



## Research

# Trump's Proposed 10 Percent Tariff: Considering the Impact

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## Executive Summary

- Former president and 2024 presidential candidate Donald Trump has proposed a new 10 percent tariff on all goods imported into the United States to discourage foreign competition and boost domestic U.S. production and manufacturing.
- In the unlikely scenario that assumes U.S. trading partners would not retaliate, this research estimates U.S. output (gross domestic product, or GDP) would decrease 0.16 percent (\$31 billion), but a dollar measure of U.S. welfare would increase as households benefit overall.
- Under the more likely scenario that assumes U.S. trading partners would retaliate, this research estimates that U.S. GDP would decrease by 0.31 percent (\$62 billion), and consumers will be worse off, with U.S. welfare decreasing by \$123.3 billion.

## Introduction

Protectionism and tariffs are ascendent. In a bid to foster domestic manufacturing, former President Donald Trump imposed numerous tariffs during his tenure. The Biden Administration has largely retained them and added new “Buy America” and domestic content requirements to policies ranging from infrastructure to renewable energy. Now, as part of his 2024 presidential campaign, former President Trump has proposed a new 10 percent tariff on virtually all goods imported into the United States. Trump has described his proposal as “putting a ring around the collar” of the economy to discourage foreign competition and boost domestic production and manufacturing.

Using the Global Trade Analysis Project (GTAP) database and a computable general equilibrium model, this research estimates the impact of Trump’s 10 percent tariff proposal under two scenarios. The first scenario assumes a highly unlikely outcome in which other countries would not retaliate by imposing new tariffs. In this case, U.S. output of goods would increase, suggesting the tariffs would achieve the goal of boosting domestic manufacturing. Services would be harmed, however, and U.S. gross domestic product (GDP) would decrease 0.16 percent (\$31 billion). The goods sector winners would outnumber those losing and, on average, consumer welfare would rise modestly.

The second scenario, which is much more likely, assumes other countries would retaliate. This research finds that while domestic output of goods would still increase with retaliation, U.S. GDP would decrease 0.31 percent (\$62 billion) and consumers would overall be worse off as U.S. welfare would decrease by \$123.3 billion. A new 10 percent tariff on all goods imported into the United States would distort global trade, discourage economic activity, and have broad negative consequences for the U.S. economy.

## Increasing Tariffs

During his first term, President Trump initiated the U.S.–China trade war by unilaterally imposing \$250 billion worth of [tariffs](#) in four successive tranches on goods imported from China. These tariffs have [cost](#) Americans an extra \$195 billion since 2018. In response, China retaliated by imposing its own tariffs on U.S. goods. President Trump also imposed tariffs on steel and aluminum imports on nearly all countries including many of its allies. Since entering office, President Biden has largely kept these tariffs in place except for converting some steel and aluminum tariffs into [tariff-rate quotas](#).

## Impact of Imposing Additional 10 Percent Tariff on All Imports

This research uses version 11 of the Global Trade Analysis Project database to model the economic impact of Trump’s proposed 10 percent tariff. The model database was aggregated to divide tradeable commodities into a goods sector and a service sector. The tariff rates on the goods sector in the model were updated to reflect the current trade- weighted average tariff rate reported by the United States International Trade Commission Dataweb Tool. The tariff rates in the model were then raised by 10 percent to roughly replicate a new 10 percent tariff on all goods imported into the United States, assuming existing tariffs stay in place.

### *No Retaliation*

The results of the model assuming countries would not retaliate can be found in Tables 1 and 2 below. Imposing an additional 10 percent tariff on all goods would curtail U.S. commerce and trade flows, decreasing U.S. exports by 13.1 percent (\$291.6 billion) and U.S. imports by 11.3 percent (\$322.1 billion). Overall, U.S. GDP would decrease by 0.16 percent or \$30.8 billion. The welfare measure is the change in wealth, at current prices, that would have the same effect on consumer welfare as would the change in prices, with income unchanged. The model finds a positive result, suggesting even though GDP went down, U.S. consumers would be overall better off.

*Table 1: Model Results Without Retaliation – Percent Change*

<i>w/o Retaliation</i>	<i>Percent Change (Real Change \$ Billions)</i>
GDP	-0.16 (-30.8)
Total Exports	-13.1 (-291.6)
Total Imports	-11.3 (-322.1)
U.S. Welfare	+\$39.7 billion

Table 2 contains a more detailed breakdown of the results.

*Table 2: Without Retaliation Breakdown – Percent Change*

<i>Goods vs Services</i>	<i>Domestic Output</i>	<i>Total Exports</i>	<i>Total Imports</i>
Goods	1.07	-16.45	-14.87
Services	-0.21	-6.23	3.64

Without retaliation, U.S. domestic output of goods would increase, which suggests the tariffs would accomplish the goal of boosting domestic U.S. manufacturing output. U.S. goods exports would be sharply curtailed, however.

*With Retaliation*

If the United States were to impose a new 10 percent tariff on all goods, our trading partners would more than likely impose their own retaliatory tariffs on goods imported from the United States. When President Trump originally imposed his tranches of Section 301 and 232 tariffs, countries including but not limited to China, Japan, India, and France imposed their own retaliatory tariffs. It is reasonable to expect a similar response to additional U.S. tariffs. To model such retaliatory tariffs, this research imposes the change in the tariff rate of goods imported into the United States as an estimate for the retaliatory tariff rates that would be imposed by the other countries.<sup>[1]</sup>

The model results with retaliation can be found in Tables 3 and 4 below. Under this scenario, U.S. GDP would decrease even more at 0.31 percent (\$61.8 billion). U.S. exports would decrease 17.8 percent (\$396.3 billion) and U.S. imports would decrease 22.4 percent (\$639.3 billion).

*Table 3: Model Results With Retaliation – Percent Change*

<i>w/ Retaliation</i>	<i>Percent Change Real Change (\$ Billions)</i>
GDP	-0.31 (-61.8)
Total Exports	-17.8 (-396.3)
Total Imports	-22.4 (-639.3)
U.S. Welfare	-\$123.3 billion

With retaliation, U.S. welfare would decrease by \$123.3 billion. In other words, to achieve the new same level of utility as before the tariffs, U.S. consumer income would have to decrease by \$123.3 billion.

With retaliation, the U.S. goods sector output would increase 0.53 percent, but services output would decrease 0.11 percent. The retaliatory tariffs would reduce U.S. goods sector exports, while the United States also would import less goods overall.

*Table 4: With Retaliation Breakdown – Percent Change*

<i>Goods vs Services</i>	<i>Domestic Output</i>	<i>Total Exports</i>	<i>Total Imports</i>
Goods	0.53	-32.5	-26.09
Services	-0.11	12.4	-7.16

The model finds that a 10 percent tariff would increase U.S. domestic output of goods. With or without retaliation, the tariffs may accomplish the Trump Administration’s goal of boosting domestic manufacturing. By “putting a ring around the collar” of the U.S. economy and restricting trade, U.S. manufacturing would expand its output. But this would harm downstream manufacturers and suppress the service sector – which constitutes about three-fourths of the U.S. economy – thus reducing U.S. GDP. Considering at least equal retaliation by our trading partners, is the more likely scenario, Trump’s proposal would have broad negative consequences for the

U.S. economy with a drop in GDP, and a drop in consumer welfare of about \$123 billion.

## **Conclusion**

Former President Trump's 10 percent tariff proposal would have a substantially negative impact on the U.S. economy. Without retaliation, the benefit of this policy is that domestic manufacturing output might increase, and U.S. consumers may be better off, even as GDP falls. But this scenario is highly unlikely, and the United States should expect international retaliation in response to such a policy. Under this scenario, the tariffs would present a large tax burden on downstream U.S. producers, services, and consumers that will discourage economic activity and would have broad negative consequences for the U.S. economy, such as overall decreases in U.S. GDP and consumer welfare.

## **Appendix**

CGE models are "economy wide." They model and describe the relationships and linkages among different actors in an economy using a system of equations. CGE models contain both exogenous and endogenous variables and market-clearing constraints. By changing one or more exogenous variables, each equation in the model is solved simultaneously to return an economy-wide equilibrium where at the equilibrium set of prices, supply, and demand are equal in every market.

Actors in CGE models include firms that purchase inputs, hire workers, and use capital to produce output as responses to economic demand. The income generated from firm output is accrued by households since they provide factors of production such as labor. They then spend their income on goods, services, taxes, and savings. Tax revenue funds government spending and savings funds investor spending. The combined demand by private households, government, and investors is met by firms. Firms in turn purchase more inputs and hire more workers and capital. This completes the circular dynamic flow of income and spending and the overall relationship among actors in an economy.

This research uses the 2017 GTAP database to develop a two-sector and five-factor database for the United States, China, Rest of America, Europe, Sub-Saharan Africa, Middle East and North Africa, Rest of Asia, South Asia, Southeast Asia and Rest of World. The sectors are goods and services. The three factors of production are land, unskilled labor, skilled labor, capital, and natural resources. Each factor of production is fixed.

In the GTAP model, tariffs on imports from all regions/countries to the United States are increased to model the global and region-specific economic impact of the United States imposing a new ten percent tariff on all imported goods. Similarly, tariffs on imports from the United States to the other countries are increased to model retaliation. In the retaliation simulations, shocks are applied simultaneously as the authors assume that the other countries would quickly respond. Increasing the tariffs serves as an economic shock which in the model creates a disequilibrium that changes the intra-behavior and interactions of the economies in the model. The GTAP model is static, so it shows the before and after effect of an economic shock. It does not necessarily provide insight into the economy's dynamic adjustment process.

[1] In response to the Section 301 tariffs, China matched the rates and volume of products affected in each tranche of tariffs to mirror the incidence of the tariffs as retaliation.