



The Daily Dish

Another Perspective on Trump's Proposed Tariffs

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Presidential candidate Donald Trump has justifiably received attention for proposing to levy a flat 10 percent tariff on all imports into the United States. This would have a big impact on U.S. consumers - from \$1,700 to \$2,350 per household annually according to new [research](#) from AAF's Jacob Jensen. Trump also indicates he would place tariffs of 60 percent on goods imported from China which, Jensen finds, would increase household costs by \$1,950 annually.

But the key to Jensen's piece is to flip the perspective and ask the question: What would happen to those countries whose products are subject to the tariff? Put aside the China-specific tariff for the moment and focus on the 10 percent tariff. Jensen calculates that for the top 10 affected countries, the tariff cost as a fraction of each country's gross domestic product (GDP) would be:

<i>Vietnam</i>	3%
<i>Mexico</i>	3%
<i>Canada</i>	2%
<i>Ireland</i>	1%
<i>Taiwan</i>	1%
<i>South Korea</i>	1%
<i>Germany</i>	0.4%
<i>Japan</i>	0.4%

<i>China</i>	<i>0.2%</i>
<i>India</i>	<i>0.2%</i>

Consider Vietnam, which leads the list at 3 percent. A way to think about this is that the tariff would potentially reduce the demand for Vietnamese goods and services because the impact of the tariff is to make them 3 percent of GDP more expensive. Consumers would switch away from Vietnamese goods toward domestic sources. This “demand shock” would have a large impact – other things being the same – on producers in Vietnam.

With that in mind, one can look at the list in two ways. First, the tariff proposal would visit substantial economic harm on trading partners – and key allies. Mexico and Canada are our largest trading partners and key allies in North America. Taiwan has been the subject of tremendous U.S. attention recently, while South Korea, Germany, and Japan are among the oldest of U.S. allies. The basic import is obvious: The 10 percent tariff would be an international relations earthquake with unknown damage to America’s standing.

The other way to look at the list is to consider the magnitude of the incentive to retaliate against the United States. Retaliation is at the core of most economists’ concerns over the tariff. Retaliation magnifies the impact on consumers in all countries. As Jensen puts it:

If diplomacy fails to avert a trade war, retaliatory tariffs between the United States and its key import partners would result in rather significant economic impacts given the total tariff values as a percent of GDP. While any projection of the job, productivity, and standard of living losses that would arise from these distortionary trade policies would be inherently speculative, these effects would certainly cause pain in global markets.

This scratches the surface of the analysis. Read the research for the full picture. But the basic lesson is clear. A dramatic increase in U.S. tariffs would have fallout far beyond the economics of U.S. consumers, threatening key relationships with allies and inviting a global trade war.