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Theme Overview: Economic Consequences of the Tariff War

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On April 2, 2025, President Trump announced several sweeping tariffs (referred to as the Liberation Day Tariffs) on nearly all countries in the world. The goals of these tariff policies are to reach a trade deal more favorable to the United States, reduce the bilateral trade deficit, and bring manufacturing and production back to the United States (Jeyeretnam, 2025). Since the inception of the General Agreement on Tariffs and Trade (GATT) in 1947, successful rounds of trade negotiations have lowered tariffs. President Trump's unilateral imposition and trade agreements deviate from this multilateral or regional trade negotiation.

Tariff Timelines

Back-and-forth and frequent changes in tariffs make it difficult to keep track of all of the Trump administration's tariff policies. However, a few sources are available to keep track of various tariffs and offer a detailed chronological timeline of tariff announcements, withdrawals, backtracking, pauses, rollbacks, restructuring, and agreements (see Bown, 2025; Reuters, 2025; Hammond and Burkhart, 2025). Zurita and Steinbach (2025) also present a timeline of President Trump's tariff policies and pauses for the period covering February 1 to July 31, 2025.

Trade Agreements

On April 9, 2025, President Trump paused the "Liberation Day" tariffs until July 2, 2025, to complete trade negotiations with 90 countries in 90 days; however, the United States did not complete a single trade agreement during these 90 days (Marquez and Kopack, 2025). As of the end of October 2025, trade agreements have been reached with only eight countries or regions: the European Union, Indonesia, Japan, Pakistan, the Philippines, South Korea, the United Kingdom, and Vietnam.

The Trump administration argues that the goal of imposing tariffs on foreign countries is to persuade trade partners to negotiate trade agreements favorable to the United States and thus economic leverage to achieve its trade objectives. However, these unilateral tariffs violate GATT's key principles: reciprocity, nondiscrimination (Most Favored Nation Principle), and the dispute settlement process. The reciprocity principle states that if a country offers to reduce trade barriers, it expects other countries to reciprocate by reducing their trade restrictions as well. In contrast to the reciprocity principle, the Trump administration has unilaterally hiked tariffs on many countries. The Most Favored Nation Principle requires that all WTO member countries treat

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each other equally in trade agreements, meaning that if a country has a particular tariff level against another country, this tariff should apply to all other countries. President Trump's policies do not align with the Most Favored Nation Principle. The dispute settlement resolution under the WTO provides a mechanism for credible enforcement, as offending parties can be punished by high retaliatory tariffs by the affected countries. However, the WTO dispute settlement process has been paralyzed by President Trump's policy and the United States' blocking of the appointments to the appellate body, which does not have a quorum to adjudicate trade policies. Consequently, the dispute settlement policy has not been functioning. Without the functioning of the appropriate body, the dispute settlement process cannot be completed. Hetzner (2025) notes that President Trump, with little incentive to play by the rules, may change any agreements in the future.

In this theme issue of Choices, Ian Sheldon provides a detailed discussion of the noncompliance of US tariff policies with WTO principles and the implications of power-based bargaining on the future of the WTO's multilateral trade negotiations and dispute settlement resolutions. Sheldon observes that President Trump's unilateral targeting of tariffs undermines the WTO's reciprocity and nondiscrimination principles and is detrimental to multilateral trade dispute resolution. Sheldon also discusses an alternative approach that the United States could use a GATT article to renegotiate its existing market access commitments.

Grant, Arita, and Karagulle review the various bilateral trade frameworks announced by the United States and existing tariff rates in major US trade partners. These authors note that more aggressive US policy pursuits have generated a wave of new bilateral trade deals. These authors assess the implications of these trade deals for US agricultural exports and bilateral trade complementarity between the United States and trade agreement partners in major agricultural commodities. They observe that US trade policies aim to rebalance bilateral trade relationships, lower foreign tariff and nontariff barriers, and bring back domestic manufacturing.

Uncertainty and Unpredictability

President Trump's frequent changes of tariff policies bring a great deal of uncertainty to businesses in their investment, production, purchase, and sales decisions, which makes it harder for businesses to plan. Because of the unpredictability, many businesses have laid off workers (Pettypiece, 2025). The article by Luckstead and Devadoss highlights these uncertainties, particularly for farmers in their production and marketing decisions.

Zurita and Steinbach discuss how US trade policies could reshape agricultural trade, creating both risks and opportunities. They note certain agricultural commodities may endure high retaliation risk: soybeans from China; corn, dairy, and pork from Mexico; fresh vegetables from Canada; and tree nuts and distilled spirits from the European Union. Their study finds that under Chinese retaliatory tariffs as of July 2025, US agricultural exports to China could decline by $18 billion, and this loss could increase to $22 billion if China ends Section 301 exemptions. They also observe that new trade agreements can potentially offset some of these losses. For example, they find that the US-UK agreement could increase US exports to the United Kingdom by $19.4 billion, mainly through processed vegetable exports. Similarly, the US agreement with Japan could also expand US exports by $12.5 billion, mostly from pork and beef.

Economic Impacts

President Trump's on-again, off-again tariff policies have put global economies on a roller coaster (Jeyeretnam, 2025). Many studies have predicted that President Trump's tariffs could endanger the US and global economies by triggering a recession. For instance, the International Monetary Fund has lowered the economic growth forecast for the world. Federal Reserve Chair Jerome Powell indicated on several occasions that President Trump's tariffs and resulting higher prices led to delays in interest rate cuts (Pettypiece and Kopack, 2025). Despite these predictions of economic doom for many countries, the United States and other countries have not plunged into recession, and the US stock market actually reached a record high (Lynn, 2025), even though the 2025 second quarter employment figures in the United States were well below market expectations. The adverse effects of US tariff policies could take several months to ripple through the economy. For instance, McKibbin et al. (2025a) predict that President Trump's tariff policies will slow economic growth in the United States and in other major economies. This study also finds that retaliatory policies by trade partners will harm US agriculture. McKibbin et al. (2025b) also observe that high US tariffs will lower US GDP and that retaliation by other countries will only intensify GDP losses.

Aguiar and Devadoss analyze the effects of recent US tariff changes on the USMCA (United States-Mexico-Canada Agreement) countries, China, and the rest of the world. They find that these tariffs cause world trade to decline, and the US share of world trade is lower than that under pre-tariff announcements. The United States remains one of the preferred destinations of foreign exports, but its share of world imports declines by 11% after tariff changes and is equal to China's import share, which increases to 11%. The US trade deficit decreases, but it is still large. Further reductions in the trade deficit would diminish its effectiveness, as the United States will become less relevant as the main trading partner with other countries in the world.

In their article, Luckstead and Devadoss estimate that high US tariffs will reduce agrifood imports by $1,089.7 million from Brazil, $541.86 million from Mexico, and

$352.65 million from Canada. Furthermore, because of trade diversion effects, US exports will decline by $590.83 million to China, $226.60 million to Canada, and $201.29 million to Mexico.

Inefficiencies

Luckstead and Devadoss highlight that President Trump's aim of negotiating a favorable trade deal for the United States does not amount to improved welfare gains for the United States and other countries. The United States' imposition of higher tariffs on import-competing goods will raise prices, benefiting US producers but harming US consumers. Such policies, even after accounting for tariff revenues, will most likely cause total welfare loss to the United States. The threats and agreements of higher tariffs move global trade to the protectionism of the Smoot-Hawley Tariff era of the 1930s. Such protectionist trade barriers are welfare-reducing for all countries involved in these trade environments.

Exporting countries that face higher tariffs from the United States will also incur welfare loss as they will experience a lower price, and any consumer surplus gain will be outweighed by producer surplus loss in these countries. Furthermore, these countries may seek to sell to other countries, and such trade reallocations can lead to a permanent shift in trade.

Unintended Consequences

Tariff policies spark uncertainty and volatility in the stock market. For instance, US stocks tumbled, with the S&P 500 alone losing $5 trillion (one of its fastest 20% drops) right after the “Liberation Day” tariffs were announced (Pettypiece and Kopack, 2025; Marquez and Kopack, 2025). This type of volatility is likely to continue until all the tariff policies are finalized and resolved. Such uncertainty curtails foreign investments in the US stock market, leading to reduced demand for the US dollar and depreciation of the US currency (Martin and Guevara, 2025). Foreign countries have been encouraging their customers to buy their domestic goods because of President Trump's unreasonably high tariffs (Soni, 2025). For example, Indian Prime Minister Modi is urging Indians to buy Indian-made products (Cameron, 2025).

Should President Trump Be Targeting the Trade Deficit?

Using the International Emergency Economic Powers Act of 1977, President Trump cited high bilateral trade deficits with many countries as a national emergency, and it is one of the reasons for invoking the president's power to justify the imposition of high tariffs. But such a goal can harm the US economy (McKibbin et al., 2025a) because, by definition, the balance of payments, which is the sum of the current account and the capital account, is equal to zero; if tariffs lower imports and make the current account surplus, then the capital account will be negative, indicating that foreign inflow of capital is likely to decline. If that happens, foreign investment may fall, which could cause an economic recession (see also Bayoumi and Gagnon, 2025).

Conclusions

President Trump's unilateral tariff policies are dismantling the world trade system, and these policies seriously impair the global trade order. Though the adverse economic impacts of US tariff policies have not been felt yet, many studies predict that these policies can have long-term economic repercussions both in the United States and in foreign countries. Furthermore, US policies can cause mistrust between the United States and its trading partners and erode trading relationships.

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