



TRUMP TARIFF: CHANGING THE WORLD'S ECONOMIC STATUS AND REDEFINING THE TRADE-DEFICIT IN THE US

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Abstract: The Trump tariff for sure has left a very long and lasting impact on the US and the global economy. These tariffs have come out to be nothing but a pain to many people. This will also stain the economy for a very long time. The tariffs, even though paving the way for the development of the US, is the reason for long term severed ties, inflation, loss of money, etc. Trade globally will never remain the same as it was before the Trump tariffs. Countries like Vietnam, Mexico, etc. used this as an opportunity to gain grounds of trade with the US while countries like India suffered mixed outcomes. The post - tariff world is slowly preceding trade alliances, new global trade routes, self-reliance, etc. The Trump tariffs also highlighted how countries approach trade and how geopolitics play a big role.

INTRODUCTION

The “Trump tariff” is the most discussed topic at the moment. Everyone is talking about it and I intend to give you an insight of this topic through this paper. Donald Trump became the president of the US for the 2nd term on January 20, 2025. He is the 47th president of the US and was the 45th president too. He is known to be bold and controversial.

What are tariffs?

Tariffs are basically taxes imposed by any government on imported goods and services, making them more expensive for consumers. They are usually a percentage of the cost of the imported items. Different percentages can be imposed on different items imported. Tariffs usually help protect the interests of local or domestic producers, as they can provide goods and services at a cheaper price than the imported ones which would be more expensive due to the tariffs imposed on them and hence less chosen by the consumers.

Why is a tariff implemented?



Tariffs are usually implemented when a country is in a trade deficit and is not doing well in global trade. They increase the prices of the imported goods and thus the consumers use the domestic goods leading to less money going out of the country as imports, which shrinks the trade deficit.

Trade Deficit??

Every country trades with other countries to full fill or fill up potholes in the production of the country due to the uneven split of minerals across the Earth and many other reasons. So, a trade deficit refers to a country that imports more goods than exports adding to a deficit of money and being behind in global trade.

To understand the trade deficit of the US, here's a graph to show the loss of US in the last 20 years due to the trade deficit:



The Trump Tariffs

Why did Trump introduce tariffs?

Donald Trump believed that the US was in a trade deficit and felt that countries like China and Vietnam were exploiting the US. To keep a check on this Trump imposed tariffs. Trump imposed different percentages on goods coming from different countries. He also recognized that the US is a big consumer market and all the other countries may be at the mercy of the US tariffs. This was, as per Trump, a way to gain a stronghold in trade between the US and the other countries. Trump saw the heavy tax collected as an opportunity to make heavy investments in the country. He could now protect the interests of the domestic industries and gain their trust and support.

The Trump Tariffs are also known as the Reciprocal Tariffs as these tariffs were implemented in response to the tariffs imposed on US products.

Recommendations of the Tariffs:

1. At least a percentage of 10% must be imposed on almost all imports
2. Countries that have imposed high rates on the US products may have higher tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

(Table of a few main countries on which reciprocal tariffs have been implemented)

Impact on US people, consumers and producers

Who are consumers and producers and how are they linked?

Consumers are those people that use or consume goods and services. Producers are those people that produce goods and services. One of the main grounds on which an industry(producer) runs is that there are consumers in the markets to use these goods and services. If consumers don't use the products of a producer, then the producer will be at a loss. "Steven Durlauf, University of Chicago professor, argued that broad tariffs harm the U.S. economy, leading to higher consumer prices and negative employment effects, particularly in industries reliant on imported inputs". Thus the Trump Tariffs have strongly made an impact in these sectors. Diving down:

Impact on consumers and producers due to these tariffs

Looking at any country there are 2 types of producers. Domestic and international producers. Now looking at the tariffs, international producers have suffered a great loss as the US is a very big market for all producers. This is because the tariffs make the items more expensive and the consumers refuse them. The domestic producers have had a boost in their revenue due to the increasing usage of domestic products in the market (Again because it is cheaper). This doesn't mean that they have not had a negative impact. Many industries of the US import their raw material form outside which has made the industries suffer

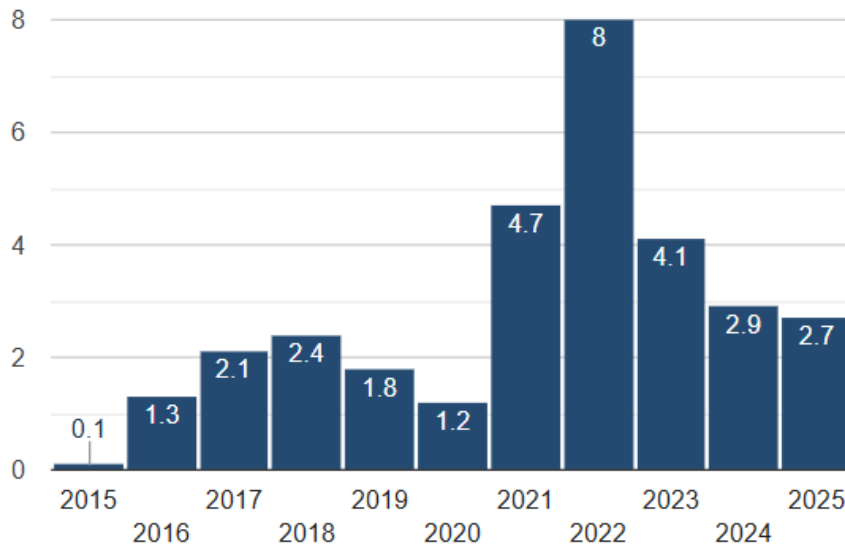
The Trump tariffs largely impact the consumer side of this. This is because the consumers' may use imported items that are necessary or appealing at a very high rate. Other than that for domestic products the costs have increased due to cost push inflation.



** Cost push inflation is the inflation that occurs to the rise in the cost of manufacturing of goods and thus leading to inflation. **

Here's a table of the inflation rates of the US in the last ten years. U can also see till now the inflation rate average is 3% and US's inflation is already at 2.7% this year.

"Gregory Daco, chief economist at EY, calculated that the tariffs could increase inflation by 0.4% and reduce U.S. GDP by 1.5%"

Chart of Average Annual U.S. Inflation Rates (2015-2025)

Impact on the citizens of the US

Citizens of the US have mainly suffered a negative impact. There are many reasons for this:

- Higher prices for items:
 - As discussed earlier the localized products have become more expensive due to cost push inflation
 - And the imported goods are much more expensive than they were before the trump tariff
- Job losses and gains
 - Jobs in the sector of manufacturing and farming have been forced to resign because the raw materials for these sectors that were imported from outside suffered great tariffs making them more expensive and ruining the balance of money in these sectors.
 - Job gains (very limited): few domestic industries have benefited from the Trump tariffs due to the lower cost of these products than that of the imported ones and thus more preferred by the people. These industries include the appliance industries, aluminum and steel industries etc.
 - This also leads to less number of choices in the market as earlier imported goods were also looked upon during selection
- Stock market volatility
 - The stock market has been very volatile and is dangerous and risky for investors, retirement planners, etc. This has resulted in losses in savings of many citizens.

Global impact

There was a very big and negative effect of the Trump tariffs globally. Let's go through all of them:

1. Trade wars

There were many trade wars that broke out at that time. When the Trump tariffs were implemented, in retaliation many countries raised the tariffs on US products which caused global tension between countries. This resulted in trade being paused between such countries. Some of them include: China (major), Canada, Europe, etc

“**Sherman Robinson**, senior fellow at the Peterson Institute, stated that a trade war has no winners, and the rest of the world can adjust around the U.S. if it initiates such a conflict.”

2. Dip in world economy

Due to the higher costs of exports and imports, many countries stopped trading. This stop in the trade resulted in a dip in the world economy.

3. Global Supply Chains Were Disrupted

The decrease in the trade between countries forced many industries to close or shut down, companies had to find new suppliers, shipping costs increased, etc. These supply chains have become more resilient than efficient

4. Global markets

Stocks and such things became very volatile making it difficult for investors to earn money due to the high risks and volatility. Investments and retirement savings and plans had gone for a toss for all people and the stocks of many huge companies dropped.

Re-globalization vs balkanized blocs

Re-globalization refers to a renewed push by countries towards peace, cooperation, interdependence, etc. While balkanized blocs refer to a world divided in fragments and the existence of rivalry. Due to the Trump tariffs the future is moving more into the balkanized blocs world which can have an adverse effect on the people.

Hyper-globalization to fragmentation

1. There was an erosion of trust in free trade and that trade could be weaponized.
 2. Countries began to form alliances and rivals with others countries leading to destruction in peace and a hand in global tension
- This caused the global trade to be fragmented in different regions and caused a pause in hyper-globalization.

Beneficiary Countries

Which countries have benefited the most from the Trump Tariff and how?

1. Vietnam - the biggest winner

Vietnam has benefitted the most from the Trump tariffs. There has been a massive surge of exports to the US from Vietnam mainly in goods like electronics, textiles, furniture, etc. To avoid the high tariffs placed on China due to the main trade war between the US and China, many Chinese companies relocated their factories in Vietnam. Vietnam has become a very crucial key in the global supply chain. Vietnam's exports to America increased over 35%.

2. Mexico

Mexico remained in the USMCA (US-Mexico- Canada agreement) treaty facing less tariffs on its goods especially in automobile parts. Many Chinese companies have relocated here too. Mexico thus gained power over the trade with the US due to its cheap tariffs and proximity to the US.

3. Thailand

Thailand gained trade in the fields of agriculture and electronics mostly again due to the low tariffs imposed on Thailand.

What about India?

India has had both negative and positive impacts from this. The tariffs made Indian items in the US market less chosen due to the high costs. But as the US's mind is diversifying from China sectors like pharmaceuticals, software, etc have gained grounds in the trade.

Future of the Economy

- **The supply chain:** It is for sure now that due to the tariffs many businesses have moved to more reliable countries like Vietnam, Malaysia, India to trade with the US. This means there is a permanent shift in the supply chain and routes. Trade from central Asia now has moved to South Asia and Europe.
- **Rise of domestic goods:** Increasing tariff rates end up bad when countries ultimately stop trading and thus the reliance and rise of domestic goods takes place
- **Trade alliances:** Instead of trade wars countries might start trading and have trade agreements with their alliances to ensure safety in trade and to prevent the exploitation by one country in trade. For example the RCEP (China and ASEAN), CPTPP (Asia-Pacific, excluding U.S.), etc.
- **Inflations:** Cost push inflations can lead to high increase in prices during the long run. These are similar to the ones which happened due to the disruption in the global supply chain during covid, Red sea crisis, etc.
- **China's trade:** China is looking forward to boosting trade with the South instead of the US and becoming largely self-sufficient. Thus they are also investing in places where they are lacking.
- There is also a concept of green trade where there will be more tariffs implemented on polluting imports.

After all of this, you might have a thought that to avoid tariffs why don't companies set up producing units in the US itself. The labour and land in the US is so expensive that even many US based companies like Adobe, Amazon, etc. have to expand their territory to get cheap labour and land from other countries. It is safe to say that companies prefer the tariffs of the US over setting up units in the US. Plus, companies don't only focus on the US but the other markets in the world as well. Considering these factors, producing units have been set up in countries like Vietnam, Mexico, etc.

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