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The Effects of Donald Trump's Tariffs on Americans and the Global Economy

In 2018, former president Donald Trump imposed tariffs on various goods, including exports from U.S. allies with the goals of reducing the trade deficit, bringing back jobs, and stopping China from stealing U.S. intellectual property[1]. Months later, Trump specifically targeted imports from China, imposing tariffs on $34 billion worth of goods, starting what would now be known as the China-United States trade war. A tariff is a tax imposed on imported goods from another country, making imported goods more expensive. Many of these tariffs are still in place today, and have even been expanded on. As the world economy is interconnected, shifts in the economy will have effects that ripple through domestically and internationally. As a result of Trump's trade wars with China, economic growth in the United States fell below maximum potential growth, consumers in the United States are worse off, and shifts have occurred in the global economy.

Although the promises of implementing tariffs may seem particularly attractive to serve as a way to generate additional revenue and lower the trade deficit, this is not entirely the case. Tariffs do in fact generate additional revenue for the federal government, but in the case of the 2018 trade war with China when China retaliated with tariffs on soybeans, 92% of tariff revenue in the form of subsidies went to farmers, leaving 8% in gain for the federal government (Steil).

[1] Intellectual property: a right or registration (such as a patent, trademark, trade secret, or copyright) relating to or protecting property (such as a concept, idea, invention, or work) that derives from the effort of the mind or intellect
"Intellectual property." Merriam-Webster.com Dictionary, Merriam-Webster, https://www.merriam-webster.com/dictionary/intellectual%20property. Accessed 29 Nov. 2024.

The damage being done by tariffs is being paid off by Americans who are paying the tariffs. In this case, the marginal gains from enacting tariffs is not worth the collateral damage of Americans paying for it. Though the United States' trade deficit with China has indeed shrunk from -418,232.9 million in 2018 to -279.107.2 million in 2022 (Census Bureau) since tariffs were imposed, a trade deficit is not necessarily a bad thing. A trade deficit occurs when a country imports more than it exports, resulting in a negative balance of trade. According to the World Economic Forum, "Trade deficits are not necessarily bad, do not necessarily cost jobs, and are not a measure of whether trade policies or agreements are fair or unfair" (World Economic Forum). The United States has always imported more than it has exported, and by engaging in the trade war, the trade deficit is simply split up among more countries. This may be favorable to reduce the dependency on importing from a certain country. Reducing the trade deficit with tariffs may not be beneficial for the United States as the cost of the externalities may outweigh the benefits of reducing the trade deficit.

The countries that tariffs are levied on do not pay it, but they pass the tax on to the consumers. The consumers who are importing goods are worse off with tariffs, paying more for products they used to get at a lower price. According to the American Action Forum who compiled data based on affected tariffs and their additional tax burden to Americans, assuming import levels remain the same, the value of affected U.S imports in 2022 was $277.5 billion and the additional burden cost was $51.1 billion (Lee and Varas). What this means is that Americans were paying $51.1 billion more for imported goods valued at $277.5 billion when they would not have paid additional costs had the tariffs not been enacted. Additionally, "Tariffs have also changed the pricing behavior of U.S. producers by protecting them from foreign competition and enabling them to raise prices and markups" (Amiti et al 189). The only entities who benefit from tariffs are domestic companies that can raise prices while still being priced lower than imported products by comparison, and the government that is making additional revenue from the taxes at the expense of everyday Americans and businesses. Although tariffs do protect domestic industries from unfair foreign competition like China's heavily subsidized electric vehicles, there is a trade off as consumers are still worse off. The protection granted to domestic producers means that domestic manufacturers do not need to innovate to make their products better or make their products cheaper because foreign competition is reduced as foreign goods become more expensive to buy. As a result, consumers will not be able to have the best technology or quality to be better off than they were before the tariffs were enacted without paying more to import them.

Economic growth has slowed after the tariffs were implemented as the prices of inputs needed to manufacture goods domestically increased. When prices of domestically produced goods increase, foreign and domestic consumers will buy fewer goods. Unemployment will rise as companies will lay off workers and cut hours to save costs, resulting in less income for people. With less disposable income, consumers will cut back on spending, slowing down economic growth, thus reducing gross domestic product[2]. Alternatively, the dollar could appreciate[3] because of tariffs, making it harder for exporters in the United States to sell their goods internationally, lowering output of the United States (York). The Tax Foundation estimates that "The Trump-Biden Section 301 and Section 232 tariffs will reduce long-run GDP by 0.2 percent, the capital stock[4] by 0.1 percent, and hours worked by 142,000 full-time equivalent

[2] Gross domestic product: (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.
OECD. "Nominal Gross Domestic Product (GDP)." *OECD*, 2024, www.oecd.org/en/data/indicators/nominal-gross-domestic-product-gdp.html.

[3] Appreciate: the value of the dollar is worth more, i.e. you can buy more with the dollar, but foreigners can buy less U.S goods with their currencies

[4] Capital stock: stock in a company

jobs" (York). All this shows that tariffs have not been beneficial for the economy, and even detrimental. Economists often agree that fewer trade restrictions are overall beneficial for the economy, allowing manufacturers to procure means of production at the optimal price. Other than direct economic effects of tariffs from trade wars,

> "This round of trade tensions has also brought to the fore the damaging effects of trade policy *uncertainty* on business confidence and investment decisions. There are also related to supply chain disruptions, which will cumulate over time and might intensify if trade peace is delayed" (Furceri).

The uncertainty from the politics of tariffs and trade wars will end up affecting economic growth in the long run as less trade will occur between countries. It is in every country's best interest to cooperate with each other when it comes to trade as the countries trading with each other will benefit.

As the trade war progressed, the United States was importing fewer goods from not just China, but most of the world. According to Census Bureau data for trade between China and the United States, the amount of imports from China had been rising yearly until 2018 with a peak of 538.314.2 million (Census Bureau). After the tariffs were imposed, imports from China dropped and have not recovered since then. When the United States has reduced its reliance on China for goods, trade has been diverted as other countries have picked up the demand. Mexico has benefited drastically from the trade war as China has funneled investment money into the country, its proximity, and lower prices has made it more attractive to import from Mexico. Other countries other than Mexico have also benefited from the trade war as the United States sought to reduce its dependency on China, such as Vietnam, Taiwan, Thailand, South Korea, and Germany (García-Vazquez). These countries were not directly targeted by the tariffs, which enabled their exports to be cheaper relative to their counterparts. According to the summary of a research paper,

> "Vietnam, Thailand, Korea and Mexico — were able to boost exports significantly, in part by providing substitutes for goods subject to the U.S.-China tariffs. Others, such as Ukraine and Colombia, saw a decline, largely because their exports complemented goods hit by the tariffs" (Totty).

Some of these "bystander countries" benefited because their products were substitutes, meaning their products were replacements for the products hit with tariffs, and cheaper in comparison to other products directly affected by the tariffs imposed by China and the United States. Conversely, a handful of other countries were negatively affected, decreasing exports to China and the United States. The reason is because their products are complements to the tariffed goods, meaning their goods are bought in conjunction with the tariffed goods, so fewer tariffed goods being consumed results in fewer complements being bought. These shifts in the global economy are neither good nor bad as countries will adjust to these fluctuations in demand in the long run.

Economic changes in one country will affect the world given the interconnected nature of global trade. Consumers are worse off with tariffs as they directly pay more for goods and domestic companies are shielded from foreign competition, meaning consumers are paying more for better goods produced by foreign manufacturers. Higher costs of goods means that companies will need to pay more for input costs, resulting in lowered economic growth potential. As a result of reduced imports from China and the United States, bystander countries producing substitutes who were not specifically targeted have benefited as their goods are cheaper in comparison to imported goods, meanwhile bystander countries who are producing complementary goods have suffered. Tariffs are neither inherently good nor bad depending on the perspective, but they should be applied strategically in the interests of protecting domestic industries from unfair foreign competition while not excessively harming domestic consumers and the economy.

The creative aspect of making a dramatized play by play commentary on the trade war would make this paper more interesting as this may be slightly difficult to follow for some people, and this would be public scholarship. It would enable ordinary people to understand the main points easily.

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Donald Trump, president of the United States, vowing to get back at China for the trade deficit and intellectual property theft, proclaimed to put a stop to it. “We cannot let this continue,” he said.

On March 1, 2018, Trump announced a plan to impose a tariff on steel and aluminum. “Trade wars are good, and easy to win,” he said. On the 22nd of March, he asked the United States Trade Representative, “How many more tariffs can we apply to China? I don’t care what it takes, get it done.”

“Mr. President, we can use Section 301 of the Trade Act of 1974 to do it. What this means is that we can impose trade sanctions on countries that violate our trade arrangements or are involved in unjustifiable acts against us. But are you sure about this? China isn’t going to take this sitting down” asked an official from the United States Trade Representative.

“Yes, do it. American producers are being taken advantage of by China,” replied Trump.

In China, news of tentative tariffs from the United States had been circulating around the government. Murmurs could be heard in the chamber as officials decided how to handle the tariffs. After days, the consensus was that it must be an eye for an eye. “We’ll respond with tariffs of our own. America has started a trade war with us,” said one official.

These tariffs were noted, and the United States was compiling a list of more items from China to tax. “We have done the best we could to avoid something like this. If someone makes a mistake, there will be hell to pay for either of us,” responded Chinese Ambassador Cui Tiankai.

Months after tit-for-tat tariffs, there seemed to be no end to the hostility. The quantity of tariffed goods increased with each passing month.“Why isn’t China buying our soybeans?” cried one farmer.

“They’re more expensive for China to buy with the new 25% tariffs. If things don’t improve, I don’t know what I’ll do. I’m losing money quickly and I’ll be forced to sell at a loss,” explained another farmer.

Sensing the uncertainty in the atmosphere about the counter-tariffs, members of the cabinet advised Trump to do something about the farmers who were most affected by the tariffs, warning that it would hurt his 2020 election plans. Either use the tax revenue from the tariffs to bail out the farmers, or put an end to the tariffs were the suggested approaches.

“We’ve gone too far to pull back on this,” Trump warned. “Bail them out, give them checks, whatever keeps them happy.”

A year later, a woman brings a basket of items to the Target checkout line. The cashier greets her warmly and begins scanning her items. The numbers on the register climb quickly and she’s left wondering when things became more expensive. The cashier can’t help but notice her shocked expression.

“Tariffs. They make stuff we buy from overseas more expensive for us while companies in the U.S. can raise the prices of their products while doing nothing new,” she replied.

The woman responded, “I can’t believe these companies are taking advantage of us. How does it make stuff we buy from overseas more expensive?”

“When a company imports goods from other countries while we have those goods tariffed, the importer needs to pay the government the amount tariffed, making the goods more expensive. When companies do it, they pass the tariffed costs over to us to cover the tariffs, which is why your stuff is more expensive now.”

Meanwhile in Mexico, a factory has seen unprecedented demand for goods after the tariffs were imposed. “Another five thousand pieces!” an employee shouted.

“We’ve been working to the bone for the last few weeks. The boss needs to hire more people. We can’t make enough in time for all these orders,” said another.

In Colombia, an official of a petroleum company looks depressingly at the spreadsheets of the year so far. “Our petroleum sales to the United States have fallen because of the tariffs. It won’t bankrupt us, but we need to find other countries to sell to,” he told the CEO.

“Well, there’s nothing we can do about it now. Keep doing what we’re doing and hopefully they’ll lower the tariffs. In general, the whole country’s selling less to the United States because they buy the tariffed goods along with what we’re selling,” he replied.

Years later, some of these tariffs have been repealed, while many are still in place today. In the short term these tariffs have had various effects, both good or bad depending on whose perspective it is viewed from. In the long run, the world will adjust to the change in demands from various countries, establishing a new equilibrium.