Trump 2.0 Trade Agenda:
Balancing Economic Strategy and Global Challenges

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(Tayfun Coşkun - Anadolu Agency)

Donald Trump's potential second-term trade policies, emphasising tariffs of up to 60% on Chinese goods and 10-20% on imports from other countries, aim to bolster national security, reduce the trade deficit, and stimulate domestic manufacturing. However, these policies risk significant global repercussions, including retaliation from major actors like China and the EU. Whether these policies can achieve their goals, their impacts, and potential responses must be thoroughly assessed for better preparedness. This evaluation should go beyond economic factors to consider national security, services trade, and the short- and long-term effects of tariffs, avoiding oversimplified conclusions.

With Donald Trump returning to the presidency, U.S. trade policies and the potential for new tariffs are once again in the global spotlight. This policy outlook explores the main components of Trump's possible trade policies, looking at Trump's campaign promises, including imposing universal tariffs and bilateral tariffs. Thereafter, it examines the likely effects of Trump's trade policies, including on inflation, trade deficit, and national security. Finally, it assesses the responses such as retaliation of major international actors, including China, the European Union, and the private sector.

A thorough analysis of Trump's trade and tariff policies requires a broader perspective that not only considers economic factors, as many do, but also takes into account the national security considerations attached to these policies. It's also important to recognise that while tariffs and goods are central to Trump's trade agenda, trade is not limited to goods; other components, particularly in services, play a significant role. Unfortunately, Trump's policies and the subsequent discussions especially those on economic implications of tariffs often overlook this aspect.

Moreover, when evaluating the positions of both supporters and critics, it is crucial to avoid being swayed by misleading or oversimplified arguments such as follows:

- Selectively citing historical examples to justify the success or failure of tariff policies is insufficient. For instance, simply stating that the U.S. grew through tariffs in the past, or that tariffs in the 1930s led to negative outcomes, does not provide definitive insight into how Trump's policies will play out. Even though his first term offers only hints of what might happen, it cannot be used as a guarantee for the future. Each period has its unique circumstances, and recreating the exact conditions of the past to predict future results is impossible.

- Drawing direct cause-and-effect relationships without accounting for other contributing factors leads to flawed conclusions. For example, rather than directly claiming that tariffs will increase inflation, it's more accurate to state that inflation could rise if factors X, Y, and Z occur, or conversely, inflation may not increase if these factors do not materialise. Similarly, when free trade is shown as a reason for a decrease in manufacturing, other factors that contribute to the decline in manufacturing, such as a rise in the services sector, are often ignored, leading to erroneous conclusions.

- Alternative policy tools are often disregarded in the discussions. When supporting tariffs, it's important to consider whether alternative policies could achieve the same results—such as reducing the trade deficit.

- The rate and scope of tariffs play a significant role in determining their effects, influencing the extent of tariffs' benefits and harms. Therefore, instead of reaching direct conclusions, numbers should be considered.

- Tariffs' short- and long-term impacts may differ, and any policy assessment should consider both.

- Ultimately, policy analysis should be based on a careful assessment of both costs and benefits, and tariffs should not be viewed solely through economic or political lenses. A comprehensive evaluation of both short-term and long-term economic and political impacts is, therefore, necessary.

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Accordingly, The Trump 2.0 trade policies can be analysed under five topics:

1. Trump's election promises

2. Assessing Trump's campaign promises and trade policies: From v.1 to v.2 and future outlook

3. Potential Trump 2.0 trade policies and their impacts

4. Global reactions

5. Private sector responses

1. What did Trump signal about its upcoming trade policies?

During his election campaign, Trump proposed imposing up to 60% tariffs on products imported from China and between 10% and 20% on goods from other countries. He also advocated for reducing trade and investment with China. Recently, he announced plans to impose an additional 10% tariff on all Chinese goods entering the U.S. and a 25% tariff on all products from Mexico and Canada.

These signalled trade policies are part of Trump's broader economic strategy, which includes tax cuts, deregulation, and energy policies. This strategy aims to stimulate domestic growth and competitiveness by reducing tax burdens, loosening regulatory constraints on businesses, and leveraging energy independence to strengthen the U.S. economy.

Together with the trade policy, the overarching goals of these policies include:

- Ensuring national and economic security by addressing China's "economic exploitation" of the U.S. openness

- Generating revenue

- Encouraging domestic manufacturing

- Strengthening the U.S. position in trade negotiations

- Reducing the trade deficit

However, given that Trump did not fulfil half of his election promises during his first term, questions arise as to whether he will fulfil these trade-related promises in his second term. His emphasis on prioritising the revitalisation of struggling manufacturing sectors, partly aimed at securing support from swing states, particularly those in the "Rust Belt," which have been grappling with industrial decline, further fuels this scepticism.

Considering Trump's mixed track record on fulfilling promises and the strategic motives underlying many of his commitments, examining his first-term policies and other factors at play offers valuable insights into what his second-term agenda might entail.

2. Assessing Trump's Campaign Promises and Trade Policies: From v.1 to v.2 and Future Outlook

Above all, it is important to recognise that assessing Trump's second term should not lead to the misconception that it will continue his first term. As will be explained in detail, there are significant economic and political differences between Trump v.1 and Trump v.2 including his nominations to lead Treasury and Commerce, and these changes are likely to have a considerable impact on his second-term trade policies.

2.1. Trump v.1 Trade Policies in a Nutshell

Trade wars with China, the imposition of tariffs on steel and aluminium, and the renegotiation of NAFTA into the USMCA agreement marked Trump's first term.

- ***Trade Wars:*** Trump applied tariffs worth hundreds of billions of dollars on goods imported from China. The trade conflict escalated over issues like technology transfer and intellectual property theft. However, the tensions eased with the signing of the Phase One Agreement, under which China committed to increasing its U.S. goods and services purchases, strengthening intellectual property protections, and addressing forced technology transfer practices.

- ***Steel and Aluminium Tariffs:*** Trump imposed tariffs of up to 25% on steel and aluminium imports, citing national security concerns. However, though not fully finalised, he later negotiated with trade partners, including the EU, to exempt them from these tariffs.

- ***USMCA:*** In an effort to fulfil his 2016 campaign promise, Trump replaced NAFTA with the United States-Mexico-Canada Agreement, aiming to protect U.S. jobs and boost domestic production. While the USMCA updated labour, digital trade, and auto manufacturing provisions, it largely preserved NAFTA's core framework.

- ***National Security Justifications:*** Trade actions, including tariffs, were often framed

regarding national security. For instance, tariffs on steel and aluminium imports were justified under Section 232 of the Trade Expansion Act, but these moves also strained alliances with partners like Canada and the European Union.

- *Agricultural Support:* In response to Chinese tariffs on U.S. agricultural products, Trump provided billions of dollars in subsidies to American farmers.

2.2. What Would Shape Trump v.2 Trade Policies?

Looking at his first-term policies and campaign promises, one thing is certain: Trump will continue to use tariffs—his favourite word—as a policy tool. Moreover, he will likely threaten or impose tariffs on China and target U.S. allies such as Mexico and Canada while leaving room for renegotiation with China and its allies. Finally, he will likely revisit existing trade deals focusing on leveraging hardball tactics to extract further concessions from trade partners.

However, it is also certain that Trump v.2 trade policies will differ from those of Trump v.1 due to shifting political and economic dynamics. The key factors likely to shape Trump v.2 trade policies and their potential implications on the policies are as follows:

2.2.1. The Shift in Global Economic and Political Dynamics

Compared to Trump's first term, significant global political and economic changes have occurred, including an increased tendency among nations to seek alternatives to U.S. influence, improved preparedness for trade barriers, and the growing prominence of multipolar alliances. For example, China, with the expectation of heightening targeting by the U.S., has been actively seeking to bolster domestic industries and develop more regional trade partnerships while increasing its level of preparedness over possible U.S. restrictions. China's recent export controls of materials used in semiconductors, just the day after U.S. export controls targeted China, is an example of its preparedness to respond to U.S. trade policies. However, China faces domestic economic challenges, which may limit its response capacity. As another example, India expanded its trade relations with countries like Japan and Australia due to expectations of U.S. tariffs.

These developments will likely shape Trump's trade policies in his second term. For example, as countries like China and India bolster their resilience against tariffs through subsidies and regional trade agreements, Trump's leverage to use tariff threats as a negotiation tactic may become less impactful than his first term. Moreover, even though expecting this to lead to a more collaborative approach is unlikely, he may introduce more exemptions, especially for allies such as Mexico and Canada, as well as in specific in-

dustries such as tech intermediaries. Still, considering his campaign rhetoric and first term, it is unlikely that Trump would start his second term with a softer tariff stance. However, the mentioned changes in economic and political dynamics might pave the way for a subsequent softening of his trade policies later in his term.

2.2.2. Trump's Nominations

Donald Trump's recent cabinet nominations reflect a strategic effort to solidify loyalty within his administration and advance his distinct trade and economic agenda. His choices for key positions highlight a mix of loyalists and unconventional China hawks aimed at reshaping U.S. trade policies in alignment with his "America First" doctrine. For instance, Trump's choice of Howard Lutnick, CEO of Cantor Fitzgerald, as Commerce Secretary, underscores plans to use tariffs as a strategic tool in trade negotiations. Lutnick described tariffs as both a revenue source and a means to pressure countries to lower their levies or incentivise companies to shift production to the U.S. while exempting products not manufactured domestically. Similarly, the appointment of Marco Rubio and Mike Waltz reinforces the administration's protectionist leanings, particularly toward China.

Including figures aligned with protectionist ideologies could signal a renewed focus on policies such as universal tariffs and the renegotiation of trade agreements. Considering the extensive business ties and economically driven priorities of many Cabinet members, including those with strong anti-China stances, as well as Trump himself, it is likely that their position could shift if economic or business interests were significantly impacted. In short, while this "China hawk" cabinet might initially pursue aggressive policies targeting China, it is possible that they could adjust their approach if the measures prove detrimental to businesses and broader economic goals.

2.2.3. Trump's Domestic Power

Donald Trump's first term demonstrated that he possessed the authority to shape U.S. trade policy through the imposition of tariffs, a power he is likely to utilise during his second term. Above all, Donald Trump may resort to shaping U.S. trade policy through Congress, of which Republicans hold the majority. Under U.S. law, Congress holds the constitutional authority to impose tariffs, as outlined in Article 1, Section 8 of the U.S. Constitution, which grants Congress the power to "lay and collect taxes, duties" and "regulate commerce with foreign nations". Therefore, Trump may impose tariffs without significant legislative opposition. However, following the Congress route could be a slow process that Trump may not be willing to wait.

Additionally, during his first term, Trump relied on executive powers granted under several laws, which he is likely to rely on during his second term too. Section 301 of the Trade Act of 1974 allows the president to impose tariffs in response to trade practices deemed unfair or harmful to

U.S. commerce, while Section 232 of the Trade Expansion Act of 1962 enables presidents to justify tariffs on national security grounds, such as those imposed on steel and aluminium imports. While Section 232 requires a Department of Commerce investigation, Section 301 necessitates a review by the U.S. Trade Representative. However, cabinet officials could expedite these procedures to avoid delays, as prolonged inaction could lead to their dismissal. One issue with using executive powers to impose universal tariffs is that they are typically intended as targeted measures against unfair trade practices or threats to national security. It would be difficult to justify such tariffs against all countries, as not all can be reasonably deemed to be engaging in unfair trade practices.

Furthermore, the International Emergency Economic Powers Act (IEEPA) could be invoked in national emergencies, enabling Trump to impose bilateral or universal tariffs quickly with minimal procedural requirements. The IEEPA offers significant advantages for Trump, according to Warren Maruyama, a former general counsel for the U.S. Trade Representative. He notes that it is an emergency power with few procedural requirements, allowing Trump to act swiftly, potentially on his first day in office. Other means available for Trump include Section 122, Balance-of-Payments Authority, and Section 338 of the Tariff Act of 1930.

Nonetheless, the use of these executive powers is not without its challenges. Critics, including Alan Wm. Wolff, former deputy director-general of the World Trade Organization, argue that IEEPA's broad scope in imposing tariffs could be a "power grab" and that it may be excessive to use it against trade with all countries, including allies. Such criticisms have been brought to courts too, but the rulings have generally favoured Trump. While American courts have grown more sceptical of the administrative state, they continue to show deference to presidential powers, especially when national security is invoked. Given that and his firm stance on protectionist policies and the significant political leverage afforded by unified government control, Trump could push forward with aggressive tariffs; only then could he await the outcome of any court challenges. As a result, it is unlikely that these challenges will substantially alter the course of his trade and economic policies.

2.2.4. Economic Concerns

Economic concerns such as reducing the trade deficit and increasing manufacturing jobs are key factors shaping Trump's trade policies. Following this logic, if rising inflation occurs due to tariffs, business reactions become increasingly negative, or if retaliation becomes untenable, there could be a shift in Trump's approach to trade. This might explain why some of his appointees have pressured him to modify policies, including by introducing exemptions, during his first term. Accordingly, Trump might exempt some goods, such as those not readily available from U.S. suppliers or outside China, as he did during his first term.

Above all, Mr Trump campaigned to address the challenges faced by car workers, farmers, and consumers who are frustrated by the cost of everyday goods. If he were to make imported products significantly more expensive, as many expect due to extra tariffs, it could quickly erode his goodwill among these groups. In the end, "the court of public opinion" might play a significant role in shaping Trump's policies on trade. As a result, Trump may backtrack and even alter his trade policies to include some exceptions if faced with significant economic backlash.

2.2.5. National and Economic Security Concerns

Understanding the security dimension of Trump's trade policies is crucial. For Trump, tariffs are not merely economic tools for revenue generation but also instruments for addressing perceived exploitation by other nations. For instance, Trump's proposed tariffs to combat illicit drug trafficking underline their utility in achieving broader policy goals beyond economics. This mirrors his first-term approach, where he threatened a 5% blanket tariff on Mexican goods to pressure Mexico into curbing illegal immigration into the United States. Another example of using tariffs towards broader policy goals is Trump's threats to impose tariffs on day one on imports from Canada and Mexico to suppress illegal immigration and drug smuggling.

Such practices demonstrate Trump's effective use of tariffs as leverage for various policy objectives. Given his emphasis on tariffs as contributors to national and economic security, it is plausible that he might perceive the adverse effects of tariffs, such as inflation, as an acceptable trade-off for attaining his broader security and policy ambitions and, therefore, keep imposing tariffs.

3. Potential Policies and Their Impact
3.1. Potential Policies

Based on Trump's rhetoric, first-term policies, and other relevant factors, the following conclusions can be drawn regarding his potential trade agenda:

- **Continued Use of Tariffs**: Tariffs are expected to remain a primary tool in his trade strategy.

- **Strong Stance Against China**: This will likely stem from both economic concerns, such as reducing the trade deficit, and security concerns, including supply chain resilience and national security threats.

- **Targeting Allies**: Allies like the EU, Canada, and Mexico may also face tariffs as part of efforts to re-negotiate trade terms that are more favourable to the U.S.

- **Leverage in Negotiations**: Tariffs will serve economic and security purposes and also act as a bargaining tool to extract concessions.

- **Initial Aggressiveness**: His trade policies and tariffs are expected to start tough, likely to establish dominance, but may soften as practical challenges and economic impacts emerge.

- **Most Affected Sectors**: Key sectors likely impacted include manufacturing, technology, and agriculture due to their involvement in trade disputes and significance to U.S. economic security.

3.2. Impact

Trump's expected tariffs and their impact have led to various opinions, ranging from strong support to fierce criticism. On one side, supporters like Robert Lighthizer, the former U.S. Trade Representative under the Trump administration, argue that the tariffs will help reduce the trade deficit, bring jobs back to the U.S., and stop other countries from taking advantage of American trade policies. They believe tariffs can balance the trade relationship, especially with countries like China, whose trade practices they consider unfair. In fact, according to Lighthizer, during Trump's first term, tariffs did not cause inflation, nor did they harm the economy. Instead, he contended that they changed the damaging narrative of free trade policies, which had led to job losses, stagnating median wages, and a huge trade deficit. According to Lighthizer, slowing economic growth and lagging innovation were also consequences of free trade policies, which Trump sought to change by imposing tariffs. Thanks to these policies, he pointed out, manufacturing had increased, imports were trending down before the Covid-19 pandemic, and workers were experiencing the highest real wage growth on record.

On the other hand, critics warn that the tariffs could have disastrous effects on U.S. workers and businesses, as well as on the U.S. and the world. They argue that higher tariffs could lead to job losses in industries reliant on imports, such as manufacturing and retail. Additionally, critics signal that these tariffs might provoke retaliatory measures from trading partners, disrupting global supply chains and escalating trade wars, further harming international relations and economic stability.

In evaluating Trump's proposed tariff policy for his second term, it is evident that while tariffs can achieve certain objectives, they come with significant economic and non-economic trade-offs. Considering Trump's possible trade policies during his second term, inflation is expected to rise due to broader tariffs, though the extent will depend on factors like currency appreciation and supply chains. While tariffs may incentivise some reshoring of manufacturing jobs, the scale of job recovery is likely to remain limited due to high reshoring costs, a lack of skilled workers, and alternative global manufacturing hubs. Similarly, while tariffs may reduce the trade deficit with China, they

are unlikely to address the broader U.S. trade imbalance, which is influenced by structural economic factors such as low savings rates and high government spending. Moreover, although tariffs could generate substantial revenue, higher consumer costs and disrupted supply chains may diminish their overall economic benefits. Ultimately, beyond economic considerations, tariffs serve as a strategic tool for achieving non-economic objectives, such as addressing illegal immigration and drug trafficking, and they are likely to achieve these non-economic objectives by incentivising other countries to address drug trafficking and similar concerns.

1. Inflation

During Trump's first term, the year-over-year inflation rate was approximately 1.9%, whereas it rose to 5.2% under Biden. This fact supports Lighthizer's argument that tariffs do not raise inflation. However, this does not necessarily mean that the U.S., first, did not feel the costs of the tariffs. Research shows that some businesses opted to absorb the costs arising from tariffs by earning lower profit margins without passing them on to customers. Second, the relatively low inflation during Trump's first term can also be attributed to broader economic factors, such as stable global oil prices and subdued wage growth, which tempered the overall price environment. Third, the targeted nature of the tariffs, with exclusions for specific products including some goods deemed critical for domestic industries, limited tariffs' direct impact on the overall inflation.

However, this time, Trump pledges to impose broader tariffs. This means that even if some businesses opt to absorb their impact, the broader application of tariffs would still exert upward pressure on inflation. Moreover, for the same reason, it would be more challenging to limit tariffs' direct effect on overall inflation. In reality, imposing tariffs might strengthen the currency by reducing the demand for foreign currencies. This happens because tariffs make imported goods more expensive, potentially reducing import volumes and decreasing the need for U.S. buyers to exchange dollars for foreign currencies. A stronger dollar can mitigate the inflationary effects of tariffs by lowering the relative cost of imports priced in weaker foreign currencies. However, this ultimately depends on the size of dollar appreciation, the extent to which goods subject to tariffs are sourced from countries with depreciating currencies, and other economic dynamics. For example, if tariffs are imposed on products from countries with relatively stable or appreciating currencies, the positive impact of a stronger dollar might be less pronounced.

Therefore, while inflation is likely to rise due to tariffs, the extent of this inflation will depend on factors such as dollar appreciation and supply chains. Given that Trump articulated universal tariffs, it can be anticipated that the inflationary impact will also significantly be felt by consumers this time. However, such an impact on consumers may be felt gradually over time.

2. Bringing Back the Manufacturing Jobs

Imposing tariffs may incentivise some manufacturing jobs to return, particularly in industries heavily reliant on imports, positively contributing to innovation and reducing over-reliance on the services industry. This is mainly because tariffs would increase the cost of imported goods, making domestic production relatively more competitive and potentially encouraging companies to re-shore certain operations. For instance, factory establishments of Samsung and LG in South Carolina and Tennessee were attributed to tariffs on washing machines. Similarly, companies like Generac and Williams Sonoma were motivated to move some of their manufacturing back to the U.S. from China due to cost pressures induced by tariffs. In another example, the steel industry improved in the U.S. since Trump's term.
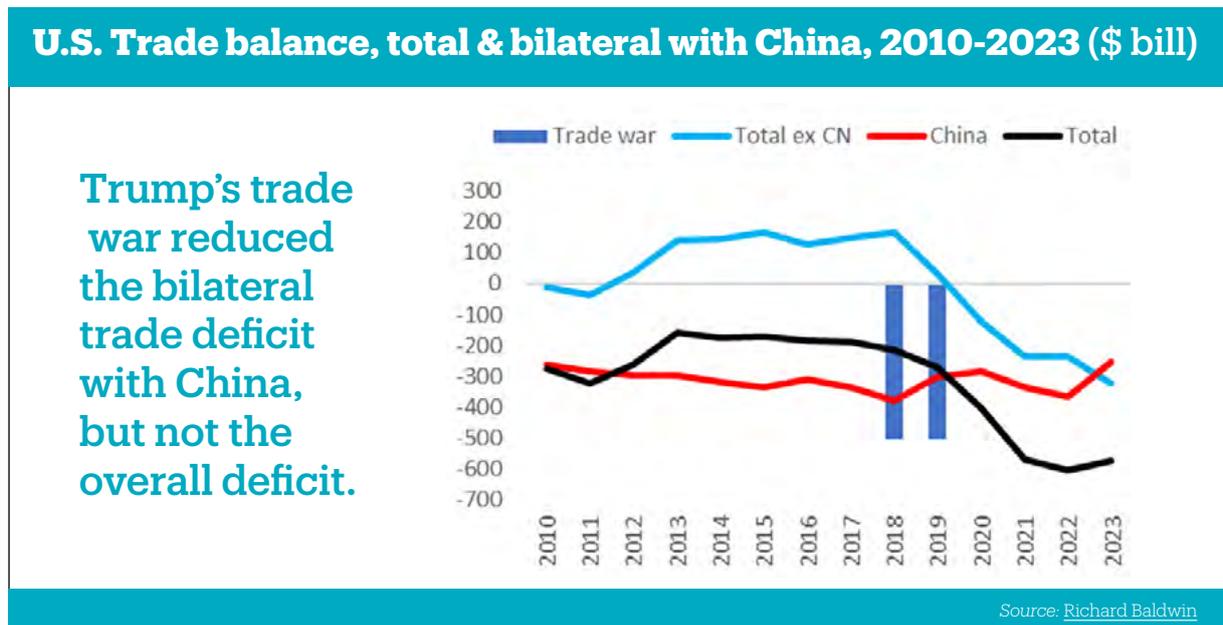
However, while tariffs can create incentives for reshoring, the overall effect on U.S. manufacturing has been mixed. During Trump's first term, while some companies shifted operations, others turned to countries like Vietnam and India as alternative low-cost manufacturing hubs. Moreover, offshoring continued during the Trump administration, losing nearly 1,800 factories between 2016 and 2018. For example, Gary Hufbauer and Euijin Jung from the Peterson Institute for International Economics estimated that the steel tariffs imposed under the Trump administration would create approximately 8,700 new steel jobs. However, these jobs came at an average cost of $650,000 each—around 11 times the average wage of steelworkers. This situation highlights the inefficiency and economic burden associated with the tariffs, including those due to the cost of reshoring, the lack of skilled workers, and higher wages in the U.S. which present significant obstacles to bringing manufacturing jobs back.
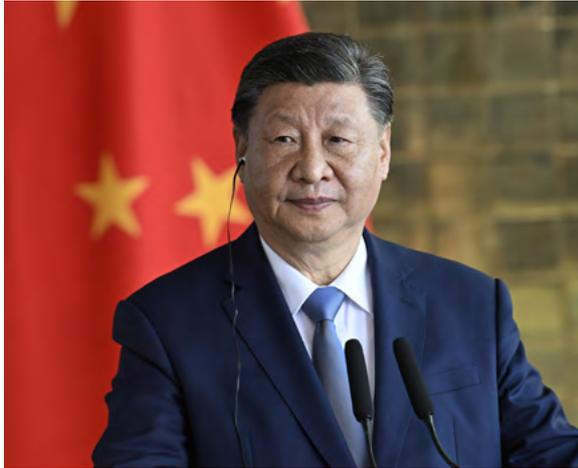
Therefore, although the imposition of tariffs, combined with other factors like export controls, might lead to some degree of reshoring, especially in the short term, it is unlikely that it will widely bring back manufacturing jobs to the U.S. as expected by Trump. Even if universal tariffs make countries like Vietnam and India more expensive to reshore, the high costs of reshoring to the U.S., along with challenges such as a lack of skilled workers and higher wages in the U.S., would make it difficult for manufacturing to return at the anticipated scale.

3. Trade Deficit

While not inherently harmful, a trade deficit can signal underlying economic imbalances, such as overreliance on imports or insufficient domestic production in key sectors. Critics of deficit argue that persistent deficits may lead to job losses in manufacturing and increased debt to foreign nations. However, many economists contend that trade deficits are not necessarily detrimental, as they often reflect a strong economy with high consumer demand for imports. Therefore, the trade deficit is not always an evil that must be eliminated immediately. In fact, rather than being a sign of economic weakness, a trade deficit can indicate a country's robust appetite for imports, reflecting the vitality and strength of its economy. Nevertheless, the size of the U.S. trade deficit and the heavy reliance on trade with China are still valid concerns.

Accordingly, during his first term, Trump's tariff policy was primarily aimed at reducing the trade deficit, considering its potential negative impacts. While this was his stated objective, Trump's trade policies primarily helped decrease the trade deficit with China (table below). This suggests that while the tariffs had some success in decreasing the deficit with China, they did not necessarily lead to a broad reduction in the overall trade deficit, as trade was simply redirected elsewhere.

U.S. Trade balance, total & bilateral with China, 2010-2023 ($ bill)

Trump's trade war reduced the bilateral trade deficit with China, but not the overall deficit.

Source: Richard Baldwin

(Mateus Bonomi - Anadolu Agency)

This time, tariffs expected to be imposed on goods imported from China under Trump's second term are anticipated to reduce the trade imbalance between the U.S. and China. By increasing the cost of Chinese imports, these tariffs could encourage U.S. businesses to explore alternative sources and diversify their supply chains. This shift may reduce the volume of goods imported from China, thereby improving the trade balance between the two countries.

However, as demonstrated during Trump's first term, tariffs are unlikely to significantly impact the overall U.S. trade deficit. The trade imbalance is primarily influenced by broader economic factors such as domestic savings rates, government spending, and consumption patterns, rather than the direct effects of tariffs on imports. To effectively reduce the trade deficit, it is essential to understand its root causes. In the U.S., the government's substantial deficit—averaging 6.7% of GDP—is a major contributor, driven by higher government spending than revenues. Another contributing factor is America's low national savings rate, which partly reflects its consumer-driven economy. This underscores the fact that, unless fiscal reforms are implemented—specifically, reducing government spending—the tariffs imposed during Trump's second term are unlikely to significantly reduce the overall trade deficit.

4. Currency

Imposing tariffs can have significant effects on a nation's currency. One potential positive outcome is that tariffs can lead to a stronger domestic currency. This happens when tariffs reduce the demand for foreign goods, leading to a decrease in the outflow of capital and a corresponding rise in the value of the domestic currency. Additionally, higher tariffs can encourage domestic production, potentially attracting foreign investment, which may further strengthen the currency.

On the other hand, if tariffs lead to trade imbalances or decreased investor confidence, the currency could weaken. For example, persistent trade deficits due to tariffs lead to capital outflows can put downward pressure on the domestic currency. Additionally, if tariffs increase the cost of imported goods, inflation could rise, potentially causing the central bank to raise interest rates, which could have complex and unpredictable effects on the currency.

Similarly, a stronger domestic currency makes exports more expensive for foreign buyers, which can reduce demand for them, even if tariffs lower imports. As a result, while imports may decrease, exports also drop, meaning the trade balance doesn't improve. The long-term impacts of Trump's trade policies will depend on the interaction between tariffs, monetary policies, and market expectations.

5. Possible Reduction in GDP

According to the UK's National Institute of Economic and Social Research, the U.S.'s real GDP could be as much as 4 per cent lower than it would have been without the tariffs. Likewise, the Wharton School at the University of Pennsylvania cautions that a trade war due to Trump's trade policy could lead to a GDP decline of up to 5 per cent over the next 20 years. In addition, universal tariffs would not only hit U.S. GDP but would also have a negative impact on the rest of the world. For example, in 2019, the International Monetary Fund (IMF) warned that escalating tariffs could reduce global GDP by 0.8 per cent within two years, with export-driven economies facing disproportionate losses due to reduced trade volumes and disrupted supply chains. In short, escalating tariffs not only pose significant risks to U.S. economic growth but also threaten global economic stability.

6. Revenue

Trump's trade policies, particularly his emphasis on tariffs, aimed to generate revenue by taxing imports and promoting domestic industries, specifically to offset the revenue lost due to proposed tax cuts. During his first term, the U.S. imposed tariffs on various goods, especially from China, which were expected to boost the federal coffers. However, the actual impact of these tariffs on generating revenue has been mixed. The U.S. government collected billions of dollars from tariffs on Chinese imports, but this revenue came at a cost of higher prices for U.S. consumers and strained relationships with trading partners. According to some estimates, tariffs on Chinese goods alone accounted for over $70 billion in U.S. revenue in 2019. However, these revenue gains were offset by losses in other areas, such as decreased exports and supply chain disruptions, which diminished the overall economic benefits. Similarly, for the second Trump term, the Tax Policy Center forecasted that Trump's tariffs would result in $3.7 trillion in gross revenues, but the net increase in federal revenues would be by $2.8 trillion over ten years, as reduced incomes and economic activity would lower other tax recipients. In short, while tariffs are expected to generate revenue, the associated costs and economic impacts suggest they may not achieve the desired effect.

TIJUANA, MEXICO - NOVEMBER 29: A CBP officer after members of the Mexican National Guard conduct vehicle inspections at a new checkpoint in operation at the San Ysidro Port of Entry in Tijuana, Mexico on November 29, 2024. Mexican authorities installed a security filter in response to combatting and detecting illegal drugs and migrant enforcement before vehicles cross into the United States, this after US President-elect Donald Trump threatened economic tariffs on Mexico, if they did not help stop the entry of drugs and undocumented migrants into the country. (Carlos Moreno - Anadolu Agency)

7. Non-Economic Objectives

Trump's trade policies are not only aimed at economic gains; non-economic objectives also play an important role. Therefore, an impact assessment should consider whether threatened or real imposition of tariffs would achieve Trump's non-economic policy objectives. These non-economic policy objectives include winning citizen support in domestic politics, cracking down on drug trafficking and illegal immigration, as well as negotiating better economic and trade terms for the U.S. Trump, by signalling the use of tariffs as an important tool to achieve non-economic objectives, has already won substantial citizen support during the November 2024 elections, as his success in swing states proves. Moreover, his threats to impose tariffs on Mexico and Canada, unless those countries do not start to fight properly against drug trafficking and illegal migration, have already started to pay. For instance, the recent raids in Mexico follow a sharp decline in fentanyl seizures earlier this year and coincide with President-elect Trump's threat to impose 25% tariffs on goods from Canada and Mexico unless they address drug and migrant flows. In his first term, his tariffs on Chinese imports gave him leverage over discussions with China on the Phase One Agreement. All these show that Trump's tariff policy will significantly impact the realisation of non-economic policy objectives.

In this context, it can be argued that tariffs will yield the most significant payoff regarding non-economic policy objectives in the short and long term.

8. Who Would Be Impacted The Most?

As per Sam Lowe's calculations, countries with economies lodging persistent surpluses with the U.S., such as Vietnam, Ireland, Thailand, Mexico, and India, will be impacted and targeted the most by tariffs. On the other hand, a trading partner that is less reliant on the U.S. market when a smaller portion of its exports go to the U.S., whose exports make up a smaller part of its GDP, and which exports to other markets, will be impacted less.

Globally, Trump's policies could disrupt global trade flows, particularly with China. New tariffs on Chinese goods could exacerbate supply chain disruptions and raise global production costs. For countries like Türkiye, these policies could have some consequences, as seen during Trump's first term when he imposed a 50% tariff on Turkish steel. But all countries would recover, sooner or later, from losing access to the U.S. market. For example, even if Türkiye halts its exports to the U.S., it will recover fully by 2026, which is a promising time frame.

4. Global Reactions to Trump's Policies

During Trump's first term, major global players such as China and the EU not only implemented retaliatory measures in response to U.S. tariffs but also initiated negotiations to address trade disputes and took disputes to the World Trade Organization. This time, China's recent prompt response to the U.S. export controls shows it is ready to retaliate. Accordingly, in Trump's second term, China may take a more defensive approach compared to other countries, potentially referring to currency depreciation, export rate rebate, and export ban of critical metals or minerals, to name a few. Only then will China's retaliation be followed by seeking means to negotiate exemptions or compromises.

On the other hand, the EU and the others may adopt a more pragmatic stance, seeking to balance their economic ties with the U.S. and China. Accordingly, they are likely to avoid outright confrontation, instead focusing on cooperation to the extent it is possible to negotiate with the U.S. Trump's first term shows that, during negotiations, countries are likely to face from the U.S., three categories of requests to be granted with exemptions from such tariff impositions:

- Buying more American products (or exporting less of their products)

- Supporting Trump in his global endeavours, including imposing high tariffs on China

- Similar several attempts

If countries are willing to agree on such concessions, they may enjoy a lax U.S. trade policy towards themselves. However, Trump's strong focus on tariffs as a tool may limit the flexibility that those countries may enjoy.

Considering the possible political disarray when Trump officially starts his term, countries need to determine early on their stance towards China and the U.S. Because, even though the last time they managed to limit the adverse effects of Trump policies, this time Trump's trade policies are set to be broader, requiring well-preparedness. In managing such a reality, for instance, the EU's new leadership will have to strike a balance between securing economic interests and advancing broader foreign policy objectives, all while safeguarding multilateralism not being hit by the U.S. trade policies extensively. Moreover, governments should review their private sector policies to boost global competitiveness, avoiding hasty measures like retaliatory subsidies or escalating tensions with the U.S. On the other hand, bringing any dispute to the WTO would prove ineffective as the U.S. is likely to appeal any decision to the void, disabling the WTO's judicial functions.

5. Private Sector Responses and Preparedness

Trump's protectionist trade policies are likely to disrupt global supply chains. As a result, companies have already started stockpiling products and may shift focus towards more localised supply networks or explore alternative markets to reduce their reliance on vulnerable trade relationships. U.S. businesses may be incentivised to invest in domestic production, but this shift could raise costs in the short term. In particular, tensions with China could force companies to reconsider their manufacturing bases and look for new supply sources.

Companies that are dependent on imports from Trump policy-affected regions may need to reassess their sourcing strategies. Adapting to the new trade environment could require strategic investments in alternative markets or supply chains, possibly including relocating production to different countries.

However, in response to the issue of Chinese products being assembled in third countries such as Mexico and sold to the U.S., the U.S. may implement "rules of origin" requirements, leading to additional bureaucracy to prevent Chinese goods from entering indirectly. Alternatively, the U.S. may raise tariffs on all manufactured imports to more than 60 per cent. Either approach would result in increased costs for businesses and consumers.

Conclusion

Donald Trump's potential second-term trade policies will revolve around tariffs as a core instrument for addressing economic and national security concerns. While these policies aim to reduce trade deficits, incentivise reshoring, and exert leverage in international negotiations, they come with significant trade-offs, including higher inflation, limited manufacturing recovery, and disrupted supply chains. Moreover, the broader U.S. trade imbalance, rooted in structural economic issues, is unlikely to be resolved solely through tariffs. Countries like China and the EU are expected to retaliate or renegotiate, while businesses must prepare to navigate the uncertainties of heightened protectionism and evolving trade dynamics. Ultimately, the effectiveness of Trump's trade agenda will hinge on a nuanced balance between achieving strategic objectives and managing the economic repercussions.