The Age of Tariffs

Trump Is Launching a Turbulent New Era for the Global Economy

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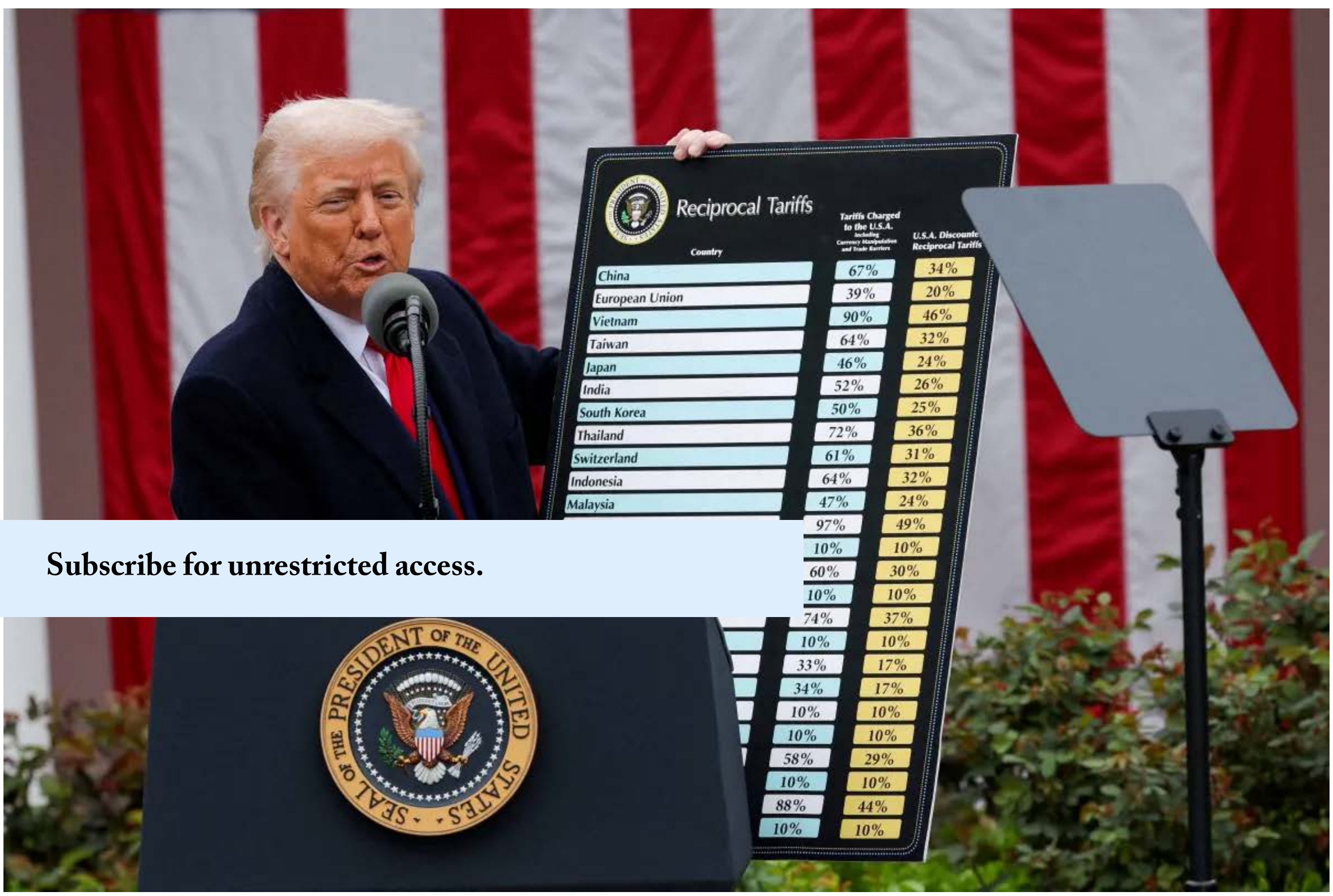

U.S. President Donald Trump announcing new tariffs in Washington, D.C., April 2025
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The era of increasingly free and extensive international trade, built on a rules-based system that the United States helped create, has come to an abrupt end. On April 2, in a theatrical White House event, U.S. President Donald Trump rolled out a series of massive tariffs that will affect almost every foreign country. In one sense, his announcement wasn't a surprise: from the moment he took office, businesses and financial analysts knew that Trump would raise trade barriers. But the scale and scope of the tariffs confirmed their worst fears. In one fell swoop, Washington has severely restricted international commerce.

In justifying this new era of tariffs, Trump has argued that the United States is the victim of unfair trading practices. As with many of Trump's ideas, there is more than a kernel of truth in his claims. China, for instance, has taken advantage of World Trade Organization rules to gain access to other countries' markets for its exports while limiting access to its own markets. Beijing has also used extensive subsidies and other measures to boost the global competitiveness of Chinese companies, including by forcing foreign firms to hand over technology.

But rather than fixing the rules that some U.S. trading partners took advantage of, Trump has chosen to blow up the entire system. He has taken the hatchet to trade with practically every major U.S. trading partner, sparing neither allies nor rivals. China now faces high tariffs, yes, but so do Japan, South Korea, and Taiwan. Long-standing, mutually beneficial economic relationships and geopolitical alliances have counted for little.

Many people hope that Trump's tariffs will prove ephemeral—that, confronted with tanking stocks and rising prices, Washington will roll the restrictions back. It is possible that the White House will lower some of its rates, especially as countries lobby for exemptions. But the reality is that the age of free trade is unlikely to come back. Instead, any haggling between Trump and other states will shape an emerging economic system defined by protectionism, tensions, and transactions. The result will not be more jobs, as Trump has pledged. It will be turbulence for all, and for years to come.

BAD MATH

According to Trump, the United States needs massive tariffs to rectify its trade imbalances. There is little logic to this notion. It is true the United States runs trade deficits with most countries, but there is nothing wrong with that fact. Instead, it just means other countries are efficient at producing goods U.S. consumers want, so Americans buy more from them than the other way around. Yet Trump believes that any country that runs a bilateral trade surplus with the United States is, by definition, cheating, and that reciprocal tariffs are needed to even things out.

To decide what tariffs to levy, Trump ostensibly calculated all the ways in which countries cheat—including through tariffs, nontariff barriers, and currency manipulation—to estimate the total "tariff" each country imposed on the United States. In practice, this meant dividing the U.S. trade deficit with a country by the amount of goods it exported to the United States. (These calculations conveniently exclude services trade—such as tourism, education, and business services—in which the United States runs a surplus with most of its trading partners). Trump then generously gave each country a discount of 50 percent, imposing reciprocal tariffs on goods imports equivalent to half that measure.

To see how this works, in practice, look at China. In 2024, the United States had a $295.4 billion trade deficit with this country, and it imported $438.9 billion worth of Chinese goods. Trump thus calculated that China has an effective tariff rate of 67 percent on imports from the United States—or $295.4 billion divided by $438.9 billion. Trump thus set the reciprocal tariffs on U.S. imports from China at 34 percent (half of 67 percent). This figure seems to be on top of the 20 percent tariffs already in place, amounting to a total tariff rate of 54 percent on imports from China, but who's counting?

The United States and South Korea have a free trade agreement, but South Korea does run a trade surplus with the United States. Therefore, by Trump's logic, they must be cheating. According to the White House's calculations, South Korea applies roughly a 50 percent tariff on U.S. exports. As a result, Trump slapped a 26 percent tariff on imports from South Korea.

Trump has blown up the entire trading system.

What about countries that the United States runs a trade surplus against? The United States exports more goods to Australia and the United Kingdom than it imports from these countries. Surely, this shows the United States to be the cheater in these two relationships. But in the White House's view, only other countries cheat. In fact, these two countries were still hit with ten percent tariffs. One might ask, why apply any tariffs in such cases? The answer, it seems, is, Why not?

Tariffs by themselves will not erase the overall U.S. trade deficit—unless the country completely walls itself off from international trade. That is because the trade deficit is, in effect, the gap between domestic savings and investment. The United States remains a good place to invest, but its private saving rate is low, and the government runs huge budget deficits. If Trump really wanted to bring the trade account into balance, he would be better off pursuing measures to promote national savings. And even if the United States were to have no overall trade deficit, it would still probably run trade deficits with some countries and surpluses with others. Bilateral trade imbalances are just the nature of international commerce.

Trump also views tariffs as a tool for reviving U.S. manufacturing. But that benefit is speculative, would occur far in the future, and is outweighed by the obvious costs. Trump's tariffs encompass such a broad swath of products and trading partners that they will inevitably have adverse effects on the U.S. economy—with the costs of disruption borne by American consumers and businesses in practically every sector.

Industries with complex supply chains threaded through multiple countries, such as auto manufacturing, will face the most severe consequences. But any business that has benefited from supply chains that are efficient and cost-effective (which is to say most of them) will now have to retrench in order to reduce its exposure to trade policy and geopolitical risks. This will inevitably drive up prices for consumers, because businesses prioritize resilience rather than efficiency. Even the agricultural products, machinery and equipment, and high-technology goods the United States exports will be adversely affected, thanks to retaliatory tariffs imposed by Washington's trading partners.

POINT OF NO RETURN

The rest of the world is still reacting to Trump's announcement. But countries will likely respond with a combination of retaliation, appeasement, and diversification. Each of these approaches has challenges.

Consider, first, retaliating against the United States. Multiple countries have already promised to apply tariffs on American-made goods in response to Trump's provocations. Their citizens, too, are angry. Canadian consumers are boycotting U.S. products, and tourists from the rest of the world are likely to shun the United States. But retaliation carries its own costs because it increases uncertainty about global trade, which hurts business investment.

Appeasement comes with fewer risks, and it certainly is in the interest of each country hit with tariffs to negotiate with Trump. Bilateral trade cannot be balanced overnight, but countries could promise to buy more goods from the United States and reduce barriers to those imports. Trump justified earlier rounds of tariffs on broader national security grounds, using them as a tool to get countries to limit illegal immigration and inflows of illicit drugs; U.S. trading partners could offer to take bold measures to stem those scourges from reaching American shores. Trump loves a deal, after all, so each country will have to find ways to allow him to claim victory (which he will do in any case). Yet even if other countries promise to buy more U.S. goods, it is unlikely that their trade surpluses with the United States will shrink rapidly enough to please the president, leaving them open to additional punitive measures. And if the American economy starts to sputter on account of the tariffs, Trump will inevitably heap even more blame on the rest of the world.

The United States is leading a resurgence of protectionism.

Other countries, particularly those that already have strong trade relationships, could perhaps bypass the United States altogether. For instance, China, Japan, and South Korea might try to collectively shield themselves from the effects of U.S. tariffs by intensifying their mutual trade linkages. But each of these countries relies heavily on exports to power their economies and is beset by weak domestic demand. China's enormous excess capacity and weak import demand, in particular, threaten the other two economies. As a result, these countries are likely to be wary of opening their markets fully to each other's exports. The Europeans, for their part, have signaled that they are willing to work with other states on trade. But they do not want to become a dumping ground for other countries' exports.

Nevertheless, faced with restricted access to U.S. markets and weaker U.S. consumer demand, the rest of the world will look to export market diversification, trade arrangements that exclude the United States, and other approaches to buffer themselves against a looming global trade war. But the reality is they can do only so much. In fact, even if the United States retreats from the broad-based, substantial tariffs that Trump has announced, the damage has been done to business and investor confidence. Washington has cast a pall on business investment and consumption demand, which could tip the softening U.S. economy into a recession—and drag the rest of the world economy down with it.

The United States has ceded its role as a bastion of free trade and is instead leading a resurgence of protectionism that will hurt consumers and businesses worldwide. These tariffs, if they remain in place, will define Trump's legacy not as a savvy businessman but as a destructive and petulant hindrance to economic progress.