

Will Trump's tariffs bring in a recession?

U.S. President Trump declared on April 2 that the U.S. would henceforth be charging a minimum of 10% tariff on all its imports. While the markets recoiled with horror at the scale of the tariff increases, China has vowed to 'fight till the end' in what may turn out to be a prolonged and bitter trade war

ECONOMIC NOTES

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The U.S. has been the greatest champion of free trade and the chief architect of globalisation since the middle of the 20th century. However, in a stunning reversal of roles, U.S. President Donald Trump unleashed a carpet bombing of the global trading system on April 2, which he declared as "Liberation Day".

The U.S. tariff, or the tax America levies on imports from other countries, was 2 to 3% for two decades until 2024 (Chart 1). However, President Trump declared on April 2 that the U.S. would henceforth be charging a minimum of 10% tariff on all its imports. Imports from about 60 countries will have a significantly higher-level tariff – which is being described as "reciprocal" tariffs. These include tariffs of 20% on the European Union (EU), 27% on India, and 46% on Vietnam.

Tariffs of 25% were imposed in February itself on Mexico and Canada, the U.S.'s neighbours and two of its largest trading partners. But the biggest jolt has been the tariff imposed on China, which supplies one-sixth of all foreign goods the U.S. consumes. Imports from China to the U.S., as of April 11, will now face tariffs of 145% (Table 1).

The markets recoiled with horror at the scale of the tariff increases and their uncertainty. Stock markets nosedived. China has retaliated, returning each tariff blow with equal ferocity. It has imposed



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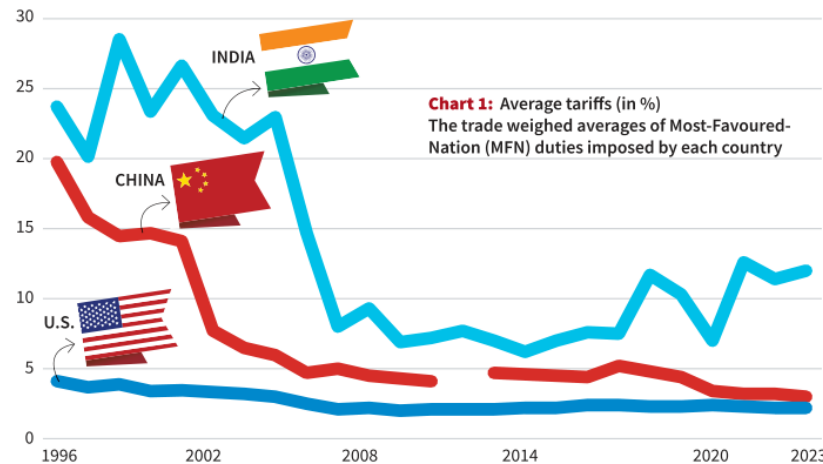


Table 1: U.S. tariffs on selected countries and their export-GDP ratios

	U.S. tariffs (%), as of April 9, 2025	Exports as % of GDP
India	27*	21.8
China	145	19.7
Canada	25	33.4
Mexico	25	36.0
Vietnam	46*	87.2
South Korea	26*	44.0

*Yet to take effect due to the 90-day pause

Table 2: U.S.'s trade with major trading partners in 2022 (in \$ billion)

Partner Name	Export	Import	Trade Balance
All countries	2,062	3,373	-1,311
China	154	576	-422
Mexico	324	459	-135
Canada	355	447	-92
Japan	80	154	-74
Germany	73	150	-78
Vietnam	11	136	-124
South Korea	71	121	-49
India	47	91	-44
United Kingdom	77	65	13
Thailand	16	63	-47

Sources: World Integrated Trade Solution (WITS), The World Bank, World Trade Organization (WTO), World Development Indicators, The New York Times.

THE GIST

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From now on, imports from about 60 countries will have a significantly higher level tariff — which is being described as "reciprocal" tariffs. These include tariffs of 20% on the European Union (EU), 27% on India, and 46% on Vietnam.

President Trump calls India a 'tariff king', referring to the marked increase in India's tariffs since 2018.

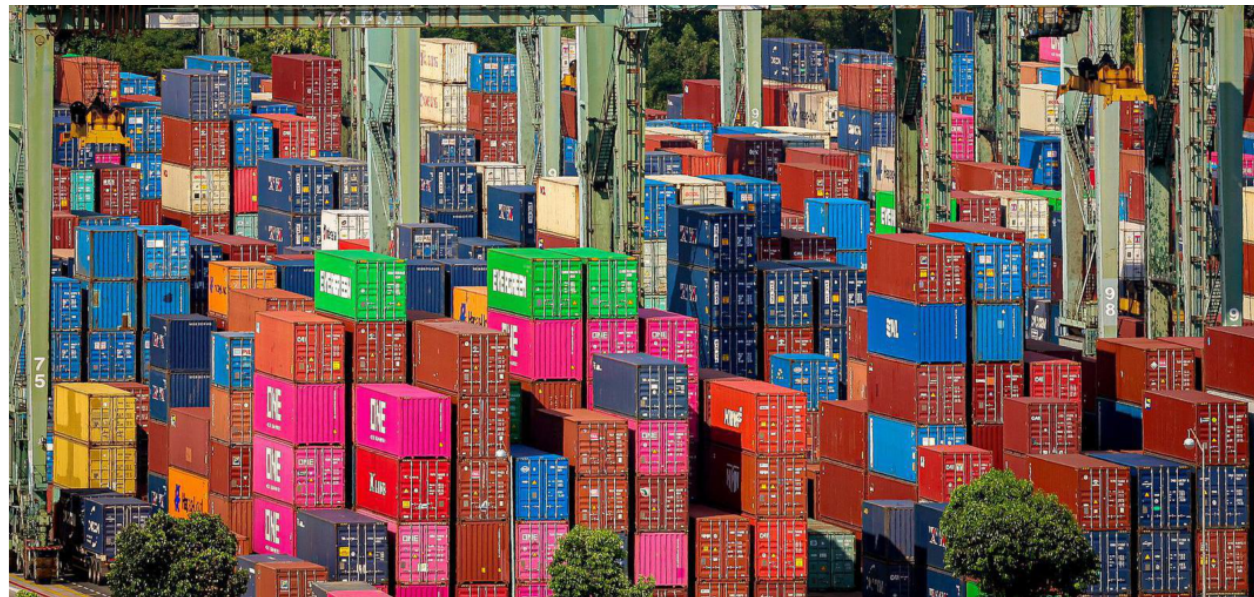
blow with equal ferocity. It has imposed 125% tariffs on imports from the U.S. There is a distinct possibility that the U.S. and the world are heading towards a painful economic recession. On April 9, President Trump reversed some of his decisions, announcing a 90-day pause on “reciprocal” tariffs for most countries while insisting that the steep tariffs on China would take immediate effect.

A commodity with a price tag of \$100 imported from (say, Vietnam) would have cost \$103 in the U.S. market if tariffs were 3%. However, the same good must be purchased for \$146 when the newly announced tariffs take effect. Tariffs protect domestic industries from foreign competition but may lead to price increases.

‘Make America Great Again’

With its high per capita income and low tariffs, the U.S. has been the largest export market for goods from cars to computers, aiding the creation of manufacturing jobs in several countries. In 2022, China exported goods worth \$576 billion to the U.S., but the U.S., in return, could sell only \$154 billion worth of goods to China (Table 2). Overall, the U.S. had a trade deficit of \$1,311 billion, or 5% of its gross domestic product (GDP), in 2022. America has managed to continue buying more from the world than what it sells because of the dollar’s position as the dominant international currency. That is primarily thanks to China, which continues to back dollar-denominated assets, storing significant portions of its large export surpluses in U.S. treasury bonds. Such a mutually beneficial relationship between the two largest economic powers has been the key driver of the globalisation of trade and finance since the 2000s.

However, globalisation creates inequalities not only in the developing but also in the developed world. In the U.S., sectors such as steel and automobiles have been among the most hit by import competition.



Trade disruptions ahead: Gantry cranes stand as containers stack below at Brani Terminal, operated by the PSA (Port of Singapore Authority) International Pte, Singapore on April 12. GETTY IMAGES

The resentment of the workers in these sectors – many of whom are white, middle-aged men – has been one of the factors that helped propel Mr. Trump to the U.S. presidency in 2016 and again in 2024. President Trump has promised to revive U.S. manufacturing, protecting it from competitors who, in earlier years, were allowed to “rip off” America with their imports.

Without a doubt, President Trump is playing with fire. With the higher tariffs, prices of most goods, especially consumer goods, will move upward, inflicting pain on ordinary Americans. It is doubtful if American firms can lift their production capabilities to serve at least a part of the demand created for them by making imports costlier.

China’s gamble

China has vowed to “fight till the end” in what may turn out to be a prolonged and bitter trade war. Such bravado is backed

by the fact that China has been quietly preparing for such a showdown for over a decade, gradually reducing its dependence on the U.S. economy. The proportion of exports to GDP has declined steeply in China, from 35% in 2012 to 19.7% in 2023. As a proportion of its total exports, China’s exports to the U.S. have fallen, too, from 21% in 2006 to 16.2% in 2022. China has invested hugely in science, technology, and innovation, particularly in artificial intelligence and electric cars. This has been done partly in response to the U.S.’s restrictions on technology transfer to China. China bypassed U.S. tariffs earlier by shifting production to its East Asian neighbours (especially Vietnam), with which it built deep economic networks.

India’s options

President Trump calls India a ‘tariff king’, referring to the marked increase in India’s tariffs since 2018 (Chart 1). The biggest

chunk of India’s exports is sold to the U.S. (\$91 billion in 2022), and they are critical for meeting the country’s large import bill. Therefore, any reduction in India’s export earnings following tariff escalation will be keenly felt. At the same time, as exports form a relatively small share (21.8%) of its GDP, the impact of the tariff increases may be less in India than in many other countries (Table 1). Also, there has been no increase in tariffs on pharmaceuticals and services, two of India’s major export items to the U.S.

The narrowness of its manufacturing capabilities is the biggest hurdle for India. Tariff protection and the Production Linked Incentive Scheme have not been sufficient to revive this sector. India needs a clear-cut industrial policy and a resurgence in investments to escape the unfolding global turmoil.

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