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Tariffs, Tariffs, Tariffs: A Global Economic Outlook Under Trump 2.0 (Part 1)

As impending tariffs on Canada, China, and Mexico loomed large over the global economy, global equity markets were sent into a tumble as United States (US) President Donald Trump reaffirmed the tariffs that were proposed on the three largest trading partners of the US. Consequently, the month of February marked a slump in the broader S&P 500 index with an uptick in jobless claims adding to the overall muted sentiment in the US economy.

Under a Trump 2.0 presidency, the global economic outlook is likely to experience significant changes stemming from potential policy changes. These changes are expected to focus on fiscal matters, trade, regulatory approaches, and immigration. The global economic effects of these potential policy shifts are complex and remain to be seen, but economists and various sources do suggest an increasingly tumultuous time ahead.

Overall growth is expected to slow global growth with deregulation and tax cuts providing a short-term boost to the US economy at the expense of private spending. Additionally, inflation is expected to surge, giving way to higher prices. Trade restrictions and protectionist measures are likely to have a net inflationary effect on the US economy. Consequently, a renewed focus on trade policies will likely be headlined by a renewed emphasis on protectionism, including the use of tariffs and renegotiating trade agreements. These tariffs will primarily be used as trump cards (no pun intended) to exert pressure on other countries on geopolitical issues such as immigration, and crime.

Shifting to Sino-US trade relations, China's economy is unlikely to experience a serious negative impact by renewed protectionism as the world’s second largest economy is likely to implement fiscal support measures to facilitate the shift of production chains to Southeast Asia and Latin America, reducing US imports and mitigating tariff effects. However, Europe (EU) with a trade surplus with the US, will be bracing itself on the negative impacts of US tariffs. Although there would be a temporary boost to European exports through increased US demand stemming from fiscal stimulus and economic growth, the trend will reverse once the tariffs have taken its full effect on the EU economy. Looking to emerging markets (EM), heightened trade uncertainty against a high inflationary backdrop in the US economy will be challenging for emerging markets (EMs) to navigate. Nations who are heavily reliant on trade with the US might suffer negative effects on their economies while states that remain a more neutral position on US trade could stand to gain from China’s pivot to EM for their supply chain needs.

Fiscal policy under Trump 2.0 is likely to be expansionary, with the continuation or expansion of tax cuts for corporations and high-income individuals with increased infrastructure spending among the top policy priorities. Additionally, deregulation is expected to be a feature of the Trump administration, with policies aimed at reducing regulatory burdens in industries such as energy and finance. Moreover, the administration is likely to pursue much stricter immigration policies which include tighter border controls, fewer immigrants and potentially deporting undocumented residents. A shortfall in labour supply has the potential to overheat the economy and reignite inflation.

Overall, economists suggest an increasingly complex and uncertain outlook for the global economy under Trump 2.0, with potential for both positive and negative impacts depending on specific policy choices and how they interact with existing global trends.

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