

TARIFFS

The largest controversy on Trump's behalf regarding economics is the tariffs imposed by Trump on virtually every major country on the planet. This is mainly due to Trump's beliefs that imposing import tax on countries will strengthen the country's domestic manufacturing because as of the making of this report, the USA runs a trade deficit of \$1.2 Trillion with the world (1), which is mainly funded through printing of more dollars, causing inflation. The main idea behind these tariffs is that it would incentivise producers to manufacture their product on US territory, as foreign (especially Chinese) goods would get astronomically more expensive to buy, while resulting in a slight increase in consumer goods cost, which Trump may consider worth the benefits.

Reciprocal Tariffs:

The most unexpected and controversial of Trump's tariffs is the reciprocal tariff. This tariff is the type of tariff applied to countries that have themselves tariffed US imports. The reasons for these tariffs can be justified as: (2)

- 1) Bargaining power: Since most of these countries under reciprocal tariffs depend on the US for their trade (such as Mexico) they may come into negotiation with the US to remove these tariffs for other concessions (such as accepting deported immigrants back into their home countries)
- 2) Reciprocal tariffs can result in a net reduction in imports from the target country and as a result a trade balance can be achieved. Trump feels that this reduction in trade can be overcome by an increase in domestic manufacturing.

In a very recent move, Trump has also reversed some of these reciprocal tariffs, India included, as these countries have not imposed any retaliatory tariffs. Meanwhile, he has double down on Canada, EU and China as these countries did retaliate against the blanket tariffs with China being the worst affected at an astounding 145% tariff on all products, on top of any other tariffs imposed for specific goods. (3)

Blanket Tariffs:

Another type of tariff that is frequently used by Trump is the blanket tariff. This tariff is designed as an anti-dumping measure on countries. This has mainly been used against China which results in the 145% tariff mentioned earlier. It will be used to balance the trade between the US and China as it has been heavily skewed in China's favour by decades of outsourcing by private players to get cheaper prices on their products. A smaller blanket tariff of 10% has also been imposed universally on all other countries excluding Canada and Mexico.

Liberation Day:

April 2nd, Considered as "Liberation Day" by the Trump Administration is the Highlight of America's Tariff war with the world. Executive Order 14257 may be the single largest imposition of tariffs in modern history as it impacted over 60 countries, and affected \$3.9 Trillion worth of goods.

Structure –

It begins with a blanket tariff of 10% on all goods coming from all countries barring Canada and Mexico starting 5th April, 2025.

On top of the blanket tariffs, reciprocal tariffs would be imposed based on what the administration deemed unfair trade practices by approximately 60 countries.

Additionally, and specifically for China, the \$800 minimum duty free import exemption for China was abolished with the plans to abolish this exemption for other countries once administrative capacity was achieved. The minimum fee would rise to \$50 per shipment and this would come into force on May 2nd, 2025 (7)

Aftermath of Liberation Day:

Stock Market –

The Stock Market has reacted very negatively to the Liberation Day tariffs with all stock indexing across the world losing value. It is estimated that \$8.27 Trillion was wiped off the Global Stock Market since the speech.

Currency –

Similar to the stock market, all currencies except the dollar have experienced a drop in value with all major currencies dropping by upto 10% in value.

Commodities –

Oil and Gold are commodities that have been adversely affected by the liberation day speech with both dropping in value significantly. Oil specifically has dropping from \$75 a barrel to below \$65 a barrel and gold This has resulted in companies working with both commodities such as Brent and gold bullion facing massive losses. (8)

Reversal of Liberation Day Tariffs

On 9th April, 2025, Trump announced a 90 day pause on the Liberation day reciprocal tariffs on all countries except China, which had its tariffs increased to a total 145%, which is where it stands as of the writing of this report. The other Countries would receive 90 days to enter negotiations with Trump and potentially prevent further tariffs. This had the opposite effect compared to the Liberation Day speech. The S&P 500 ended the day at 5,456.90, or 9.53%, its sharpest one-day jump since 2008 (9). While the real reasons for this reversal is unknown, It is believed that the outrage from the large business and billionaire community, that are a large support base for Trump may be the main cause for it. (10)

Controversy:

The tariffs imposed by the Trump Administration has been fraught with controversies and problems, which can be listed as follows.

Rise of Cost of Living: Since the tariffs imposed by Trump are “blanket” in nature, they will affect every consumer in this country. Small businesses will be the worst affected as they already work on low margins and do not buy in large enough quantity to negotiate lower prices. It is believed that these tariffs can increase the net cost of living by upto 6%. (4)

Worsening Relationships with Allies: Another Big outcome of reciprocal tariffs is a worsening of relations with allies, such as the EU and Canada, as these countries were one of the few countries that imposed tariffs in response to Trump's reciprocal tariffs. There is also news that EU is now in talks with China with regards to tackling the restrictions imposed on trade by Trump's Tariffs. (5)

Outcome:

It is still unknown how effective the tariffs imposed by Trump will be, as of the making of this report, the tariffs have resulted in a lot of tension between not only US enemies but also its allies, as well as mass protests in all parts of the country in regards to these measures. The stock market has also seen a sharp drop following Trumps “Liberation Day” Tariffs which has resulted in the elite class of America, Particularly Elon Musk, sending a personal appeal to Trump to reverse these tariffs. (6) This also makes the US vulnerable to attacks from other countries as its stock market is not faring well and any external crises (for example China dumping all its US treasury bonds into the global market) may cause a major recession.

- (1)- <https://economicsinsider.com/top-10-countries-the-us-had-the-largest-trade-deficits/>
- (2)- <https://economictimes.indiatimes.com/definition/reciprocal-tariff>
- (3)- <https://www.nytimes.com/2025/04/10/business/economy/china-tariffs-145-percent.html>
- (4)- <https://www.financialexpress.com/business/investing-abroad-how-will-trumps-tariffs-impact-cost-of-living-for-us-consumers-3797730/>
- (5)- <https://www.euractiv.com/section/economy-jobs/news/were-in-a-sticky-situation-eu-admits-relations-with-us-getting-worse/>
- (6)- <https://timesofindia.indiatimes.com/business/international-business/tariff-war-inside-elon-musks-personal-appeal-to-donald-trump-and-why-it-failed/articleshow/120098608.cms>
- (7)- https://en.wikipedia.org/wiki/Trump%27s_Liberation_Day_tariffs
- (8)- <https://www.independent.co.uk/news/uk/home-news/trump-tariffs-trade-stock-market-oil-impacts-b2729272.html>
- (9)- <https://www.usatoday.com/story/news/politics/2025/04/09/trump-90-day-pause-tariffs-what-to-know/83012628007/>
- (10) - <https://www.firstpost.com/explainers/donald-trump-liberation-day-tariff-90-day-pause-explained-13878689.html>