International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

The Impact of Trump Administration's 2nd Term Trade Tariffs on the US and World Economy

Mr. Arunabh Laha

Student, GEMS New Millennium School

Abstract

The return of Donald Trump as the president of the United States has resulted in a serious reshaping of international trade movements by virtue of tariffs and economic safeguarding. The paper will examine the effects of the newly brought policies on international trade with a special focus on economic growth, geopolitical relations. Using the available and existing economic data & analyses, the paper aims to scrutinize the impact of the policies on key industries such as agriculture, automobiles, manufacturing, both in the US and its major trading partners across the globe such as Canada, Mexico, China, European Union, and others. The research will also be able to analyze the probable supply chain disruptions, retaliatory policies and what it could mean for the various global economic coalitions. Early reports suggest that while many small domestic industries have benefitted from these newly brought trade policies by the Trump Administration, economies across the globe have started to experience increased inflations, heightened market instability and a redundant economic growth.

Promises of tariffing foreign nations were made by the president to enrich the US citizens on the day of his inauguration, i.e., 20th January 2025. An executive order was signed a few days later to impose tariffs on imports from Canada, China, and Mexico. 25% trade tariffs on imports from Canada and Mexico and 10% on imports from China The administration soon doubled down tariffs on Chinese imports to 20% while Canadian energy imports were subject to 10%. The background of these tariffs is illicit drugs trade and illegal immigration which Trump had earlier declared as a state of national emergency. However, it contradicted with the president's own USMCA trade deal that previously allowed duty free North American border crossing of numerous products. The major industries likely to suffer a detrimental effect of these tariffs are the automotive industry, housebuilding industry and consumer electronics industry to name a few. The key differences of the 2nd Trump Administration tariffs from the 1st Trump Administration are: The policies have now been intensified with the following updates such as Stricter enforcement of Trade Policies, Targeting nations apart from China, Retaliatory Trade Tariffs.

These trade tariffs are expected to sharply inflate operational costs for automotive giants Stellantis, Ford and General Motors since all of them undertake the manufacturing and assembling of automotives in factories spread over North America. The economic impacts to these companies have already started with share prices of Stellantis fell by more than 4%, GM shares have also lost 4% whereas Ford's shares lost 3%. Homebuilding costs could rise significantly since Chinese Steel, Canadian and Mexican concrete, Canadian lumber are just a few of the materials imported which are used in the residential and commercial projects in the US. The projected increase in homebuilding costs as predicted by CoreLogic is anywhere between 4% to 6% which is in addition to the standard price increases and the cumulative increase in costs could be as high as 10%. Since majority of the consumer electronics imported by the US are from Mexico and China, these tariffs are sure to cause serious implications going forward. US had imported roughly $500 Billion worth of electronics which is 4 times of what it had exported. On the 18th of March, shares of Best Buy, a prominent retailer plummeted after its CEO confirmed to analysts that 3/4th of the products they sell are imported from China and Mexico, the company also expects increases in price for American consumers.

Trump's second-term trade tariffs disrupted global supply chains and changed trade alliances, among other repercussions on key U.S. trading partners. As businesses shifted production to Vietnam, India, and Mexico, China experienced a decline in exports, changes in the supply chain, and slower economic growth. Trade relations were further strained by retaliatory levies on American crops. Duties on steel, automobiles, and agriculture hurt the EU and caused employment losses in Germany's car sector. In response, the EU raised trade relations with Asia and imposed counter-tariffs. Despite the USMCA deal, manufacturing costs climbed in Canada and Mexico. Tensions over agricultural trade increased, but businesses also exploited them as alternate production locations to get around trade restrictions between the US and China. Tariffs on automobiles and electronics impacted South Korea and Japan, upsetting supply lines for semiconductors. To lessen their dependency on the United States, both countries increased trade within Asia. Production moves benefited emerging markets like Vietnam and India, but when their exports increased, they were eventually subject to U.S. taxes. Exports of agricultural products including soybeans to China grew from Latin America. In general, tariffs caused inflation, increased world prices, and a loss of U.S. commercial power as countries looked for other alliances.

Global trade battles were exacerbated by Trump's second term tariffs, which also changed geopolitical and economic alliances while upsetting supply chains, financial flows, and market stability. Because higher taxes on Chinese exports upset trade balances and decreased foreign direct investment (FDI), the biggest effect was the rise of trade tensions between the United States and China. China retaliated by imposing additional counter-tariffs, specifically 10-15% on certain US imports from March 10 and released export restrictions on US entities which affected American producers and increased the global trade deficit, especially on high-tech and agricultural commodities produced in the United States. Global trade governance was undermined as the United States circumvented WTO procedures, making it difficult for the World Trade Organization (WTO) and multilateral trade frameworks to adjudicate these conflicts. As countries looked for economic stability away from US influence, this resulted in a trend toward bilateral and regional trade agreements. As trade flows in North America and the transatlantic were stressed by tariffs on consumer products, industrial metals, and autos, U.S. relations with longstanding allies weakened. Global value chains (GVCs) were upset by retaliatory tariffs imposed by the EU, Canada, and Japan, which resulted in price instability and slower GDP growth. The Canadian government first retaliated by imposing 25% tariffs on $20.7 Billion worth US imports which includes peanut butter, motorcycles, orange juice and more as announced by then Prime Minister Justin Trudeau. Canada would also consider challenging the US under the provisions of the WTO and the US-Mexico-Canada free trade agreement.All things considered, Trump's tariff measures have weakened U.S. trade dominance by speeding up trade diversification and redistributing economic power toward regionalized supply chains and de-dollarization trends.

An accelerated redistribution of trade power away from the United States and toward emerging economies and regional trade blocs has already started, causing structural changes in the world economy. Stronger economic integration within Asia resulted from the decline of U.S. trade dominance, especially through the RCEP and China's Belt and Road Initiative (BRI), which established China as a major trading hub. This change promoted a greater reliance on regional value chains (RVCs) while undermining American dominance in international markets. Additionally, the tariffs had a significant impact on market confidence and foreign direct investment (FDI). International firms are now deterred from investing in U.S.-based production by higher input costs, retaliatory tariffs, and trade policy uncertainty. By looking for alternate production locations in Mexico, Vietnam, and India, many businesses were able to lessen their reliance on the U.S.-China trade corridor and support the trend of supply chain diversification. Economic growth has been hampered by this change as well as capital flight from American markets. There is still uncertainty around the future of globalization vs deglobalization. Full deglobalization is hampered by global supply chain interconnectedness, even if certain industries adopted nearshoring and reshoring tactics. In place of broad-based tariffs, future administrations may implement strategic trade policies that prioritize industrial policy, competitive currency adjustments, balanced protectionism, and targeted trade incentives. The main takeaway is to maintain long-term economic stability, more coordinated and multilateral trade measures are needed, as unilateral tariffs lead to inefficiencies. Global trade dynamics has drastically changed after Trump's second-term tariffs, which resulted in supply chain interruptions, trade realignments, and economic instability. While traditional U.S. partners applied retaliatory tariffs, straining diplomatic and economic ties, the escalation of U.S.-China trade tensions pushed the shift toward regional trade blocs like RCEP. The long-term effects of severe protectionist trade policies were illustrated by the decline in foreign direct investment (FDI) in the United States, the emergence of alternative manufacturing hubs, and the weakening of WTO power.

Policymakers should take a balanced strategy that preserves both global competitiveness and national economic security to restore trade stability. This entails implementing specific tariff structures, strengthening multilateral trade agreements, and using tax breaks and subsidies rather than broad-based tariffs to encourage domestic production. Trade volatility will be decreased, and market confidence raised by fortifying relationships with important trading partners through bilateral agreements and regional economic integration.

Future studies should examine the macroeconomic ramifications of protracted tariff wars, the contribution of e-commerce and digital trade to the resilience of global trade, and the efficiency of regional trade agreements in reducing economic shocks. A more stable and flexible international trade strategy requires a data-driven approach to trade policy creation that includes economic modeling and scenario analysis.

Bibliography

1. https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/
2. https://www.cbc.ca/news/politics/trump-trade-tariffs-timeline-1.7481280
3. https://www.investopedia.com/which-sectors-will-be-hit-hardest-by-trump-tariffs-on-mexico-canada-china-11690563
4. https://www.reuters.com/markets/commodities/trumps-expanded-metals-tariffs-hit-goods-horseshoes-bulldozer-blades-2025-03-11/
5. https://www.theguardian.com/business/2025/jan/31/trump-tariffs-us-economy
6. https://www.reuters.com/world/us/countries-can-avoid-trumps-april-tariffs-by-cutting-trade-barriers-bessent-says-2025-03-18/

7. https://www.pbs.org/newshour/economy/analysis-the-potential-economic-effects-of-trumps-tariffs-and-trade-war-in-9-charts
8. https://www.reuters.com/markets/trump-trade-war-sap-canadian-mexican-us-growth-oecd-says-2025-03-17/
9. https://apnews.com/article/trump-tariffs-canada-mexico-china-643086a6dc7ff716d876b3c83e3255b0