating against the perceived offender. A passage in the book of the twenty-seven captures this precisely: individuals suffering from pathological narcissism cannot relinquish their insatiable craving for adoration; consequently, when confronted with any disconfirming evidence, they warp reality or fabricate entirely new realities in order to preserve the fiction of their supreme uniqueness.

On the world stage, this psychological architecture leaves unmistakable footprints. In April 2026, Pope Leo XIV publicly criticized the war with Iran. This came immediately after Trump threatened that an entire Iranian civilization would be annihilated. On April 12, Trump posted a rambling diatribe on Truth Social attacking the Pope, alleging that the pontiff was soft on crime and utterly ignorant of foreign policy. He then posted an AI-generated synthetic image depicting himself as Jesus Christ. When even his own religious base erupted with accusations of blasphemy, he deleted the image the following day. Trump later offered the bizarre defense that the image had actually depicted him as a doctor.

This sequence of actions served not a single foreign policy objective. It did nothing except alienate Catholic voters and stoke immense backlash across conservative religious communities. Behavior that defies any rational strategic explanation is effortlessly deciphered through the lens of narcissism theory: criticism from an authoritative moral figure pierced his self-image, triggering reflexive counterattacks and grotesque self-aggrandizement.

His posture toward traditional allies can be read through the very same lens. As examined in Chapter 9 of this book, Trump lambasted NATO allies who declined to dispatch naval forces to the Strait of Hormuz as "cowards." The executive order renaming Lake Ontario, discussed in Chapter 15, was another gratuitously confrontational symbolic measure executed in outright defiance of Canadian protests. Such actions did not strike terror into counterparts; instead, they unified and hardened opposition against the United States. While a true Madman Theory is directed strictly at foreign adversaries, Trump’s narcissistic rage made no distinction between friend and foe.

Entering Trump's second term, Dr. Bandy Lee warned of another dangerous phenomenon: the transmission of the leader's warped perception of reality across his political base. Lee termed this the "Trump Contagion." In psychiatry, there is a recognized condition known as folie à deux (shared psychotic disorder), in which the delusional beliefs of one individual are transmitted to others in close proximity. Lee expanded this clinical concept to a societal scale, explaining how broad swaths of the public come to internalize and embrace the leader's fabricated, distorted narratives. This interpretation remains highly controversial even within the psychiatric community, with critics arguing against transposing an individual clinical diagnosis directly onto mass political dynamics.

48.5 The Goldwater Rule and the Duty to Warn

The publication of the twenty-seven experts' book split the American psychiatric community in two. The point of fierce contention was the so-called "Goldwater Rule."

The rule took its name from the 1964 presidential election. That year, Fact magazine conducted a survey assessing the psychological fitness of Republican nominee Barry Goldwater. Questionnaires were mailed to 12,356 psychiatrists, of whom 2,417 responded. Among them, 1,189 stated that Goldwater was mentally unfit for the presidency. The magazine splashed this figure in bold across its cover. Goldwater filed a libel lawsuit against the magazine and prevailed in court.

In 1973, the American Psychiatric Association (APA) incorporated a new provision into its code of ethics. It stipulated that psychiatrists should not offer professional opinions or diagnoses regarding public figures without having conducted an in-person clinical examination and obtained proper authorization. This became known as the Goldwater Rule. As public debate surrounding Trump intensified, the APA reaffirmed this rule in March 2017. It further broadened its scope to encompass virtually any professional commentary on public figures, not merely formal diagnostic labels. The Association warned against long-distance assessments, deriding them as reckless "armchair psychiatry."

The rationale of those defending the rule is unequivocal: evaluations conducted without direct examination are inherently inaccurate; the credibility and scientific integrity of psychiatry are squandered in partisan political battles; and such rhetoric exacerbates prejudices that anyone with a mental illness is unfit for public office, thereby stigmatizing vulnerable patients. For these reasons, the majority of practicing psychiatrists refrained from offering public appraisals of Trump.

The twenty-seven authors countered with a competing ethical imperative: the "duty to warn." This principle originated in the landmark 1976 California Supreme Court ruling, Tarasoff v. Regents of the University of California. The court held that when a mental health therapist determines that a patient presents a serious danger of violence to another, the clinician is obligated to breach confidentiality and warn the intended victim. The authors extended this legal reasoning to the

presidency. They argued that remaining silent in the face of warning signs from someone with authority to launch nuclear weapons would itself be unethical.

The tension between these two ethical principles remains unresolved to this day. Even well into 2026, professional psychiatric journals continue to publish heated exchanges over the rule. Those advocating for the abolition of the rule stand locked in debate with those proposing its refinement. Proponents of refinement suggest that while individual clinical labeling should be barred, general education of the public regarding psychological pathology and risk patterns should be explicitly permitted. Readers must bear in mind that the professional perspectives cited throughout this chapter stand squarely in the crossfire of this ongoing disciplinary controversy.

48.6 The Controversy Over Cognitive Decline: Verbal Slips, Confabulated Memories, and Repeated Cognitive Screenings

Distinct from personality pathology, the issue that emerged with mounting intensity during Trump's second term was cognitive functioning. Upon taking the oath of office in January 2025 at age 78, Trump became the oldest president inaugurated in United States history. On June 14, 2026, he turned 80. Advanced age itself is not an illness. However, as perceptible shifts in his speech and behavior in public appearances steadily accumulated, questions from both the medical community and the media multiplied.

Controversies surrounding his cognitive testing were representative. Trump disclosed that he had undergone cognitive testing during his April 2025 routine physical and his October visit to Walter Reed National Military Medical Center. On January 2, 2026, he took to Truth Social to post an update, announcing that the White House medical unit had declared him to be in "perfect health." He also wrote that he had "aced" three consecutive cognitive examinations with perfect scores. He added a proposal that cognitive exams should be made mandatory for all presidential and vice-presidential candidates.

The exam Trump referenced is widely understood to be the Montreal Cognitive Assessment, or MoCA. The MoCA is a roughly ten-minute screening instrument designed to detect mild cognitive impairment (MCI). It consists of tasks such as naming drawings of animals, copying basic geometric shapes, and recalling a list of several words. Individuals with normal cognitive functioning typically pass the screening without significant difficulty. Yet Trump repeatedly asserted on multiple occasions that the test became exceptionally grueling in its final questions and that very few people could answer them. Dr. Jonathan Reiner, a professor of medicine and cardiologist at George Washington University, cast doubt on this boasting, pointing out that Trump appeared to be confusing a basic clinical screening test with an advanced intelligence exam.

Critical physicians focused on the frequency of the testing. In clinical practice, it is unusual to repeatedly administer a screening test without a specific clinical indication. Several clinicians,

including John Gartner, contended that administering serial tests was indicative of a protocol to track ongoing cognitive changes. The White House insisted that the screenings were merely part of standard routine checkups. Detailed data from the test results were never released to the public. Consequently, outside observers cannot definitively determine which explanation accounts for the repeated examinations.

Diagnostic imaging also generated controversy. Trump stated that he had undergone an MRI in October 2025 and that the results were flawless. However, in an interview with The Wall Street Journal published on January 1, 2026, he walked back his statement, clarifying that it was not an MRI, but rather a less intensive CT scan. His personal physician confirmed that a CT scan had been ordered to rule out cardiovascular issues. Trump remarked that he regretted having the scan done, complaining that the disclosure had merely handed his critics "ammunition" to attack him. In the same interview, he admitted that he was taking a higher dosage of aspirin than his doctors recommended, explaining that the noticeable bruising on the back of his hands was caused by that medication.

Public verbal slips also mounted. A prime example occurred on January 21, 2026, during his address at the World Economic Forum in Davos, Switzerland. While expounding on his ambitions regarding Greenland, Trump repeatedly referred to Greenland as "Iceland" four separate times. He went so far as to claim that the stock market had declined because of Iceland. In context, the territory he was referring to was unambiguously Greenland. White House Press Secretary Karoline Leavitt denied that Trump had confused the two locations. However, the live broadcast recordings preserved his unvarnished words for all to see. Reports subsequently surfaced that following the incident, the government of Iceland retained a Washington lobbying firm for advisory services.

There were also instances where he recounted memories with total conviction that were factually impossible. On July 15, 2025, at an energy and technology event in Pittsburgh, Trump brought up a story about his uncle. He claimed that his uncle, Dr. John Trump, who had been a professor at MIT, had taught Ted Kaczynski, the notorious "Unabomber." Trump even recounted a vivid conversation in which he had personally asked his uncle what kind of student Kaczynski had been. However, Kaczynski attended Harvard University and the University of Michigan. MIT confirmed that it possessed no record of Kaczynski ever attending the institution. Furthermore, John Trump passed away in 1985. Kaczynski was not identified and arrested as the Unabomber until 1996. Chronologically, it was utterly impossible for Trump to have had such a conversation with his uncle.

Neurologists refer to this clinical phenomenon as "confabulation" (作話). Confabulation is a memory disturbance wherein gaps in recollection are unconsciously fabricated with plausible-sounding details without any intent to deceive. Unlike deliberate lying, the speaker genuinely believes the fabricated account to be factual. Confabulation is frequently observed in patients experiencing deterioration in frontal lobe function. Several clinicians, including John Gartner, compiled these recurring episodes to publicly raise the possibility of frontotemporal dementia

(FTD). Frontotemporal dementia is a neurodegenerative disorder characterized by atrophy in brain regions governing judgment, impulse control, and language. In many cases, profound alterations in personality and conduct manifest long before classical memory loss becomes evident.

A clear line of caution must be drawn here. A definitive diagnosis of frontotemporal dementia requires in-person neurological evaluations, neuroimaging, and comprehensive medical history taking. Such a pathology cannot be formally confirmed solely on the basis of public video footage and speech transcripts. With advancing age, ordinary individuals routinely confuse names and stumble over words with greater frequency. Compounding the difficulty of interpretation is Trump's lifelong propensity for hyperbole, embellishment, and brazen fabrications. Whether the uncle anecdote represented true clinical confabulation or merely the continuation of a decades-old habit of exaggeration cannot be resolved by outside observers. This is the boundary of what this chapter can assert: numerous public signals warranting suspicion of cognitive decline have steadily mounted, and the White House has produced no objective clinical documentation to dispel those doubts. Controversies surrounding physical symptoms are addressed separately in the forthcoming Chapter 49.

48.7 Performance or Symptom? The 2026 Iran War and the Failure of the Madman Strategy

Whether the Madman Theory actually functioned can be evaluated through real-world outcomes. The 2026 Iran War served as its most definitive testing ground.

On February 28, 2026, the United States launched massive airstrikes against Iran alongside Israel. Iran retaliated by blockading the Strait of Hormuz. On Easter Sunday, April 5, Trump posted an expletive-laden tirade on Truth Social, threatening that if the strait was not reopened, power plants and bridges would be bombed into oblivion. Two days later, on April 7, he declared that if Iran failed to comply, an entire civilization would perish. When a ceasefire was brokered shortly after these threats, loyalists proclaimed that the Madman Strategy had triumphed.

Foreign policy experts, however, offered a drastically different assessment. In May 2026, Foreign Policy published an in-depth analysis dissecting Trump's Madman Theory. The core thrust of the analysis was straightforward: neither Denmark regarding Greenland nor Iran in the midst of war had capitulated to Trump's bombast. Without capitulation, a madman strategy cannot be deemed successful. Indeed, Iran pushed back by adopting madman postures of its own. Because Trump had repeatedly issued apocalyptic threats only to step back, his bargaining reputation had ironically become predictable and degraded.

Benjamin Giltner of the Cato Institute reached an identical conclusion. The Madman Theory is a deterrence technique that retains coercive power only when employed sparingly; the more frequent and preposterous the threats become, the lower their credibility sinks. A column in the American

online magazine Slate was even more blunt: to execute a madman strategy, one must maintain consistency, and one must never openly boast that one is running a madman strategy. Trump violated both conditions. The column concluded that there was no "theory" in Trump's maneuvers—only erratic flailing.

On June 19, the American media outlet NOTUS analyzed the diplomatic landscape ahead of final ceasefire negotiations. Alan Eyre, a seasoned former State Department official specializing in Iran, characterized Trump's behavior with incisive clarity: Trump acts the way he does because he cannot act otherwise, and that constitutes the single greatest threat. Eyre's assessment directly answered the central question of this chapter: For something to qualify as strategy, there must be choice and intent. A course of action from which one cannot deviate is not strategy; it is disposition.

In the same article, Sina Toossi, a senior fellow at the Center for International Policy, highlighted Tehran's evolving counter-strategy. Iran had learned to navigate not by what Trump said, but by deciphering what he actually wanted. They learned to filter out the rhetorical sound and fury, reading solely the operational signals of his concrete behavior. Once an adversary begins responding in this manner, the Madman Strategy is rendered utterly toothless, because the theatrical bluster of the supposedly crazy leader is discounted as meaningless background noise.

48.8 What Did Beijing Read? The Washington Summit and the Neutralization of the Madman Card

The playbook Iran eventually learned had already been mastered much earlier by Beijing. Xi Jinping had weathered both the trade wars of Trump's first term and the indiscriminate tariff barrages of his second. Throughout that protracted confrontation, the Chinese leadership had systematically refined the art of distinguishing Trump's bombastic threats from his actual operational preferences.

In an August 2025 interview with Fox News, Trump recounted a past exchange with Xi Jinping. He claimed that Xi had promised China would never attack Taiwan while Trump was president of the United States. Trump took this as a supreme mark of personal respect and deference toward himself. Yet in that very same conversation, Xi had added that China is exceptionally patient. Trump heard only the former sentence; Xi placed all the strategic weight on the latter. This single episode crystallizes the profound divergence between the two leaders: one craved immediate validation in the present moment, while the other calculated along an expansive historical horizon.

Dan McAdams's "episodic man" and Philip Zimbardo's "present hedonist" intersect seamlessly here. What mattered above all to Trump was delivering flashy, tangible headline figures prior to the November 3 midterm elections: quantifiable trophies such as 200 Boeing jetliners, 25 million metric tons of soybeans, and the opening of the Chinese beef market. This was the exact roster of the "5B" cards detailed in Chapter 3 of this book. Xi Jinping read this impatience with crystal

clarity. And in exchange for granting those transactional numbers, Beijing seized structural victories: freezing U.S. arms sales to Taiwan, locking in caps on tariffs, and demanding rollbacks on high-tech export controls.

If Trump's assertions in 2024 had held true, Xi Jinping ought to have quaked in fear of an irrational, crazy counterpart. Yet the diplomatic outcomes of September 2026 demonstrated precisely the opposite. Xi calculated Trump's psychological appetite far more accurately than he feared Trump's manufactured rage. Once you know exactly what your counterpart desperately craves, no amount of verbal madness will tip the negotiating scales in their favor. A Madman Card commands leverage only so long as the madness remains unpredictable. To Beijing, Trump's "madness" had long since been reduced to a thoroughly mapped and predictable variable.

This is the interpretive analysis of this chapter. There are no declassified internal documents revealing how the Chinese leadership clinically assessed Trump's psychological profile. Yet the stark asymmetry between the summit's deliverables and the respective joint communiqués substantiates this conclusion: the White House trumpeted commercial numbers, while Beijing established strategic principles. Headline numbers fade from memory once the ballots are cast; strategic principles become the unyielding baseline for the next round of negotiations.

48.9 Limitations and Counterarguments to This Assessment

The analyses explored in this chapter carry undeniable limitations. To maintain an objective and balanced appraisal, the major counterarguments are summarized below.

First, there was no direct clinical examination. None of the twenty-seven contributors ever evaluated Trump in a clinical setting. Psychiatrists who defend the Goldwater Rule identify this as their foremost objection: public words and actions represent only a curated sliver of an individual's psychology, and politicians routinely project calculated personas before mass audiences.

Second, suspicions persist regarding political motivation. Trump's political base dismissed these medical warnings as partisan attacks orchestrated by political opponents. The fact that many of the participating clinicians were vocal critics of Trump's policies further fueled this skepticism. In 2020, Dr. Bandy Lee's relationship with Yale University ended. Lee and her supporters protested that this was unjust. This episode illustrates just how intense the professional and political backlash surrounding her activism had become.

Third, critics argue that personality traits must be decoupled from governance capability. Throughout history, numerous world leaders have exhibited intense narcissistic traits while achieving notable historical successes. Highly narcissistic leaders are often capable of making bold, decisive breakthroughs. Scholars also warn against the reflexive conflation of undesirable personality traits or flawed policies with mental pathology, cautioning that such tendencies

reinforce harmful stigmas that people living with mental illness are fundamentally unfit for public life.

Fourth, the defense of the Madman Strategy has not collapsed entirely. Trump's supporters point to the historic summits with North Korea achieved during his first term as proof of its effectiveness. The April 2026 ceasefire with Iran likewise materialized in the immediate wake of his apocalyptic threats. Whether the threat of escalation drove those outcomes or whether the unsustainable economic and military costs of war forced both parties to the table remains a subject of ongoing debate.

Fifth, the controversy over cognitive decline intertwines verifiable facts with clinical inferences. The verifiable facts are these: Trump underwent serial cognitive screenings and misstated the specific nature of his diagnostic imaging. He repeatedly confused geographic names during public speeches and recounted memories that were chronologically impossible. The inference, however, is this: the determination that these behavioral markers represent symptomatic manifestations of a specific neurodegenerative disorder. While the factual occurrences are substantiated by the public record, the clinical inferences cannot be confirmed without rigorous, in-person diagnostic examinations.

Despite these undeniable caveats, the fundamental question posed by this chapter remains entirely valid. The Madman Theory rests upon the indispensable premise that the actor staging the madness is fundamentally sane. When observable public evidence steadily mounts suggesting that this foundational premise may be fractured, scrutinizing those signals is not only legitimate but imperative. Even without affixing a formal diagnostic label, the core question remains: Was this conduct a deliberate choice aimed at a strategic goal, or was it an uncontrollable reflex driven by underlying psychological pathology?

48.10 Conclusion: The Perils of Diplomacy Tethered to an Individual's Mind

Nixon's Madman Theory had Henry Kissinger to anchor it. Even during Trump's first term, there were the so-called "adults in the room"—figures such as White House Chief of Staff John Kelly and Secretary of Defense James Mattis. They slowed down, modulated, and filtered out the president's erratic and impulsive directives. In the second-term White House, virtually none of those institutional shock absorbers remained. Aides were relegated to scrambling after the fact to rationalize the president's utterances rather than checking his impulses. The press secretary's denial of the "Iceland" blunder at Davos offered a telling glimpse of this dynamic.

The more foreign policy becomes tethered to the private psyche of a single individual, the more catastrophic the danger becomes, because the idiosyncratic temperament of the leader directly mutates into national strategy. If that temperament is starved for praise and provoked to rage by criticism, foreign counterparts will weaponize those psychological vulnerabilities as bargaining

chips. That is precisely what Beijing accomplished at the 2026 Washington summit. China catered to Trump's ego through imperial ceremonial protocols and symbolic gestures like panda diplomacy, saving his public face. And in return, it walked away with the real prizes: concessions on Taiwan, rare earths, and critical technologies.

The United States Constitution contains a constitutional mechanism designed for instances where a president is unable to discharge the powers and duties of the office: Section 4 of the Twenty-Fifth Amendment. If the vice president and a majority of the principal officers of the executive departments concur, presidential powers can be transferred to the vice president. Yet this provision has never once been invoked in American history, for it demands that cabinet officials appointed by the president turn against the very patron who elevated them. There exists virtually no institutional mechanism to independently evaluate the mental fitness and cognitive functioning of a sitting commander-in-chief. The peril flagged by the twenty-seven mental health experts extended beyond the medical condition of one man, illuminating a profound constitutional vacuum in the American system of governance.

The lesson for South Korea is equally stark. As examined in Chapter 10 of this book, the Lee Jae-myung administration refused Washington's demands to deploy troops to the Middle East. It was a strategic choice that refused to be swayed by coercive rhetoric, firmly safeguarding the baseline of the national interest. Trump's words oscillate multiple times in a single day. Reacting reflexively to every rhetorical outburst surrenders the initiative in negotiations. Just as Beijing and Tehran demonstrated, one must look past the spoken rhetoric to decipher actual core desires, and look beyond sensational threats to analyze underlying structural realities.

When the mask of the Madman Strategy is stripped away, two realities remain: one is a personality crave-driven by praise and destabilized by criticism; the other is a cluster of warning signs indicating judgment dulled by the passage of time and age. While these two dynamics steered the diplomacy of the world's foremost superpower, foreign adversaries did not succumb to terror—they calculated. The empty-handed outcome of the 2026 U.S.–China summit was the direct product of those cold calculations. The subsequent Chapter 49 examines the medical community's warnings surrounding Trump's physical symptoms and his late-night social media postings.

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Chapter 49. The Right-Hand and Facial-Change Controversies and Sundowning Tweetstorms

The Warning of 27 Mental Health Professionals

Introduction: The Cameras Watch the President's Body

The cameras at a summit do not capture merely the words spoken by the two leaders. They capture the hands shaking, and the posture as they sit. They record faithfully even fluttering eyelids during a speech.

When President Trump welcomed President Xi Jinping to Washington in 2026, he was 80 years old. On June 14 of that year, he marked his 80th birthday. He was the oldest president at the time of inauguration in American history. The Chinese delegation did not read negotiation documents alone. They also read how long, and with what degree of mental sharpness, their counterpart could negotiate.

Chapter 48 addressed the issues of personality and cognition concealed behind the term 'Madman Theory.' This chapter delves into a realm that is far more visible to the eye: bruised hands, a face drooping on one side, and social media barrages erupting in the dead of night. It also examines the cognitive tests that the president himself has repeatedly boasted about.

First, a fundamental principle must be established. A definitive medical diagnosis cannot be confirmed on the basis of video footage and photographs alone. This chapter clearly distinguishes between verified facts, expert interpretations, and speculative hypotheses. When these three become entangled, critique loses its force and degenerates into conspiracy theories. Questioning a president's health must be an act of rigorous verification, not derision.

49.1 Traces on the Right Hand: Bruises, Makeup, and Signatures

(1) The Day Bruises First Became an Issue

Bruising on the back of his hands began appearing frequently in photographs starting in the spring of 2025. It was predominantly on his right hand, displaying a deep purple coloration. Photographs showing skin-toned cosmetic concealer applied over the bruises were also captured multiple times.

On July 17, 2025, the White House issued its first official explanation. Press Secretary Karoline Leavitt announced two findings. One was the diagnosis of 'chronic venous insufficiency' as the cause of leg edema. Chronic venous insufficiency is a condition where the valves in leg veins weaken, causing blood to pool. It is common among seniors aged 70 and older and is generally not life-

threatening. The other was the cause of the bruising on the back of his hands. The White House stated that it was the combined result of frequent handshakes and daily aspirin intake.

(2) The Explanations Shifted Over Time

Subsequent explanations shifted depending on the situation. The bruising on the right hand was attributed to 'vigorous handshakes.' When bruising was observed on his left hand in early 2026, the explanation given was that he had bumped it against a table [1]. Photographs from the Davos Forum in January 2026 also showed bruises covered with makeup [2].

On January 2, 2026, the president gave an interview to The Wall Street Journal. He disclosed that he takes 325 milligrams of aspirin daily [3]. The standard preventive dosage for cardiovascular health is typically 81 milligrams. The president himself recounted that his doctors had recommended lowering the dosage. However, he refused, explaining along the lines that he "doesn't like thick blood" [3]. Representative Jamie Raskin, the ranking Democrat on the House Judiciary Committee, pointed this out. He noted that this dosage was four times the standard level [4].

On May 26, 2026, the president underwent an examination at Walter Reed National Military Medical Center. His physician, Dr. Sean Barbabella, noted that the bruising was a common and minor side effect of aspirin [1]. His weight was recorded at 238 pounds, an increase of 14 pounds compared to April 2025 [1]. The physician recommended weight loss and exercise [1]. The report's overarching conclusion was "excellent health" [1].

(3) What Is Verified and What Remains Unverified

This represents the extent of what is verified by official records. High-dose aspirin genuinely causes bruising to occur more easily. The thinning skin of an elderly person also bruises from minor impacts. Therefore, the bruising itself can be accounted for by the official explanation.

However, certain YouTube commentators and analysts advanced a different hypothesis. They claimed that the bruising recurred at regular intervals of 20 to 25 days. They viewed these marks as intravenous injection sites. Furthermore, they speculated that they might be traces of administering monoclonal antibody therapies for Alzheimer's disease. Lecanemab and donanemab were specifically mentioned.

To date, this hypothesis is not supported by any official record. Lecanemab is administered via intravenous infusion every two weeks, and donanemab every four weeks. The alleged cycle does not match the administration intervals of either drug. This chapter does not treat this hypothesis as factual. What is undeniably clear, however, is that when explanations shift and medical records are only partially disclosed, speculation thrives. The party responsible for stoking suspicion was not only the commentators, but also the opaque White House.

(4) The Signing Right Hand

The controversy surrounding his right hand did not end with bruises. Analyses emerged suggesting that his signing motion had changed.

A host claiming to be a medical professional on a YouTube broadcast analyzed video footage [5]. The host claimed that during his first term, signing a document took roughly 8 seconds. In his second term, that duration had reportedly stretched to over 11 seconds. It was also noted that he positioned documents shifted to the right, rather than along the midline of his body.

In occupational therapy, there is a concept known as 'crossing the midline.' This refers to the movement in which the right hand crosses the central axis of the body into the left side of space. This action involves the corpus callosum, the nerve bundle connecting the left and right cerebral hemispheres. The analysis interpreted Trump's posture as an avoidance of movements that cross the midline. It even raised the possibility of cerebral white matter damage.

While intriguing, this analysis has substantial limitations. The signing duration in public footage varies according to document type and camera angles. Nor is this a peer-reviewed study. Ever since his first term, the president has consistently signed documents with a thick marker in an oversized hand. This chapter records this signature analysis solely as 'one interpretation of observed changes.'

49.2 When One Side of the Face Droops: Two 9/11 Memorial Ceremonies

(1) 2025 and 2026: The Same Scene

Video footage from the September 11, 2025 memorial ceremony circulated first. It captured a scene in which the right corner of the president's mouth appeared to droop. One year later, on the very same day, a strikingly similar scene was recorded once again.

September 11, 2026 marked the 25th anniversary of the 9/11 terrorist attacks. The president attended the memorial ceremony at the Pentagon. In several video recordings, the right side of his face appeared visibly drooping [6]. During the ceremony, he was also filmed closing his eyes, seemingly fighting off drowsiness [6]. Dr. Nick Mark, a pulmonologist, flagged the facial drooping as a clinically meaningful change [6]. Dr. Bruce Davidson, a professor at Washington State University's medical school, went a step further. He noted the dragging gait alongside the gesture of cupping or bracing his hand. He offered the opinion that these could be lingering traces of a past stroke [6]. The White House did not respond to press inquiries regarding these observations [6].

In addition to this, video footage from Oval Office events and Cabinet swearing-in ceremonies sparked similar controversies [7]. Conversely, there were also reports noting that in video clips taken just a few days later, his face appeared completely normal [8].

(2) Two Types of Facial Palsy Distinguished by Physicians

Physicians broadly divide facial paralysis into two clinical categories. One is peripheral facial palsy, most typically exemplified by Bell's palsy. In this condition, the facial nerve itself is damaged, resulting in the paralysis of an entire side of the face, including the forehead. The other is central facial palsy. This occurs when the neural signaling pathways traveling from the brain to the face are damaged. In this case, the forehead muscles retain movement while only the lower face droops. This is the pattern commonly seen in strokes.

Certain physicians and commentators believed that the president's facial features more closely aligned with the latter type. Consequently, they raised the possibility of a Transient Ischemic Attack (TIA) or a minor stroke. A transient ischemic attack is a condition where cerebral blood flow is temporarily obstructed and then restored. While symptoms resolve within 24 hours, it can serve as a precursor to a major stroke.

(3) The Gait and Holding Cups with Both Hands

His gait also came under scrutiny. Beginning in early 2026, there were multiple reports of a gait that appeared to involve dragging his right leg [9]. There were also observations that he swung his leg outward in a circular motion as he stepped forward. Scenes of him grasping a water cup with both hands at public events were likewise frequently cited.

If facial symptoms, the right leg, and the right hand are compromised concurrently, physicians immediately consider the left hemisphere of the brain. This is because the right side of the body is controlled by the left brain. It was precisely this combination of unilateral signs that critical physicians found concerning.

(4) Where Judgment Must Pause

Yet a definitive conclusion cannot be drawn here. Facial expression musculature can vary depending on fatigue, lighting, dental conditions, or the exact moment of speech. Gait can also be affected by chronic venous insufficiency or joint problems. A definitive diagnosis requires a formal neurological examination and neuroimaging.

The problem lies in the fact that those examination records have not been released. The May 2026 medical exam report merely noted that his neurological function was excellent [1]. It did not disclose what specific neurological examinations had been conducted. The entity that created this vacuum of verification was not the critics, but the White House.

49.3 Truth Social in the Night: Torrential Posting and the Sundowning Debate

(1) Posts Pouring Out in the Dead of Night

The president's social media channels grow far busier at night. A prime example occurred on the night of December 1, 2025. Starting at 9:00 p.m. that evening, he unleashed a torrent of 158 posts [10]. During the first three hours, the pace was nearly one post per minute [10]. The newsweekly TIME reported that there were even nights when he posted more than 160 times [11].

The content was completely disjointed. Attacks on political adversaries and diatribes invoking treason were uploaded. Unfounded conspiracy theories were mixed in. Interspersed in between were movie clips and promotional videos of the First Lady [10].

On August 24, 2026, another unrelenting posting spree continued for an hour starting at 12:30 a.m. [12]. The Iran war, the November midterm elections, and immigration policy were all jumbled together [12].

(2) Posts That Crossed the Line

Even more troubling than the volume was the content.

In December 2025, film director Rob Reiner and his wife were found dead in their home. It was immediately after a homicide investigation had been launched. The president posted a message suggesting that Reiner had died because of 'Trump Derangement Syndrome' [13]. He claimed that the anger Reiner had incited in others was the cause. The remarks drew rare criticism even from within the Republican Party [14].

On April 7, 2026, ahead of the ceasefire deadline in the Iran war, the president wrote: "A whole civilization will die tonight" [15]. Amnesty International condemned this as an apocalyptic threat foreshadowing large-scale civilian slaughter [16]. The outcome that night, however, was a two-week ceasefire [15].

On April 12, following a war of words with Pope Leo XIV, he posted an image. It was an AI-generated composite portraying himself as Jesus [17]. As a storm of criticism erupted, he deleted the post. He then explained away the image by claiming he had thought it was 'me as a doctor' [17].

(3) What Is Sundowning?

Critics linked this nocturnal rampage to 'sundowning.' Sundowning is commonly referred to as sunset syndrome. It is a phenomenon in which dementia patients experience worsening confusion, anxiety, and agitation from late afternoon into the night. As the sun sets, their sense of time blurs

and emotional irritability intensifies. It is a symptom frequently encountered by caregivers in nursing homes and domestic settings.

Clinical psychologist Dr. John Gartner interpreted the president's late-night postings as an expression of this phenomenon. He is a figure who has publicly posited the possibility of frontotemporal dementia. Frontotemporal dementia is a neurodegenerative disorder where the anterior and temporal regions of the brain atrophy first. In many cases, executive judgment, impulse control, and language deteriorate early on.

(4) Limitations of the Interpretation

However, late-night postings do not in themselves constitute definitive proof of sundowning. Three considerations must be weighed.

First, the president has maintained since his youth that he sleeps very little. His habit of tweeting late at night was well established even before his first presidential term.

Second, not every post is written by the president personally. Aides Natalie Harp and Dan Scavino also have access to the account [12]. Nevertheless, CNN journalists reported that late at night and in the predawn hours, Trump often writes and posts directly [12].

Third, sundowning is a clinical syndrome evaluated through direct observation and medical history in a clinical setting. It cannot be diagnosed merely by counting social media posts.

Yet this does not make the problem disappear. Whatever the clinical label may be, the president's nocturnal postings directly affect financial markets and warfare. As examined in Chapter 40, his posts became valuable data sold to high-frequency traders 50 milliseconds in advance. The futures market and prediction market scandals discussed in Chapters 12 and 42 are extensions of this very dynamic. The structural reality in which writings produced during hours of impaired judgment become national policy is dangerous in its own right.

49.4 MoCA Three Times, Four Times: A President Boasting of a Screening Test

(1) What Kind of Test Is the MoCA?

MoCA is the English acronym for the Montreal Cognitive Assessment. It was developed by Dr. Ziad Nasreddine, a neurologist in Montreal, Canada. It is a screening test designed to detect mild cognitive impairment and early-stage dementia. The examination takes about 10 minutes.

The test items are simple. Examinees identify drawings of a lion, a rhinoceros, and a camel. They draw a clock and set the hands to a specified time. They listen to five words and recall them a few

minutes later. The maximum score is 30 points, and 26 points or above is generally considered the normal range.

This test does not measure intelligence. Physicians have emphasized this point continually [18]. Most cognitively normal individuals easily achieve a score close to a perfect 30. This means it is not a difficult exam where achieving a perfect score is rare.

(2) The President's Reckoning

The president has treated this test as a badge of honor. In 2020, he repeatedly boasted of having memorized "person, woman, man, camera, TV." On April 30, 2026, he wrote on Truth Social: He had taken the test three times and "ACED IT ALL THREE TIMES" [19]. He added that even according to doctors, this was a rare achievement [19]. In the same post, he wrote that his presidential terms amounted to "three times" [19].

In his May 26 physical, he once again achieved a perfect score of 30 on the MoCA [1]. The media tallied this as his fourth administration of the test. He soon claimed that this result proved "extreme intelligence" [18]. He also proposed making the same test mandatory for all presidential candidates [18].

(3) What Repeated Testing Signifies

What drew the attention of physicians was not the score, but the frequency. It is unusual to repeat the MoCA year after year on an individual showing no symptoms. Therefore, critics like Gartner interpreted it this way: Could it be that the medical staff suspects something and is conducting longitudinal tracking?

A counterargument is also possible. Since 2018, including a cognitive screening test in presidential physicals has become essentially standard practice. The president himself may have requested the test. Conducting regular screening tests on an elderly leader is arguably desirable.

The key that distinguishes between these two interpretations is the reason the test was administered. The White House has never disclosed that reason.

(4) What a Perfect Score Does Not Reveal

Dr. Céline Gounder, an infectious disease specialist and epidemiologist, pointed out another problem [20]. When the same test is repeated, familiarity inflates the score. This is known as the 'practice effect.' The president has recited test questions in public on numerous occasions. For someone who has memorized the test items, the MoCA's diagnostic discriminative ability declines.

Gounder also pointed to capabilities that the MoCA cannot measure [20]: decision-making under pressure, complex planning, impulse control, and judgment in ambiguous situations. These are

precisely the abilities most needed in the presidency. She proposed the level of examination required of airline pilots or nuclear power plant operators: a 4-to-6-hour neuropsychological evaluation, brain imaging, and sleep studies [20]. She also recommended that the examination results be reviewed by an independent medical panel unaffiliated with the president [20].

In summary: A perfect score on the MoCA may be an indication that moderate or severe cognitive impairment is absent. However, it is not proof that one possesses the judgment necessary to bear the responsibilities of the presidency. The very attitude of flaunting that screening test as proof of genius is what raises questions.

49.5 Blanks in the Medical Report: Imaging Studies and the Raskin Letter

(1) MRI or CT?

On October 10, 2025, the president made an unscheduled visit to Walter Reed. The White House termed this a 'semi-annual checkup.' This came merely half a year after he had undergone his annual physical in April. The president told reporters that he had undergone an MRI and that the results were perfect. He said he did not know which part of his body had been scanned. He added, however, that it was not his brain [21].

On December 1, his physician disclosed details regarding the imaging scans via a memorandum. The memo stated that the scans covered the cardiovascular system and the abdomen, and that the results were normal [21]. It added the explanation that these were preventive screenings recommended for men in his age group [21]. In January 2026, during his interview with The Wall Street Journal, the president changed his account. He stated that it had not been an MRI, but a CT scan [3].

This difference is not minor. MRI and CT are diagnostic procedures with different clinical purposes and methodologies. The fact that the president himself was confused about what examination he had received was also preserved on record.

(2) Three Hospital Visits in 13 Months

On June 18, 2026, Representative Raskin sent a formal letter to the president's physician [4]. He pointed out that the president had visited the hospital three times over a 13-month period. He noted that this was extraordinarily unusual among recent presidents [4]. He also highlighted the fact that 22 medical specialists had participated in the May examination [4].

The letter demanded four things [4]: disclose the medical specialties of the 22 specialists and explain why each had participated; release the complete results and imaging records from the May examination; explain why a repeat coronary CT scan was conducted just six months after October; and disclose the full list of all medications along with their dosages, while having the president

undergo a comprehensive neuropsychological evaluation. The deadline for a response was July 2 [4].

(3) The Emergency Exit of the 25th Amendment

In the background of the Raskin letter lay the 25th Amendment to the Constitution. Section 4 of the 25th Amendment is a provision designed for scenarios where the president is unable to discharge the powers and duties of his office. If the Vice President and a majority of the Cabinet agree, the powers of the president can be transferred. Congress can also establish by law a separate body to make this determination. House Democrats introduced legislation for such a cognitive capability evaluation commission [19].

However, this provision has never once been invoked against the will of a sitting president. This is because the Vice President and Cabinet officers appointed by the president himself would have to act first. The likelihood of such a bill passing through a Republican-majority Congress is also low. Ultimately, the 25th Amendment functions like an emergency exit that exists, but remains locked.

49.6 The Warning of the 27 and the Goldwater Rule

(1) 2017: The Book by 27 Experts

The '27 experts' in the title of this chapter originates from a single book. In October 2017, Dr. Bandy X. Lee, a forensic psychiatrist at Yale University, edited a book. The title was The Dangerous Case of Donald Trump. Twenty-seven mental health professionals, including psychiatrists and psychologists, contributed essays. The Korean translation was published in 2018.

The authors took issue with the president's narcissism, impulsivity, and impaired reality testing. The central thesis of the book was not clinical diagnosis, but dangerousness. Their argument was that the mental state of an individual holding the authority to use nuclear weapons represents an urgent matter of public safety.

(2) The Goldwater Rule and the Duty to Warn

The book quickly collided with a long-standing canon of American psychiatry: the 'Goldwater Rule,' adopted by the American Psychiatric Association in 1973. This ethical guideline instructs that psychiatrists should not offer professional opinions about public figures whom they have not personally examined. It originated during the 1964 presidential campaign when a magazine published a survey of psychiatrists. The article asserted that candidate Barry Goldwater was psychologically unfit for office. Goldwater won a libel lawsuit.

Lee and her colleagues invoked a different principle: the 'duty to warn,' originating from the 1976 California Supreme Court ruling in Tarasoff v. Regents of the University of California. This principle

holds that when a patient poses a grave risk of harm to third parties, physicians have an obligation to warn. Lee argued that this duty must be extended to society as a whole. The American Psychiatric Association criticized Lee. The rationale was that she had dragged psychiatry into politics.

(3) The Warning of 2026

Nine years later, this controversy flared up once again. In June 2026, Lee reiterated her call that the president should be removed from office [22]. She emphasized that the issue was not diagnosis, but dangerousness [22]. Debates over whether it was frontotemporal dementia or psychosis, she argued, were secondary distractions [22]. She maintained that a neuropsychiatric evaluation should be conducted regardless of his consent [22].

In February and May 2026, more than thirty medical professionals signed public statements [22]. They called for the president's removal from office, citing psychiatric instability and the danger of nuclear weapons [22]. The warning of the 27 experts had thus returned nine years later, backed by an even broader coalition.

(4) The Weight of the Rule and the Weight of the Warning

There are sound reasons behind the Goldwater Rule. A diagnosis made without direct examination is prone to error. When psychiatry becomes a political weapon, public trust in medicine collapses. Attaching pathological labels to leaders of opposing factions is something that can happen on any side.

Interestingly, the psychiatrist who drafted the rule also stated his position in 2024. He said he would recommend dementia screening for presidential candidates [23]. This means what the rule prohibits is armchair diagnosis from afar, not the demand for medical screening.

The stance of this chapter is close to this view. We refrain from affixing diagnostic labels from afar. However, calling for testing based on publicly observable conduct and official records is entirely legitimate. That belongs not merely to the domain of medicine, but to the domain of democracy.

49.7 Returning to the Summit Room in Washington

President Xi Jinping was born in 1953. He, too, is in his seventies, and information regarding his health is veiled far more thoroughly than that of President Trump. Both leaders carry the same risks of protracted rule and advanced age. The difference lies in their institutional systems.

In the United States, there are a free press, Congress, and constitutional checks and balances. Journalists photograph bruises, lawmakers send oversight letters, and physicians speak out

publicly. In China, almost no such space exists. The strength of American democracy lies in the ability to question and scrutinize a leader's vulnerabilities.

Yet in the Washington of 2026, that strength functioned only halfway. Questions poured in, but answers did not come back. The White House physician's report merely repeated the conclusion of "excellent health." The president described a perfect score on a screening test as proof of genius. Congressional demands for records passed their deadlines without compliance.

The empty-handed negotiations applied not only to trade documents. To the question the world most urgently wanted answered, the White House also responded empty-handed: What is the current state of judgment of an 80-year-old leader holding the nuclear button?

The way to answer this question is not conjecture, but public disclosure. A neuropsychological evaluation by an independent medical panel and the release of imaging records are the starting points. Until then, every bruise, every drooping corner of the mouth, and every predawn post becomes breaking news. And those news reports are being read by the counterpart sitting on the other side of the negotiation table.

The subsequent Chapter 50 examines the South Korean economy caught between this volatile Washington and Beijing.

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Chapter 50. The South Korean Economy Caught in the Sandwich

Samsung and SK Hynix Chinese Fabs' 12-Month Conditional Reprieve and Pragmatic Diplomacy

> The time bought by the South Korean economy amid the U.S.–China deadlock and the Hormuz oil shock, and the strategic autonomy the Lee Jae-myung administration must defend between security and trade

50.1 A Two-Month Truce, a Twelve-Month License

On the night of September 23, 2026, U.S. Treasury Secretary Scott Bessent appeared on Fox News. He announced that the U.S.–China trade truce, scheduled to end on November 10, would be extended by two months. The new expiration date was set for January 10, 2027. This came immediately after final consultations in Washington with Chinese Vice Premier He Lifeng. Bessent explained that the extension was designed to buy time to explore what could be achieved in the economic arena.

This fell well short of pre-summit expectations. Most market institutions, including Bank of America, had assumed a one-year extension as their baseline scenario. China had demanded extending the truce through the end of Trump's presidential term. U.S. negotiators had floated extensions ranging from three to six months. The ultimate outcome was two months—shorter even than the timeframe proposed by the American side.

On September 24, the White House summit opened amidst lavish ceremonial protocol. A B-2 stealth bomber flew over the White House, followed by an official state dinner that evening. Yet after three days of scheduled events concluded, virtually the only confirmed agreement was the extension of the trade truce. Core contentious issues—such as Taiwan, advanced semiconductors, and artificial intelligence (AI)—continued to run on parallel tracks without converging. The two leaders agreed to meet again at the Asia-Pacific Economic Cooperation (APEC) summit in Shenzhen, China, in November. They are also scheduled to meet at the G20 summit in Miami, United States, in December.

Seoul markets registered a mixture of relief and anxiety. On September 22, two days prior to the summit, the KOSPI closed at 7,017.91. With the truce extended, short-term uncertainty surrounding exports of semiconductors, automobiles, and batteries receded. Yet two months remains far too brief a window for enterprises to overhaul their capital expenditure plans.

South Korea's semiconductor sector does not run on a single truce clock. The Chinese fabrication plants of Samsung Electronics and SK Hynix depend on equipment import licenses from the U.S. government that must be renewed annually. The authorizations for 2026 expire on December 31. The U.S.–China trade truce terminates just ten days later.

The phrase "12-month conditional reprieve" in the title of this chapter refers to this very framework. The two companies' Chinese fabs operate on annual licenses, and the renewal date for those licenses virtually coincides with the expiration of the U.S.–China truce. South Korea's semiconductor industry stands squarely between two deadlines dictated by Washington and Beijing.

50.2 Plants That Can Be Operated but Not Expanded

Samsung Electronics manufactures NAND flash memory in Xi'an, Shaanxi Province, China. SK Hynix produces DRAM in Wuxi, Jiangsu Province, and NAND flash in Dalian, Liaoning Province. The Dalian fab represents part of the NAND business SK Hynix acquired from Intel in 2021. Industry analysts estimate that the Xi'an plant accounts for 30% to 40% of Samsung's total NAND flash production. The Wuxi facility is estimated to be responsible for approximately 40% of SK Hynix's overall DRAM output.

For years, these three fabrication plants enjoyed Validated End User (VEU) status granted by the U.S. government. VEU allows qualified companies meeting strict security requirements to import U.S.-manufactured semiconductor equipment without having to obtain individual licenses for each transaction. When the United States severely tightened export controls on semiconductor equipment bound for China in October 2022, South Korean firms were granted a one-year waiver. In October 2023, the U.S. placed both companies' Chinese facilities on the VEU list, authorizing indefinite equipment imports.

On August 29, 2025, the Bureau of Industry and Security (BIS) under the U.S. Department of Commerce abruptly reversed course. It announced that it would remove all three fabs from the VEU roster, setting an effective date of December 31 of that year. Had this taken effect unchanged, both companies would have been required to secure individual licenses for every single equipment shipment. BIS itself estimated that this would generate nearly 1,000 license applications annually. Serious concerns mounted within the industry that fab operations might grind to a halt.

On December 30, just one day prior to implementation, the United States modified its policy to an annual licensing framework. Under this system, companies submit the specifications and quantities of equipment and spare parts needed for a one-year period in advance, allowing BIS to review and approve them in bulk. Both companies secured their authorizations for 2026 through this mechanism, averting plant shutdowns.

Crucially, however, strict conditions were attached. The United States upheld the principle that no capacity expansions or technological advancements would be permitted at the Chinese fabs. Equipment required for routine maintenance and repair could be imported; equipment designed to advance process nodes to the next generation or expand production lines was strictly barred.

In the memory semiconductor industry, this restriction is devastatingly consequential. Memory fabrication technology transitions to a new generation every one to two years. Fabs that cannot advance their process nodes inexorably shed cost competitiveness with every passing year. While these Chinese plants can operate today, they can never serve as the cutting-edge flagship fabs of tomorrow. This structural reality compels both companies to steadily scale back their reliance on their Chinese operations.

The review process for 2027 licenses represents the maiden renewal under this new regulatory framework. It stands as the crucial litmus test of whether rules will tighten, stay the course, or ease. Industry analysts caution that scrutiny may be far more stringent than during the initial 2026 approval, which was heavily designed to cushion the immediate blow of VEU revocation.

An August 5 Reuters report shed light on the difficult predicament confronting both firms. It revealed that both companies were evaluating whether equipment produced by Chinese equipment maker AMEC (Advanced Micro-Fabrication Equipment Inc. China) could be deployed in their Chinese facilities. AMEC manufactures dry etch equipment, a process that carves intricate circuit patterns into silicon wafers. Both companies denied the report. Samsung Electronics officially stated that it had never tested or considered AMEC equipment in its Chinese fabs. The industry, however, interpreted the move as exploring contingency plans against the potential cutoff of U.S. spare parts and maintenance support.

This episode crystallizes the precarious position South Korean firms occupy. To continue using American equipment, they require Washington's authorization. To reduce reliance on American equipment, they must lean on Chinese tools. Neither pathway offers terms that South Korean corporations can determine for themselves.

The Washington summit did not alter this structural dilemma in the slightest. On September 2, Commerce Secretary Howard Lutnick declared that easing export controls was not on the table for this summit. U.S. Trade Representative Jamieson Greer likewise stated that chip export controls were not linked to bilateral discussions on AI. Hana Securities analyst Kim Doo-eon observed that improvements in rare earth supply conditions and restrictions on advanced semiconductors must be viewed as separate matters entirely. Export controls on semiconductors remained an impenetrable national security barrier, rather than a negotiable bargaining chip.

50.3 The Flip Side of the Truce: CXMT's Pursuit

The trade truce did not deliver solely positive news for South Korea's semiconductor sector. While the United States was squeezing China, South Korean corporations had enjoyed significant windfall benefits: Chinese enterprises purchased from South Korea what they were barred from buying from the United States. If Washington and Beijing restructure their trade framework, that lucrative niche will inevitably narrow.

China's rapid catch-up in memory semiconductors has been demonstrated in hard numbers. On July 27, Chinese DRAM manufacturer ChangXin Memory Technologies (CXMT) listed on the STAR Market (Sci-Tech Innovation Board) of the Shanghai Stock Exchange, a board tailored specifically for technology companies. On its trading debut, its share price closed up 466% from its initial public offering (IPO) price. The listing raised 57.9 billion yuan—approximately 12.5 trillion Korean won—marking the largest initial public offering across Asian equity markets that year. At its intraday peak, its valuation touched 3.7 trillion yuan, or roughly 802 trillion won.

The South Korean stock market was violently convulsed. During the so-called "CXMT Shock," Samsung Electronics plunged over 8% intraday, while SK Hynix tumbled by more than 10%. Circuit breakers were triggered on the KOSPI, briefly halting all trading. What terrified the market was not an immediate parity in technology, but the tangible prospect that the established global memory oligopoly—shared between Samsung Electronics, SK Hynix, and Micron Technology—was beginning to fracture.

The breakneck pace of this pursuit was confirmed once again on the eve of the summit. On September 20, CXMT announced the commencement of mass production on its G5 platform, a fifth-generation DRAM process node. KB Securities analyzed that under identical operating conditions, net good die output per wafer surged by more than 50% compared to the prior generation. Reports also emerged that CXMT was retooling parts of its Shanghai fabrication lines for High Bandwidth Memory (HBM) production. HBM stacks multiple DRAM dies vertically to achieve ultra-fast data transfer speeds and is deployed alongside AI accelerators.

The segment where South Korean manufacturers will feel the initial squeeze is commodity (legacy) DRAM. Both Samsung and SK Hynix still allocate more than half of their DRAM manufacturing capacity to commodity products. If CXMT leverages its massive IPO war chest to flood the market with commodity DRAM, pricing structures will destabilize first. Even if South Korean firms maintain their commanding technological lead in HBM, overall operating margins will inevitably suffer.

The strategic calculus surrounding AI chips is equally convoluted. The United States conditionally permitted sales of NVIDIA's H200 AI chips to China, granting purchase authorizations to roughly ten Chinese tech giants, including Alibaba, Tencent, and ByteDance. The H200 integrates South

Korean-made HBM. Had China purchased H200s in massive quantities, demand for South Korean HBM would have surged. However, Beijing directed domestic firms to delay their purchases, opting instead to nurture Huawei's Ascend AI processor ecosystem. Secretary Lutnick later stated that China had virtually refrained from buying H200 chips.

The more successfully China procures its AI chips domestically, the less space remains for South Korean HBM. Since December 2024, the United States has also barred exports of HBM to China. Consequently, South Korean manufacturers cannot sell HBM for use in Huawei's chips. As China's indigenous AI ecosystem expands, the memory market share within that ecosystem accrues almost exclusively to domestic players like CXMT.

A development emerging roughly two weeks prior to the summit offered a telling glimpse into the true mindset of the two South Korean semiconductor titans. On July 9, the Korea Electric Power Corporation (KEPCO) proposed that the two firms prepay five years' worth of industrial electricity tariffs: approximately 20 trillion won from Samsung Electronics and 5 trillion won from SK Hynix, totaling 25 trillion won. KEPCO intended to deploy these upfront funds to accelerate transmission grid construction for new semiconductor mega-clusters. On September 11, however, both companies formally rejected the proposal. Their explicit justification was that it was impossible to guarantee whether the current semiconductor supercycle would persist over the next five years.

The U.S.–China rivalry was not the only factor behind their hesitation. Nevertheless, the fact that corporations posting record-breaking earnings lack confidence in their prospects five years out is profoundly sobering. Lying beneath that corporate decision was an acute consciousness of layered uncertainties: fluctuating AI demand, China's relentless technological pursuit, and the tightening web of U.S.–China regulatory crossfire.

50.4 The Hormuz Oil Shock and Dual Energy Dependency

If semiconductors represent the frontline of advanced technology, energy is the frontline of daily national survival. On February 28, 2026, the United States and Israel launched joint strikes against Iran under the operational codename "Epic Fury." Iran's Islamic Revolutionary Guard Corps (IRGC) retaliated by blockading the Strait of Hormuz. Brent crude surged to a peak of $118.35 per barrel on March 31. Although prices retreated to the $71 range by early July, the blockade was reimposed in mid-July. By September 14, Brent had climbed back to $107.82.

South Korea was caught directly in the vortex of this shockwave. According to the National Assembly Research Service, 69.1% of South Korea's total crude oil imports in 2025 originated from the Middle East. Over 90% of that Middle Eastern crude must transit the Strait of Hormuz. Furthermore, Qatar's Ras Laffan liquefied natural gas (LNG) export complex lost 17% of its production capacity following Iranian strikes in March. Energy analytics firm Vortexa identified

South Korea, alongside Taiwan and Singapore, as one of the economies most dangerously vulnerable to disruptions in Qatari LNG supplies.

The shock cascaded through macroeconomic indicators. The Korea Institute for Industrial Economics & Trade (KIET) estimated that a blockade persisting for more than three months would drive average manufacturing production costs up by 11.8%, and costs across all industries by 9.4%. The Organisation for Economic Co-operation and Development (OECD) slashed South Korea's 2026 economic growth forecast from 2.1% to 1.7%. The won-dollar exchange rate soared past 1,500 won per dollar in March and briefly breached 1,560 won in early June. While it eased back to 1,343 won by September 11, partially relieving the burden of dollar-denominated crude procurement, structural strains persisted.

The South Korean government mounted a multi-tiered defense. In March, it contracted an emergency supply of 24 million barrels of crude oil from the United Arab Emirates (UAE). Import channels were broadened to include the United States, Australia, and Algeria. As a result, the share of Middle Eastern crude fell to 62.8% during the January–May period. The government announced plans to permanently reduce this dependency below 50% over the medium to long term. It also maintained temporary reductions in fuel excise taxes and operated a maximum petroleum price ceiling system, moving in September to freeze the 10th price ceiling.

By September, however, circumstances deteriorated anew. Saudi Arabia's East-West Pipeline was temporarily shut down following drone strikes. This pipeline serves as a critical strategic bypass, channeling crude oil to Red Sea terminals to circumvent Hormuz. While domestic refiners had secured sufficient feedstocks for September and October, anxiety flared regarding November and beyond. SK Energy procured 4 million barrels of U.S. West Texas Intermediate (WTI) scheduled for December delivery, while GS Caltex secured 2 million barrels. Shipping freight rates for U.S. crude, however, run at approximately double the cost of Middle Eastern imports.

Supply diversification encounters severe structural bottlenecks. South Korea's domestic refining complexes are intricately engineered to process high-sulfur Middle Eastern heavy crude. Introducing large volumes of light, sweet U.S. shale crude degrades refining efficiency and product yields. Modifying these colossal facilities requires immense capital expenditure. Thus, diversification that is technically feasible becomes an economic penalty under current plant designs.

What this crisis laid bare was the vulnerability of South Korea's dual dependency in energy. Crude oil supply relies on the Middle East; meanwhile, the security of the maritime lifelines through which that oil travels depends entirely on the geopolitical balance between the United States and China. The naval might of the United States could force the strait open; alternatively, Chinese diplomacy, leveraging its unique ties with Tehran, could unlock the passage. Neither, however, represents a lever that South Korea holds in its own hands.

China navigated the identical crisis in a markedly different fashion. Chinese state-owned tankers transited the strait unhindered through backchannel coordination with the IRGC. Beijing's massive strategic petroleum reserves further buffered the economic shock. Confronted with the same geopolitical storm, one country had to throttle factory operating rates, while the other acquired diplomatic leverage.

In the immediate wake of the summit, oil prices edged down slightly. On September 24, Iranian Foreign Minister Abbas Araghchi announced that Tehran had submitted a seven-day roadmap to the United States for reopening Hormuz. The proposal conditioned reopening the strait on lifting the blockade of Iranian ports, unfreezing sanctioned assets, and granting waivers on Iranian crude exports. On September 25, Brent crude closed at $104.32 per barrel—still far removed from the pre-war $60 range.

50.5 Drawing the Line on September 18: Alliance Management Without Troop Deployment

The energy crisis promptly spilled over into the national security domain. President Trump demanded that allied nations contribute troops and naval assets to military operations in the Strait of Hormuz. European allies were the first to decline. Subsequently, the full weight of American pressure pivoted toward Seoul.

In August, Trump posted on social media, claiming that when he asked South Korea's president to stand with him on the Iran issue, the answer he received was "No thanks." That same month, Trump abruptly ordered a dramatic reduction in the scale of the South Korea–U.S. joint military exercise Ulchi Freedom Shield. The pretext he cited publicly was his warm personal rapport with North Korean Chairman Kim Jong Un.

During a Fox News interview broadcast on August 30, Trump went one step further. Pointing out that 40,000 U.S. troops were stationed in South Korea, he claimed he had merely asked for a "little help" on the Iran situation, only for Seoul to reply that they would "rather not." He then added pointedly that such actions would have to be remembered. (The actual authorized troop level of United States Forces Korea is 28,500.)

Tehran, too, exerted intense pressure on Seoul. In early September, a spokesperson for Iran's Foreign Ministry issued an explicit warning to South Korea: any entry of foreign military forces into the Persian Gulf and the Strait of Hormuz would be treated as direct assistance to the aggressor, warning that severe consequences would inevitably follow.

Domestic public opinion in South Korea was equally burdened. On September 12, large-scale rallies opposing troop deployment marched through downtown Seoul. In a Gallup Korea poll,

President Lee's approval rating dropped to 37%, with the troop deployment controversy cited as a major catalyst for the decline.

On September 18, President Lee Jae-myung convened his seventh presidential press conference since taking office at the Yeongbingwan (State Guest House) of the Blue House. When asked when and in what manner South Korea would contribute to the Strait of Hormuz, President Lee delivered a definitive response:

"Regarding the question of military deployment, there will be no troop deployment that involves participating or intervening in war. I can state that unequivocally."

He emphasized that the principle of non-involvement and non-intervention in war had been upheld without exception and would continue to be strictly adhered to.

Yet even as President Lee drew this firm boundary, he preserved strategic room for maneuver. He pointed out that the term "troop deployment" lumps together far too many disparate concepts into a single basket. One must carefully distinguish, he argued, between deployment zones, mission objectives, asset types, and timing. He explained that South Korea's Cheonghae Unit was already deployed in the region, countering piracy and safeguarding critical shipping corridors. Just like other maritime nations, South Korea must conduct the minimum necessary activities to protect its own merchant vessels, crude transport routes, and citizens' lives. He revealed that the government was actively reviewing and weighing measures to reinforce those legitimate protective operations.

The Cheonghae Unit was originally dispatched by the South Korean Navy in 2009 to counter Somali piracy in the Gulf of Aden. In 2020, its operational area was expanded to encompass the Strait of Hormuz. The New York Times reported President Lee's stance as follows: even if South Korean military assets move closer to the Red Sea or the Strait of Hormuz, their mission will remain strictly limited to protecting South Korean oil tankers and merchant vessels; they will not participate in any operations that could be construed as aiding the war against Iran.

Yonhap News interpreted the president's statements as high-level negotiating guidance issued right ahead of bilateral foreign ministers' talks. Indeed, Foreign Minister Cho Hyun met with U.S. Secretary of State Marco Rubio in Washington that same day. Meanwhile, a South Korean Ministry of National Defense on-site assessment team had returned in early September after inspecting military facilities in the United Arab Emirates, including Al Dhafra Air Base.

This strategic demarcation carried two profound implications. First, South Korea publicly articulated its baseline between alliance obligations and sovereign national safety: no participation in combat, but steadfast defense of its own commercial vessels. Second, it preserved an expansive gray zone between those two poles. The questions of precisely where the Cheonghae Unit will operate and what concrete assets will be deployed remain unresolved. Analysts also note that

seeking parliamentary consent could become a major political variable should operations intensify near Hormuz.

This stance, however, did not come without costs. In March, the United States redeployed parts of the USFK Patriot missile batteries to the Middle East, and reports surfaced of plans to pull out THAAD components as well. While the South Korean government stated that deterrence against North Korea remained unaffected, it became painfully evident that allied defense assets stationed on the Korean Peninsula can be redeployed at Washington's unilateral discretion. It remains entirely uncertain what kind of geopolitical bill Trump's vow to "remember this" will generate during upcoming negotiations over defense cost-sharing or trade tariffs.

50.6 Flagship U.S. Investment No. 1 and New Rivals in Batteries

The pragmatic diplomacy of the Lee Jae-myung administration produced two defining scenes on the trade stage. The first took place on May 13 in Seoul. Just one day before the Beijing talks, President Lee held back-to-back meetings at the Blue House with Vice Premier He Lifeng and Treasury Secretary Scott Bessent. The two visiting officials had met at Incheon International Airport earlier that day to hammer out the final agenda for the Beijing summit. Following the Busan meeting in October 2025, South Korea served for the second time as the diplomatic staging ground for U.S.–China high-stakes negotiations. In these meetings, President Lee urged Bessent to maintain bilateral cooperation on supply chains and foreign exchange markets, while calling on He Lifeng to broaden economic cooperation that delivers tangible benefits to ordinary people's livelihoods.

The second scene unfolded on September 22 in New York. On the sidelines of the UN General Assembly, President Lee met with President Trump for a 30-minute sit-down. It was an unscheduled bilateral meeting and marked the third South Korea–U.S. summit since his inauguration. The previous day, the administration had formally reported its "Flagship U.S. Investment Project No. 1" to the National Assembly. The Blue House explained that tangible progress in bilateral investment negotiations had been instrumental in bringing the summit to fruition.

Project No. 1 is the Encinal Combined Cycle Gas Turbine (CCGT) Power Plant in Texas. Boasting a total planned generation capacity of approximately 6.3 gigawatts (GW), the project carries an aggregate price tag of $22.3 billion. The plan calls for constructing an initial 1.4 GW gas turbine facility to verify power demand and commercial viability, followed by phased additions of 4.9 GW in combined-cycle capacity. The venture directly targets the surging electricity demands of advanced semiconductor fabs and AI data centers clustering in Texas.

Under the reported structure, South Korea provides the entirety of the investment capital, while equity ownership is split equally (50-50) between South Korea and the United States. The South

Korean government reported to the legislature that it expects to generate between $43.29 billion and $45.43 billion over a 20-year operating horizon, fully recouping both principal and interest. Meanwhile, the construction of eight large commercial nuclear reactors in the United States and the development of Alaska LNG were relegated to subsequent rounds of bilateral consultations.

This investment serves as a follow-up implementation of the 2025 South Korea–U.S. tariff agreement. In exchange for the U.S. lowering tariffs from 25% down to 15%, South Korea pledged a total of $350 billion in investments—combining $150 billion in shipbuilding and maritime infrastructure with $200 billion in strategic investments. Minister of Trade, Industry and Energy Kim Jung-kwan publicly stated that the government would strictly enforce an annual execution cap of $20 billion on these strategic investments.

Assessments of this achievement remain polarized. On one hand, honoring international commitments and building diplomatic trust with Washington is a demonstrable accomplishment. On the other hand, serious debates over commercial viability and persistent bilateral disagreements regarding downside loss-protection mechanisms remain unresolved. Even the official signing date for the memorandum of understanding (MOU) has not yet been finalized. A member of the National Assembly's Trade, Industry, Energy, SMEs and Startups Committee observed that Trump would likely withhold the final announcement until it could be staged to maximize impact on the U.S. election calendar. Furthermore, South Korea's nuclear reactor export push has yet to clear American regulatory hurdles. The South Korean financial clock for disbursing capital and the American political clock for claiming political triumphs are ticking at vastly different tempos.

The situation across the battery landscape presents a distinctly different dilemma. What the South Korean battery industry fears most over the long horizon is the bilateral investment committee that Washington and Beijing agreed to establish in May. Spearheaded by Secretary Bessent, this body functions as a fast-track screening mechanism to swiftly approve non-sensitive Chinese investments into the United States. Trump himself openly declared that Chinese automakers would be welcome to build automotive manufacturing plants in the United States as long as they employ American workers.

In the battery sector, that door has already been cracked open. Ford licensed lithium iron phosphate (LFP) battery technology from China's CATL and commenced production at its Marshall, Michigan facility. LFP batteries offer the decisive advantages of low manufacturing cost and superior thermal stability against fire hazards. By contrast, that same Ford dissolved BlueOval SK, its joint venture with South Korea's SK On, in late 2025, forcing SK Innovation to absorb a write-down of approximately 3.7 trillion won. Ford also terminated a 9.6 trillion won battery supply contract previously inked with LG Energy Solution.

As global electric vehicle demand softened, South Korea's "Big Three" battery manufacturers pivoted toward energy storage systems (ESS). ESS facilities store electrical power and discharge it

to the grid as needed. In the first half of this year, North American ESS battery shipments surged by 83% compared to the prior year. LG Energy Solution is converting production lines at its Michigan and Tennessee plants to manufacture LFP cells specifically for ESS. Samsung SDI has likewise redirected its joint venture facility in Indiana in the same direction.

The critical vulnerability is that LFP chemistry accounts for nearly 90% of the entire ESS market—and LFP is CATL's uncontested fortress. If the U.S.–China investment committee paves the way for Chinese battery firms to build U.S. factories or forge expanded joint ventures with American corporations, the first domain where South Korean firms' hard-won first-mover advantage will unravel is the ESS sector.

Countervailing forces within the United States do exist. On September 8, Secretary of Transportation Sean Duffy dispatched a public letter to Ford's chief executive officer, voicing grave concerns regarding the Marshall plant and pointing out that CATL is listed on the U.S. government's Chinese military-linked companies register. The United States also maintains a 100% tariff on Chinese electric vehicles and a 25% tariff on Chinese batteries.

The vital chokepoint on the raw materials side is graphite. For graphite, the core precursor for battery anodes, South Korea's dependence on Chinese imports exceeds 90%. On October 9, 2025, China's Ministry of Commerce issued Announcement No. 58, imposing sweeping export restrictions on lithium battery materials and graphite anodes. This measure was granted a one-year temporary reprieve under the Busan Agreement. With the Busan framework now extended by two months, the waiver deadline has been pushed back to January 10, 2027. Within South Korea, POSCO Future M remains the sole domestic producer of graphite-based anodes.

The position occupied by South Korean battery makers is deeply paradoxical: the more aggressively the United States sanctions China, the greater the windfall benefits Korean companies reap; yet the more U.S.–China tensions ease and Chinese capital penetrates the American market, the faster those benefits evaporate. The Washington summit left the high regulatory tariff wall standing—yet simultaneously drafted the architectural blueprints for cutting a doorway right through it.

50.7 Strategic Autonomy: What Must Be Defended Between Security and Trade

The Lee Jae-myung administration has articulated its foreign policy doctrine around "national interest-oriented pragmatic diplomacy," "strategic autonomy," and "issue-by-issue alignment." Strategic autonomy (戦略的 自律性) refers to the capability of an ally to make sovereign, independent decisions on core national interests while sustaining its alliances. It is not an argument for dismantling alliances. Rather, it means possessing the sovereign capacity to filter an ally's demands through the clear prism of national interest.

The three distinct pressures confronting South Korea this year put this doctrine to an unprecedented test. The first is Washington's regulatory license: equipment imports for South Korean semiconductor fabs in China require annual approvals from the U.S. government. The second is Beijing's supply valve: vital flows of rare earths and graphite are tethered to the Chinese government's licensing decisions and waiver schedules. The third is the geopolitical bill of national security: the United States demands military deployments and redeploys USFK strategic assets abroad at its own discretion. Though these three pressures originate from different capitals, they bear down with crushing force upon the very same torso of the South Korean economy.

Critics have raised formidable questions. Lawmaker Song Eon-seok of the People Power Party questioned how long South Korea could continue walking the diplomatic tightrope of "security with America, economy with China." Representative Jang Dong-hyeok argued that the administration is squandering allied trust under the mantle of strategic autonomy. Both lawmakers demanded that the administration demonstrate the tangible, quantifiable achievements of its pragmatic diplomacy in hard numbers.

There is legitimate merit to these criticisms. Serving merely as the physical stage for U.S.–China negotiations is entirely different from exercising substantive diplomatic influence on that stage. The fact that bilateral negotiations were finalized at Incheon International Airport does not mean South Korea's national interests were reflected in the final compact. Even during the Washington summit, there was no indication that the equipment licensing for South Korean fabs in China or the stabilization of Chinese graphite supplies were ever placed on the official negotiating table.

Yet South Korea's strategic options are by no means limited to a binary choice between walking a perilous tightrope and blind vassalage to a single side. Managing relations with both superpowers simultaneously is far more demanding than simply choosing one over the other. This is precisely why the Korea National Diplomatic Academy and numerous leading research think tanks frame South Korea's diplomatic imperative not as a simplistic choice, but as concurrent management.

The author summarizes the strategic tasks necessary to defend South Korea's strategic autonomy into four overarching imperatives:

First, shifting the gravitational center of the semiconductor industry back to the domestic mainland. Long-term corporate planning must proceed on the firm assumption that Chinese fabrication plants can never be expanded. Samsung Electronics is moving forward with DRAM investments at its Pyeongtaek Fab 4. SK Hynix is accelerating the construction of the Yongin Semiconductor Cluster and its Cheongju M15X fab, alongside building an advanced HBM packaging facility in Indiana. South Korean firms must steadily diminish the relative weight of their Chinese operations while aggressively widening their technological lead over CXMT in next-generation HBM architectures. For its part, the South Korean government must not leave the 2027 licensing

reviews to private corporations alone, but must elevate the issue to a top-tier government-to-government bilateral agenda.

Second, extending the survival horizon of industrial supply chains. There is no magic formula capable of entirely replacing Chinese graphite and rare earths within a single year. The realistic objective must be to lengthen the timeframe over which external supply shocks can be absorbed. Corporate buffer inventories and government strategic reserves must be expanded concurrently, while joint venture projects with alternative suppliers in Australia, Canada, and Africa must be expedited. Re-mining and recycling technologies to extract critical minerals from spent electric vehicle batteries must also be accelerated. As the eligibility criteria for U.S. clean vehicle tax credits become progressively more stringent year by year, achieving domestic self-sufficiency in battery anode materials is no longer an optional luxury—it is an existential imperative.

Third, curtailing the economy's structural dual dependency in energy. The national goal of lowering dependence on Middle Eastern crude oil below 50% must be translated into enforceable, binding long-term contracts. Robust tax credits and financial incentives must be extended to domestic refiners investing in processing facilities tailored to handle non-Middle Eastern crude grades. As the National Assembly Research Service pointed out, an early warning mechanism monitoring crude oil prices alone is dangerously inadequate: an integrated early warning dashboard that tracks naphtha prices, maritime freight rates, private commercial inventories, and domestic refinery operating rates simultaneously is indispensable.

Fourth, resolutely adhering to the principle of never commingling security and trade on a single accounting ledger. The Trump administration routinely lumps military deployments, trade tariffs, strategic investments, and defense cost-sharing into a single, unified ledger. If South Korea adopts that same ledger, a concession made in one domain immediately converts into a new geopolitical invoice in another. Military troop deployments must be evaluated strictly against the standards of the Constitution and the lives and safety of our citizens. Bilateral investments must be judged purely on commercial viability and national economic interest. Clear bilateral consultation protocols must also be established in advance to govern instances where USFK defense assets are relocated outside the Korean Peninsula. Consistently maintaining the objective standards articulated during the September 18 press conference is ultimately the most effective way to safeguard the genuine, lasting credibility of the alliance.

50.8 Conclusion: Three Calendars

Before the South Korean economy lie three overlapping calendars.

The first date is December 31, 2026. On this day, the U.S. equipment import authorizations granted to Samsung Electronics' and SK Hynix's Chinese fabrication plants for the year 2026 expire. The second date is January 10, 2027. The two-month extension of the U.S.–China trade truce

terminates, and the waivers shielding critical supplies of rare earths and graphite from Chinese export bans will face their ultimate test. The third milestone is Autumn 2027, when China convenes the 21st National Congress of the Chinese Communist Party, where President Xi Jinping's fourth term will be formally determined. Sandwiched between these milestones are the U.S. midterm elections on November 3, the APEC summit in Shenzhen in November, and the G20 summit in Miami in December.

The Washington summit failed to erase a single date from these ominous calendars. President Trump staged a grand spectacle with tarmac receptions and B-2 stealth bomber flyovers, but all he ultimately held in his hands was a flimsy two-month extension. China bought precious time, while the United States kicked the most fundamental disputes down the road to future negotiations. Trapped in between, South Korea is forced to simultaneously juggle twelve-month equipment licenses and a two-month trade truce.

South Korea cannot choose the slices of bread in this geopolitical sandwich. Yet South Korea can decisively choose how solidly to pack the filling inside. The technological lead in cutting-edge industries, the resilience and endurance of supply chains, the diversification of energy import channels, and unwavering diplomatic principles constitute that very filling. When the next deadline inevitably arrives, will South Korea suffer the same debilitating shock all over again? The answer depends entirely on what the nation prepares during the critical months ahead.

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Chapter 51. Standing Before the Precipice of 2027: The End of the World Order Brought by the U.S. Midterms and Xi Jinping's Fourth Party Congress

51.1 A Two-Month Truce and a State Visit That Ended Empty-Handed

On the evening of September 23, 2026, Chinese President Xi Jinping's special aircraft touched down at Joint Base Andrews. President Trump walked out onto the tarmac to greet him at the foot of the airstairs. It was the first time Trump had traveled to the base to welcome a foreign head of state. The following day, 479 service members representing all branches of the armed forces stood in formation across the White House South Lawn. Strategic bombers and stealth fighter jets flew overhead during the welcoming ceremony. It was the first state visit to the White House by a Chinese leader in eleven years, since 2015.

Once the ceremonial protocol concluded, the remaining achievements were meager. The most concrete outcome was the extension of the trade truce. The truce, agreed upon in Busan in October 2025, had been scheduled to expire on November 10. Treasury Secretary Scott Bessent announced that this truce had been extended by two months. The new expiration date was January 10, 2027. This fell far short of the one-year extension anticipated by markets and industry.

Bessent explained that the extension was intended to buy time to explore further actions in the economic realm. Foreign news media such as Reuters interpreted it differently. Their assessment was that core contentious issues—tariffs, Chinese purchase commitments, rare earth supplies, and technology export controls—had simply been kicked down the road to the next round of negotiations. The Chinese official statement merely noted that new joint measures on trade existed, omitting any specific dates. United States Trade Representative (USTR) Jamieson Greer stated that detailed item lists for managed trade would be released on September 28. It created the awkward appearance of scrambling to fill in the substance of the agreement only after the summit had ended.

On the Taiwan issue, the announcements of the two nations diverged once again. Xi Jinping demanded that the United States oppose Taiwan independence and handle the matter with utmost prudence. The White House official statement did not separately disclose Trump's remarks regarding Taiwan. The $14 billion arms sale package to Taiwan remained frozen, exactly where it had been left after the Beijing summit in May. Trump had previously referred to this arms package as a bargaining chip with China. A senior administration official stated only that a decision on a new arms package would be made before long.

The artificial intelligence (AI) domain unfolded similarly. Trump emphasized avoiding the creation of new regulatory mechanisms. Xi Jinping stated that AI must remain under human control and serve the public interest. No concrete agreement emerged on jointly addressing the

threats posed by AI. Just as in Beijing, Xi invoked the Thucydides Trap once again. It was a stark warning that a rising power and an established hegemon inevitably slide toward war.

Professor Cui Shoujun of Renmin University of China summarized the summit's achievements in a single takeaway: namely, confirming the bottom line of competing fiercely while avoiding military conflict. Even in the eyes of a Chinese scholar, the achievement went no further than reaffirming a bare minimum baseline. The two leaders are scheduled to meet again in November at the Asia-Pacific Economic Cooperation (APEC) summit in Shenzhen, China. In December, that will be followed by the Group of Twenty (G20) summit in Miami, United States. The heads of state keep meeting, yet not a single contentious issue has been resolved. This is precisely why this book characterizes the Washington summit as empty-handed negotiations.

51.2 Two Clocks: November 3 and the Autumn of 2027

The root cause of these empty-handed negotiations lies in the differing time horizons through which the two leaders view the world. Trump's clock is short; Xi's clock is long. This disparity defined the contours of the summit and dictates the timing of impending collisions.

(1) Trump's Clock: 40 Days Until the Midterm Elections

The most prominent date on Trump's calendar is the midterm elections on November 3, 2026. Opinion polls released throughout September have been overwhelmingly unfavorable to the Republican Party. A survey conducted by Emerson College on September 21 and 22 is representative. In the generic congressional ballot for the House, Democratic support stood at 53%, compared to 42% for Republicans. Trump's job approval rating was 39%, with disapproval at 58%. Independent and Hispanic voters who had cast ballots for Trump in 2024 had also tilted toward the Democrats.

Other surveys reflect the same trajectory. In a New York Times and Siena College poll, Trump's support among likely voters stood at 38%. The NBC News polling average showed 39% approving and 59% disapproving. In an NPR/PBS News/Marist poll, 45% of registered voters stated that their vote would be a vote against Trump. Only 24% said their vote would be in support of Trump. This meant that the election was turning into a direct referendum on Trump himself.

The issue to which voters are most acutely sensitive is prices and inflation. The war with Iran has dragged on for nearly seven months without resolution. The blockade of the Strait of Hormuz caused crude oil and diesel prices to surge. In a July Reuters/Ipsos poll, only 33% of Americans supported airstrikes against Iran. Opponents accounted for 62%.

If the Republican Party loses even one chamber—the House or the Senate—the remainder of Trump's term will become an agonizing slog. If Democrats capture Congress, the various scandals

examined in Part 8 of this book could be dragged into hearing rooms. Suspicious oil futures trading, the sale of Truth Social data, and prediction market betting top that list. What Trump needed was not a head-on showdown with China. He needed a truce that would paper over inflation and supply chain volatility until Election Day. This is why tangible numbers regarding Boeing airliners, soybeans, and beef took center stage at the summit.

(2) Xi Jinping's Clock: The PLA Centennial and the 21st Party Congress

Xi Jinping's calendar stretches over a much longer horizon. The year 2026 is the inaugural year of China's 15th Five-Year Plan (2026–2030). August 1, 2027, marks the centennial of the founding of the People's Liberation Army (PLA). In the autumn of that same year, widely expected in October, the 21st National Congress of the Chinese Communist Party will convene. At this gathering, Xi is expected to secure a fourth term as party general secretary and chairman of the party's Central Military Commission. The state presidency is elected separately by the National People's Congress the following spring. It is a path walked by no Chinese leader since Mao Zedong.

The CCP first introduced its so-called '2027 goal' at the Fifth Plenary Session of the 19th Central Committee in October 2020. It pledged to ensure the achievement of the PLA centennial military-building goal by 2027. The roadmap entails fully integrating mechanization, informatization, and intelligentization across the military. This objective also carries a political dimension aimed at consecrating the PLA centennial as Xi Jinping's personal historical milestone. A mere matter of weeks separates Army Day from the convening of the Party Congress.

For Xi, this visit to the United States was the first step in the one-year runway leading up to the Party Congress. Rush Doshi, senior fellow at the Council on Foreign Relations (CFR), offered the same assessment. What Xi sought was not extracting major concessions from the United States. His goal was to prevent tariffs and technology export controls from escalating further. Keeping Taiwan arms sales stashed away in a drawer also fit squarely within that objective. The events that did not happen were precisely Xi's achievements.

(3) Two Nations Buying Each Other's Time

It is frequently said of this summit that Trump bought headlines while Xi Jinping bought time. That is only half true. The United States is buying time as well. According to Melanie Hart, senior director at the Atlantic Council, the Trump administration has explained its strategy to allies in this way: namely, that the present pause is intended to buy time to reduce reliance on Chinese rare earth elements. The plan is to pivot back to hardline pressure once that dependence is curtailed. Beijing is well aware of this underlying calculation.

The crux of the matter is who utilizes this bought time more effectively. Numerous estimates project that establishing an autonomous Western supply chain—from mines to permanent magnets—will take five to ten years. There is no way to replace China's dominance over permanent magnet

manufacturing in a span of two months or even a single year. Conversely, China can use that same window to accelerate domestic semiconductor self-sufficiency and the expansion of its AI ecosystem. In the rare earth sphere alone, time is decidedly on Beijing's side.

51.3 The Calendar to 2027: Dates as Flashpoints

Looking ahead at the calendar over the next year or so, momentous dates are packed tightly together. Every single date represents both a negotiating deadline and a potential fuse for collision.

On November 3, 2026, the U.S. midterm elections will take place. November 10 was the original expiration date of the trade truce. In mid-November, the APEC summit will convene in Shenzhen. In December, the G20 summit will follow in Miami. On January 1, 2027, the U.S. Department of Defense ban on procurement of Chinese rare earth magnets takes effect. On January 3, the new Congress elected in the midterms convenes. On January 10, the two-month extension of the trade truce expires. On August 1, the People's Liberation Army marks its centennial. In the autumn, the 21st National Congress of the Chinese Communist Party will convene. That same year, China assumes the rotating chairmanship of BRICS.

The most critical juncture on this calendar is the first ten days of January 2027. The Pentagon's ban on rare earth procurement and the expiration of the trade truce are separated by a mere ten days. In between, the new Congress takes office. Depending on the outcome of the midterms, this Congress could adopt a harder line on Taiwan and China than the White House. Bipartisan pressure has already mounted in Congress to expedite Taiwan arms sales. Even on September 23, four Republican senators sent a letter urging the implementation of the Taiwan security budget.

Beijing intends to actively leverage this schedule of summit diplomacy. Senior Director Hart observed that China sought to lock Trump into visiting Shenzhen in November. As long as the next meeting is locked onto the calendar, it is difficult for Trump to unleash hardline measures that would shatter it. The calendar effectively binds the United States far more tightly than any verbal agreement. In Washington, Xi seized control of this calendar.

The two-month truce complicates this landscape even further. Had the truce been extended by a year, its expiration would have coincided with the immediate aftermath of the Party Congress. That would have established a dynamic where Xi entered new negotiations with his fourth term firmly in hand. With only a two-month extension, the initial litmus test has been pulled forward to January 2027. It is highly probable that rolling short-term extensions will be repeated thereafter. The shorter the deadlines, the more frequent the negotiations; and frequent negotiations repeatedly create new thresholds of crisis. Rather than a single cliff, 2027 could become a cascading series of precipices.

51.4 The Taiwan Strait: Completion of Capabilities and the Danger of Miscalculation

(1) Is 2027 an Invasion Date?

The biggest question surrounding 2027 is Taiwan. The China Military Power Report released by the U.S. Department of Defense in December 2025 assessed as follows: namely, that the PLA is making steady progress toward its 2027 goals. The report noted that China aspires to have the capability to fight and win a conflict over Taiwan by the end of 2027. This means the objective is acquiring the capability to prevail at an acceptable cost while withstanding U.S. intervention.

Yet that does not mean 2027 is an operational date for an invasion. A September 2026 report by India's Takshashila Institution emphasized this very point. Its analysis noted that for Beijing, 2027 represents a capability milestone rather than an operational 'D-day.' Recent remarks by senior U.S. officials convey a similar message. Their interpretation is that 2027 is the year Xi Jinping will have completed the material preparations enabling a major military operation. This book draws that distinction unequivocally. Possessing the capability and making the decision to employ it are two entirely separate matters.

Once that capability is in place, however, the menu of options expands. Even short of an all-out invasion, tactics such as maritime blockades, vessel inspections under the guise of 'quarantine,' or coercive pressure against outlying islands become viable. Here, 'quarantine' refers to inspecting and controlling maritime access under the pretext of epidemic prevention. In December 2025, the PLA staged encirclement drills around Taiwan under the codename 'Justice Mission 2025' (正義使命 2025). It was a live-fire exercise simulating a blockade choking off Taiwan's major commercial ports. The peril of 2027 lies not merely in a single invasion scenario, but in the dangerous accumulation of such gray-zone coercive pressures.

(2) The Vacuum Left by Purges

On January 24, 2026, China's Ministry of National Defense made a shocking announcement. It announced investigations into Zhang Youxia, First Vice Chairman of the Central Military Commission (CMC), and Liu Zhenli, Chief of the Joint Staff Department. Both men faced allegations of having violated the 'CMC Chairman Responsibility System.' In substance, it meant they failed to show absolute deference to Xi Jinping's supreme military command. Earlier, in October 2025, another CMC Vice Chairman, He Weidong, had been expelled from the Party. Of the CMC's original seven members, only two remained: Xi Jinping and Vice Chairman Zhang Shengmin. In June 2026, six high-ranking military figures, including the Director of the Equipment Development Department, were removed from their posts in the National People's Congress.

Expert analyses of these purges diverge into two distinct perspectives. One camp views the turmoil in the high command as diminishing the likelihood of an operation against Taiwan in the

near term. An East Asia Forum article in July assessed that the purges pushed back the Taiwan timetable. Other analyses pointed out that the last senior commanders with actual combat experience had been removed.

The other camp views that very dynamic as the greater danger. The Center for Strategic and International Studies (CSIS) warned of one critical possibility: namely, that senior generals may have fallen from grace after raising realistic doubts about meeting the 2027 goals. If so, surviving officers have strong incentives to pass only rosy news up the chain of command. If the supreme leader makes decisions based on inflated reporting, the risk of disastrous miscalculation multiplies. Professor Steve Tsang of the University of London likewise noted that extreme power concentration amplifies the danger of miscalculation regarding Taiwan. Purges may lower the immediate probability of war. Yet by degrading the quality of strategic judgment, they can significantly increase the risk of miscalculation during a crisis.

China's defense expenditure continues to rise regardless of internal purges. The official defense budget for 2026 rose by 7% to 1.91 trillion yuan. The Pentagon report noted that over the long term, anti-corruption campaigns could actually enhance combat readiness. Purges may slow the tempo, but they do not alter the strategic direction.

(3) Faltering Deterrence

Peace across the Taiwan Strait has rested upon two foundational pillars. One was American deterrence preventing China's use of military force. The other was American demands for restraint preventing a unilateral declaration of independence by Taiwan. During Trump's tenure, that first pillar has begun to wobble.

Following the Beijing summit in May, Trump acknowledged that he had discussed Taiwan arms sales with Xi Jinping. Among the 'Six Assurances' given to Taiwan by the Reagan administration in 1982 was this explicit pledge: a commitment that the United States would not consult with China in advance on arms sales. Trump answered to the effect that one cannot refuse to hold talks simply because of an agreement signed back in 1982. It was a statement that broke with a principle upheld for more than forty years.

Secretary of State Marco Rubio explained the hold on arms sales on different grounds. He argued that worldwide military demands and the capacity constraints of the defense industrial base must be weighed together. Behind this statement lay the reality that the war with Iran had depleted U.S. munitions stockpiles. Senior Director Hart warned that holding up arms sales severely weakens deterrence. If Xi senses that he has gained the upper hand, the likelihood of conflict escalates.

The dangers facing the Taiwan Strait as 2027 approaches can be summarized as follows: China is steadily assembling its military capabilities. The United States faces mounting doubts over both its strategic resolve and operational bandwidth. Within the Chinese military command, institutional

checks and balances have evaporated through purges. The convergence of all three in a single year constitutes the precipice of 2027.

51.5 Rare Earths and Technology: Between January 1 and January 10

(1) A Switch Paused, Not Dismantled

The second fault line is rare earths. China expanded its rare earth export controls on two occasions, in April and October 2025. The October measures incorporated the so-called '0.1% rule.' It stipulated that foreign-manufactured products containing as little as 0.1% Chinese-origin rare earths would be subject to controls. Under the Busan Agreement, China suspended the implementation of these new controls. That reprieve was merely extended through January 10.

A reprieve is not a repeal. The legal architecture of export controls remains completely intact. China still holds the switch, ready to flip it back on at any moment. Indeed, the atmosphere began shifting visibly after August. In early September, reports surfaced that Chinese rare earth firms had canceled several shipments bound for the United States. The Financial Times, citing a U.S. official, reported that only two-thirds of China's rare earth commitments had actually been fulfilled. Doshi assessed that Beijing believes it has successfully tamed the Trump administration through rare earth controls.

(2) America's Self-Imposed Deadline

The United States faces its own irreversible deadline as well. Beginning January 1, 2027, the U.S. Department of Defense procurement regulation (DFARS 252.225-7052) tightens significantly. This rule is a procurement restriction provision grounded in the National Defense Authorization Act (NDAA). From that day forward, rare earth magnets that have undergone mining, refining, separation, or processing in China at any stage cannot be incorporated into weapon systems. Russia, Iran, and North Korea are also prohibited source nations. The targeted materials include neodymium magnets, samarium-cobalt magnets, tungsten, and tantalum.

Behind the enactment of this regulation was the F-35 incident. Deliveries were temporarily halted after a component in F-35 fighter jets was found to contain samarium-cobalt alloy sourced from China. If no alternative sources exist, defense contractors may apply for a waiver. The Department of Defense, however, has stated that waivers will be granted only rarely. Violating contractors risk contract termination or liability under the False Claims Act.

China accounts for 85% to 90% of global rare earth separation and refining capacity. New ventures launched by allies such as Australia will not reach full commercial scale until the late 2020s. In the end, two colliding deadlines converge within the first ten days of January 2027. On January 1, the United States must cut itself off from Chinese materials. On January 10, China can

switch its rare earth export controls back on. Both regulatory regimes are structured to tighten against each other within a single month.

(3) Swords Kept in Sheaths

Both nations are negotiating with their swords kept in their sheaths. On September 18, Trump signed the Russia and Iran Sanctions Act into law. The legislation authorizes punitive tariffs of up to 100% on countries purchasing substantial quantities of Russian oil and gas. China falls squarely within that scope. The United States has also held back the announcement of its Section 301 investigation findings, which recommend additional tariffs on Chinese products. China holds in reserve its rare earths, drone components, and sanctions lists targeting U.S. defense contractors.

In technology, the landscape is already fracturing into two distinct ecosystems. On one side are Nvidia chips and American AI models. On the other side are Huawei Ascend chips and Chinese open-weight models such as DeepSeek. Chinese models and Huawei hardware are spreading rapidly across Southeast Asia, the Middle East, and Africa. If the truce collapses, this bifurcation will harden into an irreversible reality.

51.6 The Crumbling Order: Allies, the Global South, and the Vacuum of Rules

The title of this chapter speaks of the end of the world order. The order referred to here is the rules-based order forged and maintained by the United States since 1945. Alliances, free trade, multilateral institutions, and the dollar-based settlement architecture served as its foundational pillars. The preceding chapters of this book have chronicled how each of those pillars has fractured one by one.

Alliances have been severely shaken. When European allies rejected requests to deploy troops to the Strait of Hormuz, Trump branded them cowards. He slapped 50% tariffs on Canada and retaliatory tariffs on eight European nations over the Greenland dispute. Japan saw its relations with China freeze over following Prime Minister Takaichi's remarks on Taiwan in November 2025. Tokyo worries that the United States might trade away Taiwan's security in exchange for economic concessions. Prime Minister Takaichi met with Trump in New York just a day before Xi Jinping's arrival.

The financial order has been rattled as well. Yields on the 30-year U.S. Treasury bond broke above 5%. Central banks across multiple nations purchased gold and reduced their dollar reserves. Certain European central banks initiated discussions on repatriating gold stored in New York. This broader trend was examined in detail in Part 7.

On the opposing side, China has been broadening the scope of its partnerships. On September 12 and 13, the 18th BRICS Summit took place in New Delhi, India. The eleven member nations unanimously adopted the 140-point New Delhi Declaration. Although many member countries had suffered harm from the Iran war and U.S. tariffs, the word 'United States' appeared nowhere in the declaration. Xi's visit to India was his first since 2019. In 2027, China will assume the rotating presidency of BRICS.

Taken together, these trends demonstrate that the 'G2' is not a framework for co-managing the world. The two powers check each other while clasping hands only to the minimal extent necessary. Allies are left anxious, while the Global South weighs both sides against each other. What the Washington summit showcased was not stable joint governance, but a precarious cohabitation.

The demise of an order does not occur all at once overnight. It arrives through the cumulative accumulation of rules being replaced by transactions: when Taiwan arms sales become bargaining chips, and when allied security is entered onto a trade ledger; and when tariffs rise and fall based on presidential whim rather than the rule of law. The reason 2027 is dangerous is that the two superpowers could collide in the very vacuum left behind by vacated rules. Where rules are absent, minor mishaps easily escalate into major confrontations.

Doshi observed that future U.S.–China relations may depend far more on unforeseen accidents than on summits: events such as naval collisions in the South China Sea, close-quarters fighter jet intercepts over the Taiwan Strait, or cyberattacks. The AI incident notification mechanism discussed in Washington represents the bare minimum communication line intended to avert such disasters. Yet that mechanism is not yet a legally binding agreement. With guardrails against misunderstanding so fragile, the calendar continues racing toward 2027.

51.7 South Korea's Place: Tasks to Prepare Before the Precipice

South Korea stands on the outer periphery of this truce. In October 2025, the U.S.–China truce was born in Busan. In May 2026, Treasury Secretary Bessent and Vice Premier He Lifeng met sequentially with President Lee Jae-myung in Seoul. South Korea serving as the stage for U.S.–China consultations is a diplomatic asset. At the same time, it also means that both superpowers are treating South Korea merely as a convenient venue. Lending out the stage is a fundamentally different matter from writing the script.

The two-month truce is a clear signal that the time granted to South Korea is shorter than anticipated. Plans drafted on the premise of a one-year window must be reexamined. The tasks South Korea must accomplish within this remaining time can be distilled into four areas.

First is the supply chain for critical minerals. South Korea imports approximately 88% of its neodymium permanent magnets from China. There is no way to fully substitute Chinese rare earths

and graphite in the short term. A realistic objective is extending the buffer time needed to withstand shocks. Corporate inventories and strategic national stockpiles must be expanded. Joint ventures with Australia, Canada, Vietnam, and other nations must be expedited, and participation secured in U.S.–Japan critical mineral partnerships. South Korean companies exporting defense components to the United States must separately review the January 1, 2027 regulation. Components containing Chinese-origin raw materials will be barred from integration into U.S. weapon systems.

Second is the semiconductor technology gap. If the United States tightens controls on China, demand for high-bandwidth memory (HBM) used in American AI accelerators will concentrate on South Korea. China, meanwhile, will continue its aggressive volume offensive in commodity memory. Samsung Electronics and SK Hynix must maintain a commanding lead in next-generation products such as HBM4. Equipment import licenses and local regulatory risks for their Chinese fabrication plants must also be managed separately. The cost of delaying decisive choices between U.S. export controls and the Chinese market is escalating with each passing day.

Third is national security. Trump has shown that Taiwan arms sales can be placed onto the negotiating table. It is an unmistakable signal that alliance security commitments can also be commodified as bargaining chips. There is no guarantee that the South Korea–U.S. alliance will be exempt from that transactional ledger. South Korea must prepare for the possibility that United States Forces Korea (USFK) assets could be redeployed elsewhere during a Taiwan contingency. Prior consultation procedures governing any redeployment of forces must be established well in advance. Independent capabilities required for deterrence against North Korea must also be strengthened. On September 18, the Lee Jae-myung administration declared that South Korean forces would not be deployed to participate in wars in the Middle East. That stance must be institutionalized into a consistent principle: respecting alliance requests while evaluating them strictly within the framework of national interest and constitutional law. Trilateral cooperation among South Korea, the United States, and Japan must be firmly maintained, while communication channels with China remain open.

Fourth is energy. South Korea relies on the Middle East for approximately 70% of its crude oil imports. If the Strait of Hormuz is blocked, the South Korean economy is immediately thrown into turmoil. Import channels must be diversified toward U.S. crude oil and liquefied natural gas (LNG), as well as supplies from Central Asia and West Africa. Strategic petroleum reserves must be expanded and crisis response protocols refined.

These four tasks share a common attribute. None of them can be accomplished within two months or even a single year. That is why action must begin immediately. Waiting until the precipice is in plain sight is already too late.

51.8 Conclusion: The Homework Left Behind by Empty-Handed Negotiations

The Washington summit was not a gathering that ushered in an era of peace. Trump had his eyes on the election forty days away; Xi was looking at the Party Congress one year out. Trump wanted numbers; Xi wanted time. Both men came away with a small measure of what they desired. Yet none of the three major fault lines—Taiwan, rare earths, and cutting-edge technology—were mended in the least.

In its opening chapter, this book documented the imperial-level protocol on the tarmac at Joint Base Andrews. What remains in the final chapter is merely a two-month truce and an arms sales package locked away in a drawer. Across the fifty chapters in between, this book has traced a single continuous trajectory: the unraveling whereby rules were replaced by transactions, alliances were degraded into ledgers, and the law swayed with the president's whims. Domestically, universities, the press, immigrants, and the poor paid the price. Abroad, allies and middle powers are paying the toll.

The precipice of 2027 does not necessarily mean war. Rather than rushing into action, China can afford to wait for American commitments to erode from within. Depending on the outcome of the midterm elections, the U.S. Congress could also check the president's transactional maneuvers. Other analyses suggest that a PLA rattled by purges cannot easily embark on large-scale military operations right away. The danger is not a predetermined future, but the magnitude of the probability.

That probability has visibly grown over the past year. Deterrence became a bargaining chip, timelines grew shorter, and mechanisms checking leadership judgment diminished. Throughout history, major wars did not break out solely because someone actively desired them. They erupted when adversaries misread each other's intentions and lost any avenue of retreat. The calendar toward 2027 is steadily assembling every one of those dangerous conditions.

The homework left behind by these empty-handed negotiations does not belong exclusively to the two superpowers. When standing before a precipice, those who waver first are the nations caught in between. South Korea's task is not to surrender itself into the arms of either side. It is to cultivate the resilience and endurance of its supply chains, technology, national security, and energy within the remaining time. The depth and scale of that preparation will determine South Korea's place in the world after 2027.

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