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# Reconsidering the Reorganization of Supply Chains due to the Trump Tariffs

## —As the US bets its economic future on tariffs, it may instead create a movement by other countries to 'de-risk' from it. —

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**〈Summary〉**

- On April 2nd, US President Trump announced a significant increase in tariffs. The President and his cabinet members have taken a hardline stance on trade, with tariffs as the central pillar in their plan to reduce the trade deficit and protect key industries. They have become increasingly uncompromising in their pursuit of these goals, and have hit out not only at China, which many countries are becoming increasingly concerned about, but at all countries.

- Looking at the details of the Trump tariffs that have been implemented, it is clear that the administration's priority is to reduce the trade deficit and protect key industries. The 'reciprocal tariffs' are set in a way that is linked to the trade deficit, and pressure is being increased on all countries with a trade deficit friendly or not. Ten industries, including automobiles, have been designated as industries to be protected, with duties being implemented or considered on a product-by-product basis.

- The implementation of US tariff policy, akin to gambling, is having a huge impact on the global economy yet the Trump administration has shown no sign of changing course. With negotiations unlikely to result in a significant reduction in levies, countries will inevitably have to lower the priority of their trade relations with the US. Looking ahead, companies from many countries are expected to strengthen their 'local production for local consumption' in the US to an extent, but the high cost of manufacturing in the US is expected to be a major issue. In addition, governments around the world will likely place greater importance on regional economic partnership agreements such as the CPTPP, and will be

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forced to de-risk from the US.

- Japan too must consider its economic ties and not only de-risking from China, but also de-risking from the US. Japan needs to reconsider restructuring its supply chains by strengthening its ties not only with developed countries such as Europe and Australia, but also with the Global South, including India and Southeast Asia.

- **This is a English version of "トランプ関税がもたらすサプライチェーン再編の再考―米国は関税政策に経済の命運を賭けるも､「脱・米国依存」を招く事態に―" in JRI Research Focus (The original version is available at https://www.jri.co.jp/MediaLibrary/file/report/researchfocus/pdf/15709.pdf)**

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## 1. Introduction

On April 2nd, US President Trump, who regards tariffs as ‘wonderful’, announced a major increase in tariffs. As many economics textbooks tell us, in traditional economics, protectionist policies using tariffs are rarely shown to be more positive for the economy than free trade.

However, the Trump administration is still determined to raise duties and is not going to stop using them as a policy tool. This is because the Trump administration is emphasizing not only economic effects, but also national security and defense elements within the larger goal of ‘Making America Great Again (MAGA)’ by reviving domestic industry. The administration is becoming increasingly hardline in its pursuit of this goal, and hitting out not only at China, which many countries are becoming increasingly concerned about, but at all countries.

If the tariff policy results in the Trump administration's aims of reducing the trade deficit and accelerating the return of production to the US, it is possible that the US will be the only winner in the global economy. However, if the policy stalls from a failure to increase supply capacity in the US, it seems inevitable that the US economy will face a serious economic downturn due to a rapid rise in inflation. This could lead to a global economic recession. There is also the possibility of a similar situation as in the Great Depression era when the US passed the Smoot-Hawley Tariff Act that significantly increased duties to protect domestic industry. Other countries then increased their tariffs, precipitating a global trade war and worsening of the global economy.

This paper examines the Trump administration's original ideas regarding tariff policy and considers its objectives by looking at the details of the Trump tariffs that have actually been announced. We will also examine what kind of impact the Trump administration's forceful policies to achieve its objectives will have on countries around the world, and what kind of impact they will have on the restructuring of supply chains.

## 2. Background to the Trump Tariff Policy: The President and Key Cabinet Members' Unusual and Firmly-held Views on the Realm of Trade

Why has the Trump administration decided to raise tariffs without considering economic logic and taken a hardline stance towards countries around the world? The reason lies in the peculiar views on trade firmly held by President Trump and the key cabinet ministers in his administration. President Trump has always emphasised the importance of reducing the trade deficit and bringing manufacturing back to the US, saying that unfair trade practices are a major problem, trade deficits are increasing, and domestic manufacturing is suffering. When he first took office this year, he used issues such as illegal drugs and illegal immigration as a basis for raising duties on countries such as China, Mexico and Canada,. But on April 2nd, when he announced reciprocal tariffs, this original thinking was pushed to the fore.

In addition, there are many ministers in the current Trump administration who are taking a harder line on trade policy than in his first administration. Notably, Vice President J.D. Vance is from the Rust Belt (the ‘rusty industrial belt’ that stretches from the east to the midwest) in the Midwest.As a representative of the region, he has emphasised policies to bring industry back to the US. His appointment as vice president also shows how much the Trump administration values the Rust Belt and the revival of industry there.

Stephen Miran, Chairman of the President's Council of Economic Advisors (CEA), has also spoken out against traditional trade theory for downplaying the issue of national security and has argued for reducing the trade deficit and strengthening the defence industry through high tariffs. Secretary of Commerce Howard Lutnick has equally championed the return of manufacturing to the US through high tariffs, and is leading the administration's tariff policy.

As we have seen, not only President Trump but also many of his cabinet ministers have strong views on trade, with the aim of ‘making MAGA a reality by reviving US domestic industry’.This is a major factor underpining the administration's implementation of tough measures such as raising tariffs.

## 3. Trump's tariffs in practice: Clear objectives of reducing the trade deficit and protecting key industries

### (1) Reciprocal tariffs linked to the trade deficit and a tough stance on all countries with a trade deficit, friendly or not

**Figure 1. Concept of Reciprocal Tariff Calculations**

*τ_i is a tariff of rate on country i and Δτ_i reflects the change in the tariff rate
*εrepresents the elasticity of imports with respect to import prices, andφrepresents the passthrough from tariffs to import prices
*m_i represents total imports from country i, and x_i represents total exports
the reciprocal tariff that results in a bilateral trade balance of zero satisfies:

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$

To calculate reciprocal tariffs, import and export data for 2024. The price elasticity of import demand, ε, was set at 4, and the elasticity of import prices with respect to tariffs, φ, is 0.25.
→Since ε*φ=1, the estimated value of the country's effective tariff on the US (the estimated tariff rate that should be imposed as a reciprocal tariff) is equal to the share of

Source: JRI, based on USTR

Looking at the details of the Trump tariffs that have been implemented, it is clear that the Trump administration's priority is to ‘Make America Great Again’ by reviving domestic industry.

On April 2nd, President Trump announced that tariffs would be implemented in two stages under the International Emergency Economic Powers Act (IEEPA), sending shockwaves around the world. First, a 10% tariff was imposed on all goods imported from all countries from 00:01 on April 5th (US Eastern Time), and then a so-called ‘reciprocal tariff’ was imposed from 00:01 on April 9th (US Eastern Time).

The term ‘reciprocal tariff’ literally means that the US and its trading partners should both have the same tariff rates. However, these reciprocal tariffs will also take into account ‘non-tariff barriers (factors other than tariffs that hinder trade)’. On April 3rd, Secretary of Commerce Lutnick stated that the Council of Economic Advisers (CEA) and the Office of the United States Trade Representative (USTR) have been scrutinizing foreign trade barriers for decades, and their analysis underpins the tariffs announced by President Trump on the 2nd.

However, the method for calculating the reciprocal tariffs announced by the USTR is extremely simple. The terms representing the price elasticity of imports and the passthrough tariffs of import prices included in the formula cancel out each other's effects. The real tariff rate on US exports, i.e. the sum of tariff and non-tariff trade barriers, is then considered to be the US trade deficit with the country divided by US imports (Figure 1). Half of this amount is then presented to each country as the reciprocal tariff (Figure 2). As this assumes that the countries that the U.S. has large trade deficits with are obstructing its exports not only with tariffs but other barriers too, it is fair to call this a rather sweeping and economically unsound method of calculation.

**Figure 2. Reciprocal Tariffs: Offical Rates and Calculation Results Based on Import/Export Data**

| | Reciprocal Tariff Officially Announced Rates | Trade Deficit (USD mln, 2024) (A) | Import Value (USD mln, 2024) (B) | (C)=-(A)÷(B) | (C)÷2 |
|---|---|---|---|---|---|
| Vietnam | 46% | -123,463 | 136,561 | 90.4% | 45.2% |
| Thailand | 36% | -45,609 | 63,328 | 72.0% | 36.0% |
| China | 34% | -295,402 | 438,947 | 67.3% | 33.6% |
| Indonesia | 32% | -17,883 | 28,085 | 63.7% | 31.8% |
| Taiwan | 32% | -73,927 | 116,264 | 63.6% | 31.8% |
| S.Africa | 30% | -8,837 | 14,656 | 60.3% | 30.1% |
| India | 26% | -45,664 | 87,416 | 52.2% | 26.1% |
| Korea | 25% | -66,007 | 131,549 | 50.2% | 25.1% |
| Japan | 24% | -68,468 | 148,209 | 46.2% | 23.1% |
| Malaysia | 24% | -24,830 | 52,535 | 47.3% | 23.6% |
| European Union | 20% | -235,571 | 605,760 | 38.9% | 19.4% |
| Philippines | 17% | -4,880 | 14,178 | 34.4% | 17.2% |
| Brazil | 10% | 7,351 | 42,316 | - | - |
| United Kingdom | 10% | 11,857 | 68,084 | - | - |
| Australia | 10% | 17,908 | 16,686 | - | - |
| Singapore | 10% | 2,829 | 43,204 | - | - |
| Hong Kong | 10% | 21,913 | 5,973 | - | - |
| Mexico | Exemption | -171,809 | 505,851 | 34.0% | 17.0% |
| Canada | Exemption | -63,336 | 412,696 | 15.3% | 7.7% |
| Russia | Not applicable | -2,481 | 3,008 | 82.5% | 41.3% |

Source: JRI based on US White House and US Department of Commerce

This formula makes it clear that the Trump administration has paid little attention to the details of each country's tariff rates and non-tariff barriers against the US. Instead, the trade deficit is the biggest target and the administration is taking a hard line against countries with trade deficits. The four countries that are subject to sanctions - Russia, Belarus, Cuba and North Korea - are excluded, and there is no sign of prioritising friendly countries that were regarded as important, under the Biden administration. Due to the mechanical nature of the calculations, many countries, including Vietnam and Thailand, will also be subject to high tariffs, and there is almost no intention to curb China's influence. Mexico and Canada have also been exempted from the reciprocal tariffs, but on March 4th, a 25% levy was announced on the grounds of the influx of illegal immigrants and fentanyl[1].

[1] Although there are measures such as the exclusion of products that conform to the North American Free Trade Agreement (USMCA), the majority of products are subject to tariffs.

On April 9th, President Trump announced a 90-day pause in the reciprocal tariffs, except those applied on China. The total tariff rate on China has now risen to 145%. We note that the tariff policies may change significantly in the future as there is uncertainty about their policy direction.

### (2) Tariffs on specific items to be implemented or in consideration, and ten industries, including automobiles, may become protected

The Trump administration is increasing pressure on countries with trade deficits by implementing reciprocal tariffs, while accelerating moves to protect industries by strengthening tariffs on specific items. On April 3rd, it imposed a 25% tariff on all car imports, on the grounds that car imports were undermining US national security. President Trump is trying to force the car industry to produce domestically, saying that 'if you manufacture in the US, there will be no tariffs'.

Prior to the cars' duties, the administration also imposed a 25% tariff on steel and aluminium on March 12th. Though the first Trump administration had also imposed a 25% tariff on steel and a 10% tariff on aluminium, the Biden administration significantly relaxed the measures by adding many exemptions. The new Trump administration is therefore re-imposing the more stringent duties.

The previously discussed reciprocal tariffs do not cover automobiles, steel, or aluminium, but this is because the Trump administration had already announced that it would be raising tariffs on these products (Figure 3). In addition, semiconductors, pharmaceuticals, copper, timber, unrefined metals, energy, and certain minerals are also exempt from the tariffs. Some media reports have taken a positive view of this. But rather than being

**Figure 3. List of Items Not Subject to Reciprocal Tariffs**
**(Items that may be subject to tariffs worldwide)**

<table>
<tr><th>Item</th><th>Tariff Rate</th><th>Timing of Activation</th><th>Remarks</th></tr>
<tr><td>1 Steel</td><td>25%</td><td>12-Mar</td><td rowspan="2">Reviewing tariffs already issued under Section 232 of the Trade Expansion Act (e.g. abolishing exemptions) on the grounds of national security threats</td></tr>
<tr><td>2 Aluminium</td><td>25%</td><td>12-Mar</td></tr>
<tr><td>3 Autos/ Auto parts</td><td>25%</td><td>3-Apr</td><td>Raising tariffs on the grounds that automobile imports are a threat to US national security, under Section 232 of the Trade Expansion Act</td></tr>
<tr><td>4 Copper</td><td>TBD</td><td>TBD</td><td rowspan="2">On 10 March, launching an investigation under Section 232 of the Trade Expansion Act to determine the impact of imports of copper, timber and lumber on US national security</td></tr>
<tr><td>5 Lumber articles</td><td>TBD</td><td>TBD</td></tr>
<tr><td>6 Semiconductors</td><td>TBD</td><td>TBD</td><td rowspan="2">On 3 April, President Trump has said tariffs on pharmaceutical and semiconductor imports will be announced shortly.</td></tr>
<tr><td>7 Pharmaceuticals</td><td>TBD</td><td>TBD</td></tr>
<tr><td>8 Bullion</td><td>TBD</td><td>TBD</td><td rowspan="3">At present, there are no comments regarding the increase in tariffs.</td></tr>
<tr><td>9 Energy</td><td>TBD</td><td>TBD</td></tr>
<tr><td>10 Certain minerals</td><td>TBD</td><td>TBD</td></tr>
</table>

Source: JRI based on various media reports completely excluded from tariffs, it would be more accurate to say that these items are suspected of being subject to additional tariffs down the line.

It is thought that the Trump administration will probably position these ten items as important industries in terms of security and other considerations, and will aim to expand domestic production. To increase the incentives for companies from other countries to produce in the US, it is expected that the Trump administration will soon impose tariffs of around 25% on these items.

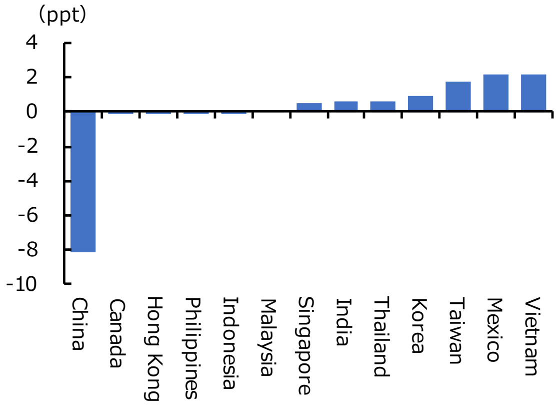
Furthermore, on March 20th, President Trump signed an executive order to promote the domestic production of minerals such as rare earths. This is a measure that utilizes the Defense Production Act (DPA)[2], and provides funding, loans and other investment support for processing minerals in the country. It is highly likely that the Trump administration will increase duties to strengthen support for domestic production of these minerals.

## 4. The impact on the supply chain: Difficulties in moving production to the US and the possibility of increased 'de-risking from the US'

As we have seen above, the Trump administration is using tariffs as an important policy tool to reduce the trade deficit and protect key industries. In addition, while the administration continues to keep a check on China, which is becoming a greater threat in terms of politics and the economy, it has been shown that the administration is not necessarily implementing policies targeting China alone in terms of trade. It seems inevitable that the American pressure on countries other than China will increase in proportion to the size of its trade deficit.

Under the first Trump administration, the four rounds of tariff increases on China fueled the trend among multinational companies to 'de-risk from China'. As a result, some countries and regions other than China, mainly in Asia, became destinations for the transfer of production from Chin. Some of them captured market share in exports to the US and achieved higher growth (Figure 4). As the tariffs that have been imposed this time will have an impact on the whole world, there is little room for avoiding them through measures such as relocating production, and the 'windfall' that had been brought to Asian countries and regions is expected to disappear.

**Figure 4. Changes of U.S. Import Share by Country (2017 vs 2024)**




Source: JRI based on CEIC

In this situation, many countries want to negotiate with the US, but President Trump says he has no intention of suspending the tariffs. Even in negotiations, it is difficult to win a significant reduction in duties. The priority of trade relations with the US will inevitably decline, and it is expected that companies and governments in various countries will strengthen the following types of movement.

[2] The DPA was enacted in 1950 as a law that grants the US President broad authority to affect domestic industries in order to secure national security interests, and the US President can issue orders to domestic companies to provide important materials and products necessary for national security across the federal government based on this law.

### (1) The strengthening of ‘local production for local consumption’ in the US by companies from various countries

Companies from countries with trade relations with the US will inevitably have to review their production bases and will have no choice but to expand production in the US as the Trump administration desires. The US remains an important market for many industries, particularly the automative industry. It has been reported that Nissan Motor Co. is considering switching some of the production in Japan of its mainstay vehicles for the US market to production in the US this summer. Additionally, if the production bases for final goods are to be relocated, the related parts industry will also have to move in order to avoid tariffs. In the US, ‘local production for local consumption’ by multinational companies is likely to accelerate.

However, the expansion of production in the US is a major problem for the manufacturing industry in terms of production costs, and unless this is resolved, it will not be easy to expand ‘local production for local consumption’. In particular, the labor costs of the US manufacturing industry are extremely high compared to emerging economies. In such a disadvantageous environment, industrial support needs to be reinforced. Yet it is important to note that industrial support is not being sufficiently expanded, as shown by the President signing an executive order to repeal the EV promotion measures in the IRA in January and calling for the repeal of the CHIPS Plus Act (see Appendix).

### (2) The strengthening of Regional Economic Partnership Agreements such as the CPTPP by various Governments

Although the Trump administration is pushing ahead with tariff increases, there has been no move by other countries to impose retaliatory tariffs, except in the case of China and Canada. Indeed, few countries outside the US are seriously pursuing protectionism at the moment. In this context, it is quite possible that these countries will work together to maintain free trade markets and cooperate with each other to revitalise their economies in markets outside the US. Such moves could lead to a ‘de-risking from the US’ in global supply chains.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in particular is expected to play a role in this. With the UK joining in December 2024, the number of member countries has increased to 12, and in November of the same year, Costa Rica began negotiations for membership, while China, Taiwan, Ecuador, Costa Rica, Uruguay, and Ukraine have applied for membership. Thus, the agreement is showing signs of further expansion.

China is also becoming more active in its bid to join. While if doing so it is expected to expand the economic bloc, there is also the argument that the country’s market is insufficiently open and this will hinder the formation of an advanced market that the CPTPP seeks. The major issue going forward is whether it will be possible to both maintain high-level rules centered on Japan and link this to the revitalisation of the free trade market.

## 5. Conclusion

The Trump administration is expected to continue its hardline approach of using tariffs as an important policy tool to reduce the trade deficit and protect key industries. Whether or not this tariff policy is successful will depend on the policy adjustments it makes going forward. Currently though with insufficient measures in place to support industry's success, there is a high likelihood of failure due to the resulting rise in inflation. Furthermore, there is also a risk that other countries will raise tariffs in return, leading to a trade war (see Appendix).

Though this tariff policy will have a huge impact, there are no signs that the Trump administration will change its policy. In recent years, there has been a lot of discussion about 'de-risking from China', but it is also becoming necessary to talk about 'de-risking from the US'. This is a situation that Japan cannot ignore. In terms of international economic links such as supply chains, Japan needs to place importance on wide-area economic partnership agreements such as the CPTPP. As Ishikawa [2025] indicates, it also needs to consider strengthening its ties with like-minded partners like Europe and Australia, as well as the Global South, including India and Southeast Asia.

## Appendix. Three scenarios for the Trump tariff gamble

The Trump administration is implementing a hardline policy of raising tariffs across the globe, and this is rapidly increasing economic uncertainty not only in the US but around the world. While the Trump administration is confident that it will be able to reduce the trade deficit and protect key industries, the odds are unknown, and this policy can be considered a gamble. The following three scenarios are possible outcomes: (1) the Trump tariff policy succeeds, (2) the Trump tariff policy fails, and (3) the failure of the policy leads to global economic turmoil.

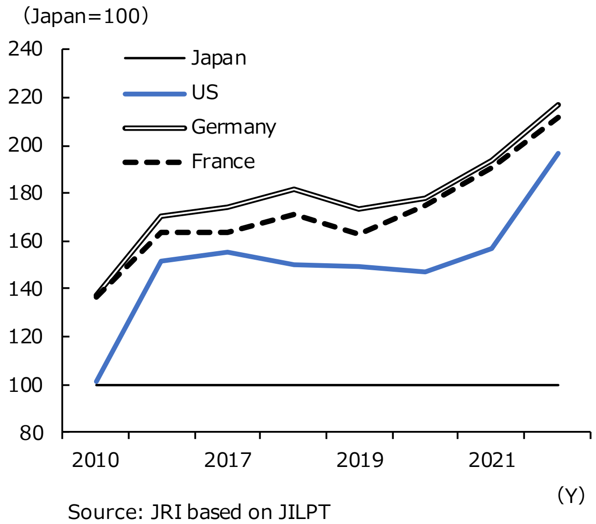
### (1) Success of tariff policy: the possible revival of domestic industry if strategic policies such as support for high-value-added industries are put in place

The success or failure of the US tariff policy will depend on how much the return of manufacturing to the US can be promoted, but this is considered extremely difficult to accomplish. The key issue is the production costs of manufacturing in the US. Labor costs of US manufacturing are higher than in Japan (Figure 5), and are at an extremely high level compared to emerging countries such as other Asian countries.

Although the Trump administration raised tariffs on China, there was almost no movement towards a return of manufacturing to the US (Figure 6). It is thought that many multinational companies avoided the cost increases caused by the tariffs by shifting production to other Asian countries or relocating their production bases.

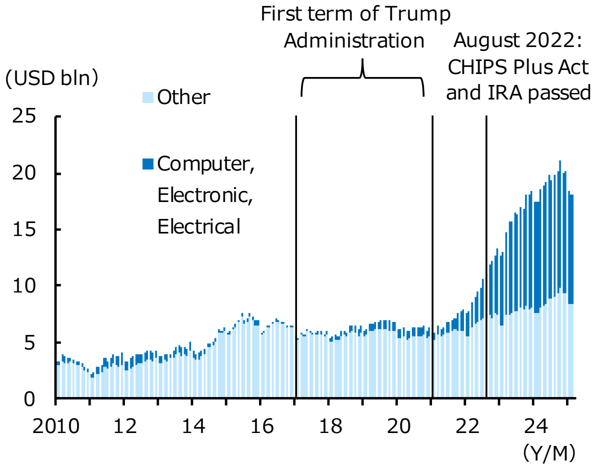
On the other hand, it should not be overlooked that there has been a recent sharp increa se in investment in manufacturing construction in the US, and a movement towards a return of manufacturing to the US, particularly in the electronics and electrical equipment industries. This example shows that even if manufacturing in the US

**Figure 5. Labour Costs, Manufacturing**




Source: JRI based on JILPT

**Figure 6. US Manufacturing Construction Spending**




Source: JRI based on CEIC

is expensive, the possibility of a return to manufacturing in the US is not zero. The return at that time was driven by two factors: a rise in demand (digitization in the wake of the coronavirus pandemic and the subsequent AI boom) and policy support (large-scale subsidies under the Biden administration, including the CHIPS Plus Act and the Inflation Reduction Act (IRA) passed in 2022).

In principle, President Trump should be focusing on the environment and digital sectors, where demand is expected to increase in the future. Yet, he has moved in a different direction, signing an executive order in January to abolish the EV promotion measures in the IRA, and also calling for the abolition of the CHIPS Plus Act (on March 31st, he signed an executive order to establish a new organization to take over the CHIPS Plus Act).

The Trump administration announced its intention to raise tariffs on steel and aluminium from an early stage, and it is thought that they see these as important areas for industrial recovery. However, these industries cannot be considered advanced industries, and unless demand for them suddenly increases due to the need for new industries, or they dramatically increase their profitability through policy support, it will be difficult to expect companies to actively invest in the US, which has high costs, simply by raising tariffs. Strategic support, such as selecting industries that should be supported, is essential for promoting a return to domestic production.

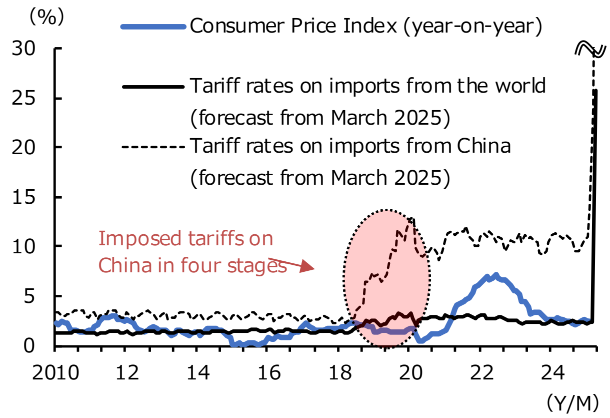
On April 3rd , US Vice President JD Vance said in relation to the reciprocal tariffs announced by President Trump on April 2nd that ‘we are not trying to solve the problem overnight’. While recognising that it will take time to achieve the aim of the tariff increase, which is to bring about a return of manufacturing to the US and an increase in employment, he asserted that ‘we must stop the US being exploited’ and has not changed his hardline stance. While this tariff policy is high risk from an economic perspective, it is difficult to say that it will bring high returns. While bringing back a declining industry may be important in terms of elections, it is unlikely to make a significant contribution to economic growth. In this sense, too, unless the Trump administration adopts the idea of fostering strategic industries, it is unlikely that the policy will be successful.

## (2) Failure of tariff policy: domestic industry does not return, the country faces a supply shortage and inflation accelerates rapidly

For these reasons, it is not going to be easy for the manufacturing industry to succeed in returning to the US. Although the Trump administration is confident, there is growing concern that the tariff policy will fail and the economy will worsen, as is the general view in financial markets and other areas. The factors cited are that domestic industry will not return, the country will face a supply shortage, or inflation will accelerate rapidly due to the country being forced to accept imports with high tariffs.

In its basic approach to calculating reciprocal tariffs, the USTR estimates[3] the rate of import price pass-on for tariffs at 0.25. This is based on the experience of US tariffs on China. It also assumes that tariffs will not have an immediate significant impact on inflation. Indeed, looking at the consumer price index during the period when the first administration raised tariffs on China, there was no significant impact, with the index remaining at around +2% year-on-year in 2018 (Figure 7). In addition, in 2018, it fell to the +1% level, and it is also reasonable to judge that the effect of the tariffs at this point is insignificant.

**Figure 7. Inflation Rate and Tariff Rate in The US**




However, the current tariff policy is not only targeting China, but the whole world. The loopholes seen in the past, such as detouring exports and alternative production to avoid tariffs, have been closed, and there are almost no ways for export companies to avoid the effects of tariffs. The situation is such that the likelihood of prices rising to reduce the effects of tariffs is increasing.

We at the Japan Research Institute estimate that the average tariff rate in the US will rise to over 25% due to the imposition of reciprocal tariffs and higher tariffs on items such as automobiles, and the inflation rate will rise by over 2 percentage points. However, this is also an estimate based on past experience. In addition to the fact that tariff rates will reach historically high levels, with methods of avoiding tariffs such as indirect exports being lost, the rate of price pass-on of tariffs will rise sharply and, the rate of inflation will accelerate significantly too. We therefore need to be mindful of the risk of the US economy falling into a serious downturn.

In January, President Trump commented that he would establish a ‘foreign revenue agency’ to collect tariffs from foreign countries by directing the Internal Revenue Service (IRS), which manages US domestic tax revenue, to do so. This indicates that the President strongly believes that foreign companies are the ones who should bear the burden of tariffs, and that the idea is that foreign exporting companies will lower the price of their products. The products will then be sold in the US at the same price as before, while tariff revenue increases. However, it is important to note that, with tariffs now being applied to the whole world, the cost

[3] The American Enterprise Institute (AEI) has pointed out that this is not the ‘import price elasticity with respect to tariffs’ but the ‘retail price elasticity with respect to tariffs’ that has been mistakenly substituted, and that the figure should actually be higher.

burden of tariffs for export companies in each country is the same, and this also increases the possibility that they will not choose to lower their prices.

### (3) Expansion into global economic turmoil: Countries impose retaliatory tariffs on the US and trade wars push the global economy into a sharp downturn

It is also possible that countries will respond to the Trump administration's tariff policy by raising their own tariffs in retaliation, leading to a trade war. In 1930, during the Great Depression, the United States passed the Smoot-Hawley Tariff Act, which significantly raised tariffs to protect domestic industry. Other countries also raised their tariffs, leading to a global trade war. It is estimated that the Smoot-Hawley Act and the retaliatory duties imposed by other countries pushed down the US's real GDP by up to 2% between 1929 and 1932 (Crucini and James [1996]).

This time, too, several countries have decided to impose retaliatory tariffs. China has announced that it will impose an additional 34% levy on all US products from March 10th,. The US responded by announcing that it will impose an additional 50% tariff, with the situation is turning into a fierce exchange. Canada has also announced its intention to impose a 25% retaliatory tariff on US-made cars. The EU too is said to be considering countermeasures. However, there are also countries that hope to negotiate with the US. Vietnam has agreed to hold talks with the US on the elimination of tariffs. Japan is also seeking a forum for negotiations with the United States.

Each country is responding differently to the United States' tariff policy, and not all countries are in favor of retaliatory tariffs. But while there are not yet signs of the situation becoming grave, there is also no denying the risk that the United States' failure to foster its manufacturing industry will not only damage its own economy through severe inflation, but also bring about a trade war that will engulf the world and trigger an economic recession.

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