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Trump's tariff tactics carry higher economic risks than during his first term



1 of 7 | President Donald Trump speaks to reporters as he signs executive orders in the Oval Office of the White House, Tuesday, Feb. 4, 2025, in Washington. (AP Photo/Evan Vucci)

BY PAUL WISEMAN

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WASHINGTON (AP) — When Donald Trump started the biggest trade war since the 1930s in his first term, his impulsive combination of threats and import taxes on U.S. trading partners created chaos, generated drama -- and drew criticism from mainstream economists who favor free trade.

But it didn't do much damage to the U.S. economy. Or much good. Inflation stayed under control. The economy kept growing as it had before. And America's massive trade deficits, the main target of Trump's ire, proved resistant to his rhetoric and his tariffs: Already big, they got bigger.

The trade war sequel that Trump has planned for his second term -- if it unfolds the way he's described it -- would likely be a different matter altogether. Trump appears to have grander ambitions and is operating in a far more treacherous economic environment this time.

His plans to plaster tariffs of 25% on goods from Mexico and Canada and 10% on China -- and to follow those up by targeting the European Union -- would threaten growth, and push up prices in the United States, undermining his campaign pledge to eliminate the inflation that plagued President Joe Biden.

The tariffs would be paid by U.S. importers, who would then try to pass along the higher costs to consumers through higher prices.

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Trump himself has warned of possible fallout. "WILL THERE BE SOME PAIN? YES, MAYBE (AND MAYBE NOT!)," Trump said in a social media post Sunday. "BUT WE WILL MAKE AMERICA GREAT AGAIN, AND IT WILL ALL BE WORTH THE PRICE THAT MUST BE PAID."

For now, some of the hostilities are on hold. Trump on Monday paused the tariffs on Canada and Mexico for 30 days to allow more negotiations after those countries agreed to do more to stop the flow of illegal drugs and undocumented workers into the United States.

But he went ahead with the 10% tariffs on China Tuesday. Beijing promptly retaliated by imposing tariffs on U.S. products, including coal and big cars. It also is restricting exports of critical minerals and launching an antitrust investigation into Google.

Trump views tariffs – taxes on imports – as an economic elixir that can restore factories to the American heartland, raise money for the government and pressure foreign countries to do what he wants.

During his first term, Trump put tariffs on most Chinese goods and on imported solar panels, washing machines, steel and aluminum. The tax increases might have raised prices on those items, but they had little or no impact on overall inflation, which remained modest. Nor did they do much to restore factory jobs.

Economists agree that a second Trump trade war could be far costlier than the first.

"That was then. This is now," said trade analyst William Reinsch of the Center for Strategic and International Studies. That is why the stock market briefly fell sharply Monday on anticipation of the tariffs, before rebounding on news of the pause with Mexico and Canada.

During Trump's first term, his trade team carefully focused its tariff hit list to avoid or at least delay the impact on consumers. They targeted industrial products and not those "that would show up on Walmart's shelves," said Reinsch, a former U.S. trade official. "That tamped down the impact."

This time, by contrast, the tariffs are across the board – although the tariffs Trump had planned and then paused would have limited the levy on Canadian energy to 10%, showing that he was mindful of how much Americans in northern and midwestern states depend on oil and electricity from north of the border.

In Boca Raton, Florida, the toy company Basic Fun is preparing to raise prices and absorb a hit to profits when the tariffs land.

Ninety percent of Basic Fun's toys come from China, including Tonka and Care Bears. CEO Jay Foreman says the price on the Tonka Classic Steel Mighty Dump Truck is likely to rise later this year from \$29.99 to as much as \$39.99.

Five years ago, the Trump administration spared toys, exempting them from its China tariffs. This time, Foreman said, "we are now just going to forecast a lot of money draining out of the company."

In addition to the threats to Canada, Mexico and the EU, Trump has threatened a worldwide tariff of 10% to 20%. The breadth of his potential targets means it will be much harder for companies to

escape his tariffs.

In his first term, many companies dodged his China tariffs by moving production to Mexico or Vietnam. Now, suppliers anywhere could wind up in Trump's crosshairs. "It sends the signal that no place is safe," said Mary Lovely, senior fellow at the Peterson Institute for International Economics.

Also worrying, economists say, is a retaliation clause the Trump team inserted in the tariff orders he signed Saturday.

If other countries retaliate against Trump's tariffs with tariffs of their own – as China did and Canada and Mexico have threatened -- Trump will lash back with still more tariffs. **That risks "setting off a spiraling trade war" of tit-for-tat tariffs and counter-tariffs, said Eswar Prasad, professor of trade policy at Cornell University.**

But the biggest difference is the economic backdrop Trump must contend with this time.

Six years ago, inflation was low — maybe even too low, the Federal Reserve fretted. Trump's first-term tariffs didn't make a dent.

Inflation isn't so benign anymore. Prices surged in the unexpected boom that followed the end of COVID-19 lockdowns. Inflation has come down from the four-decade high it hit in mid-2022, but it's still stuck above the Fed's 2% target and hasn't shown much improvement since summer.

Trump's tariffs could rekindle the inflationary trend and convince the Fed to cancel or postpone the two interest rate cuts it had anticipated this year. That would risk keeping "interest rates at their current elevated level for a longer period in 2025. That will push up mortgage and loan borrowing rates ... and reduce real growth," said Boston College economist Brian Bethune.

For now, businesses, investors and U.S. trading partners are waiting to see what the unpredictable Trump will do next. Will he re-impose the tariffs on Canada and Mexico after 30 days? Will he really go after the EU? Or make good on his threat of a universal tariff?

Outside a Harris Teeter supermarket near downtown Raleigh, North Carolina, Jacobs Ogadi had in his shopping bag an avocado, which almost certainly came from Mexico.

The 62-year-old mechanic said it "doesn't take a rocket scientist" to know that Trump's tariffs run counter to his promises to rein in inflation. "If it goes up 25%, it's not the government, it's not the Mexican people paying for it," he said. "Who pays for it? Us."

AP writers Anne D'Innocenzio in New York and Gary Robertson in Raleigh, North Carolina, contributed to this story.