

OPINION

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Lessons from Trump's First Administration and Implications for Trade Policies in the Second Administration

This article explores the impact of Trump's second administration on trade policies and the economy. The anti-intellectualism and populist orientation, characteristic of Trump's first term, are expected to persist during his second term. However, given the current economic landscape of elevated inflation and high interest rates, it is unlikely that Trump will fully implement his proposed tariffs, such as a 60% tariff on China and 10–20% tariffs on other trading partners. Instead, a more gradual and pragmatic approach to tariff hikes, focused on capital and intermediate goods, is anticipated, potentially serving as bargaining tools in trade negotiations. Meanwhile, China faces limited policy options caused by slowing economic growth, constrained capacity for yuan depreciation amid capital outflow concerns, and a growing possibility of US regulatory measures targeting transshipment. These challenges are anticipated to prompt the Chinese government to expand fiscal spending to stimulate domestic demand. For Korea, escalating trade disputes will likely exert direct and indirect downward pressures on economic growth and increase upward pressure on the KRW–USD exchange rate. Furthermore, there is a risk of tariff imposition on key export items, such as automobiles, albeit with low probability. Over the long term, Korea should also address the risk of declining investment and employment caused by the expansion of US-based production facilities by Korean companies.

The global financial market is currently driven by what is referred to as the Trump trade, reflecting the varying impacts of President-elect Donald Trump's campaign policies across asset classes. Notably, in his press interviews during the campaign, Trump pledged to impose a 60% tariff on Chinese imports as well as broad-based tariffs ranging from 10% to 20%, raising

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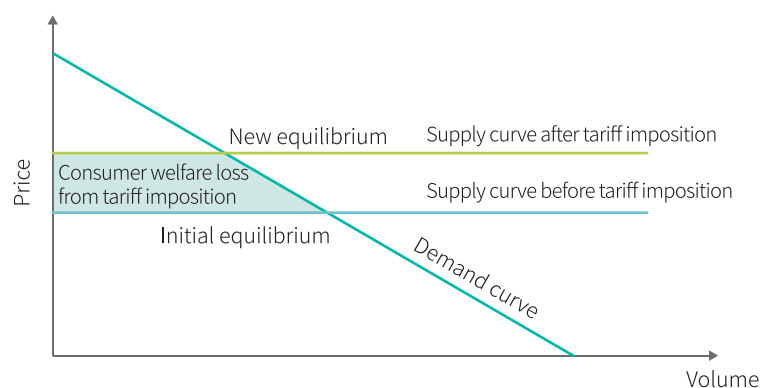
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significant concerns about intensifying global trade disputes. Unlike his first administration, Trump's second administration confronts an economic environment characterized by elevated inflation and high interest rates, adding uncertainty over whether his trade policy promises will be fulfilled and if so, how they will be implemented. Against this backdrop, this article seeks to draw lessons from the trade war under Trump's first administration and its economic consequences. It further assesses the feasibility of the proposed trade policies during his second term and their potential ripple effects on the Korean economy, considering evolving economic dynamics in both the US and China.

Political and economic policy characteristics and key lessons of Trump's first administration

The trade policies of Trump's first administration can be summarized by two key features: anti-intellectualism and populism. Anti-intellectualism is manifested as a distrust of experts and intellectuals and a tendency to oversimplify complex issues. During his first term, major economic forecasters and market participants downplayed the likelihood of a trade war, relying on the prevailing consensus that the burden of US import tariffs would eventually be passed on to domestic consumers.¹⁾ However, the Trump administration justified tariffs as a means to reduce trade deficits and ensure job security, arguing that the expansion of free trade was disadvantageous to the US, the world's largest market. Dismissing concerns about the consumer costs arising from tariffs on China, the administration insisted that this burden would be borne primarily by exporters or the Chinese government, thereby intensifying trade tensions. These policies implemented by the first Trump administration have contributed, to some extent, to shaping market perceptions of his second administration's willingness to fulfill its campaign promises.

1) A May 2019 survey conducted by the International Finance and Market Center at the University of Chicago Booth School of Business found that 74% of respondents, comprising leading economists, agreed with the argument that the burden of US import tariffs would be passed on to US consumers. In a similar survey conducted ahead of the presidential election in September 2024, 95% of respondents reached the consensus that the burden of import tariffs is borne by consumers in the country imposing the tariffs.

Figure 1. Consumer surplus changes subject to tariff imposition

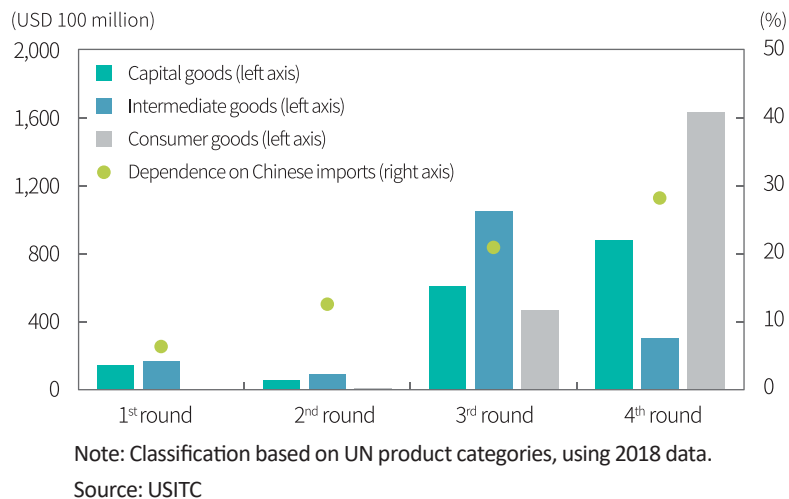
However, contrary to the first administration's assertions, numerous empirical studies on the tariffs imposed during the 2018-2019 period have found that China's export supply curve was highly elastic in the short term, representing a horizontal curve rather than an upward-sloping one, as illustrated in Figure 1. As a result, the welfare losses associated with the tariffs were borne by US consumers and importers. Furthermore, the tariffs adversely affected manufacturing employment, and China's retaliatory tariffs on US agricultural products significantly harmed the agricultural sector. In its October 2019 World Economic Outlook, the IMF estimated that the economic losses resulting from US-China tariffs imposed through May 2019 would represent 0.2% of US GDP and 0.6% of China's GDP.

The Trump administration's anti-intellectualism translated into concrete policy measures, primarily driven by its populist orientation. Trump's campaign pledges and policymaking process reflected an emotional appeal designed to stimulate the sentiments of US citizens who have been marginalized by hyper-globalization and technological advancements, explicitly emphasizing the "America First" agenda. Robert Lighthizer, the US Trade Representative of the first administration, claimed that the US was transferring hundreds of billions of dollars to China through trade deficits, indirectly supporting the enhancement of China's military power. However, it should be noted that Trump's populist stance also occasionally served as a constraint on anti-intellectualism. For instance, his first administration, which initially downplayed the risk of Covid-19, was forced to accept the guidance of public health experts by implementing social distancing measures as the infection surged across the US.

Despite the anticipated economic losses or inflationary risks, the first Trump administration was able to escalate trade disputes, primarily due to the limited macroeconomic impact of

tariff imposition at that time. The US economy was recovering from the prolonged downturn following the global financial crisis, while inflation rates remained stable. Against this backdrop, the administration phased in tariff hikes on Chinese imports, categorizing them by product type. However, when the fourth round of tariffs, which primarily targeted consumer goods as shown in Figure 2, was predicted to pose direct harm to consumers and importers,²⁾ the administration rushed to sign the Phase One trade deal with China,³⁾ despite widespread skepticism over its tangible benefits. This suggests that the administration's populist stance was highly responsive to public sentiment, thereby controlling the intensity and pace of its trade policies.

Figure 2. Classification of Chinese imports subject to US tariffs in Trump's first term



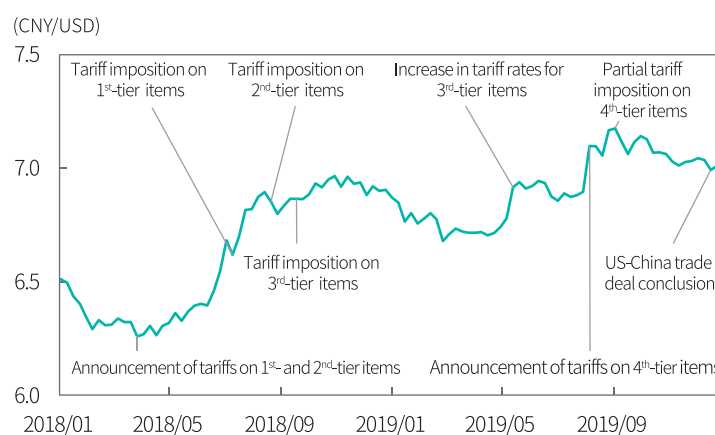
In response to US tariffs, China implemented measures, such as yuan devaluation and transshipments as a form of tariff evasion. As the phased tariff hikes raised the effective tariff rate on Chinese goods from 3% to 21%, the CNY-USD exchange rate climbed by 12.7% from 6.3 yuan per dollar in February 2018 to 7.1 yuan in September 2019, partially offsetting the effects of tariff increases (Figure 3). During the US-China trade war, Asian currencies moved in tandem with the yuan, as reflected in the correlation coefficient between the KRW-USD and CNY-

2) In this context, Apple made an assertion to the Trump administration that its products, assembled in China, would be subject to tariffs, while Samsung's products, manufactured in South Korea and Vietnam, were not affected by US tariffs on Chinese imports (Korea Economic Daily, August 19, 2019, "Amid waning innovation, Apple targets Samsung over tariffs").

3) The Phase One trade deal included China's commitments to expand imports of US products and improve market access. As anticipated, China's implementation of the agreement was limited, and as both countries shifted their focus to Covid-19 pandemic control, trade negotiations fell lower on their priority agenda lists.

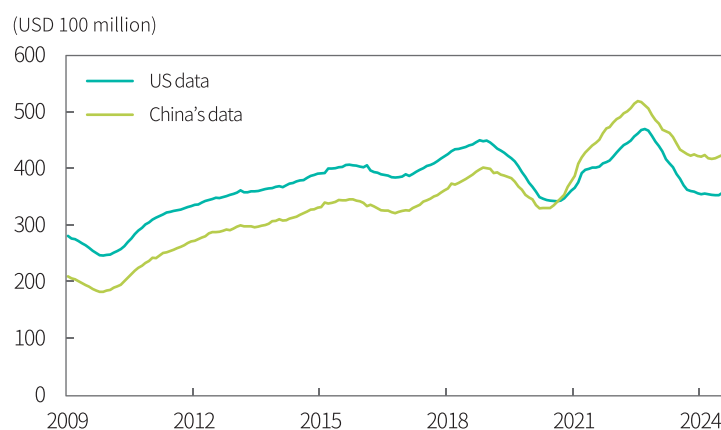
USD exchange rates, which rose sharply from 0.22 in 2017 to 0.50 in 2018 and 0.55 in 2019. Meanwhile, the share of US trade deficits attributed to China ostensibly declined from 48% in 2018 to 25% in 2024, while concerns about China's transshipments through countries like Mexico and Vietnam persisted. Figure 4 exhibits an overview of China's exports to the US and US imports from China. Prior to the trade conflict, the gap between these statistics remained stable at around \$6 billion, which largely stemmed from timing differences in customs data. From 2019 onward, however, US imports from China significantly fell below China's exports to the US. Notably, the trade surpluses reported by Mexico and Vietnam against the US doubled and tripled, respectively, suggesting that China's export routes to the US became increasingly complex and extended in order to circumvent tariffs and trade restrictions.

Figure 3. CNY-USD exchange rates in response to the announcement of phased tariffs on Chinese imports



Source: Refinitiv

Figure 4. China's exports to the US vs. US imports from China



Note: 12-month moving average

Source: Refinitiv

Divergence in economic conditions between Trump's first and second administrations

Trump's second administration will face an economic environment markedly different from that of his first term. Inflation in the US has surged in the wake of the Covid-19 pandemic, rising by 22% from the end of 2019 to the third quarter of 2024. The US Fed has also sharply raised its policy rate, which stood at 2.5% at the end of 2018, to 4.75% as of the end of November 2024. This starkly different economic landscape is likely to hinder the full implementation of his campaign promises. According to an analysis by the Peterson Institute for International Economics (PIIE),⁴⁾ a 60% tariff on Chinese imports and a 10% broad-based tariff, coupled with the deportation of undocumented immigrants⁵⁾ would reduce US GDP by 2% and elevate inflation by 2 percentage points. This scenario would prompt an estimated 0.7 percentage point increase in the Fed's policy rate. As the steep rise in living costs has been pointed out as a key driver behind the political turnover in 2024, Trump is unlikely to implement his proposed tariffs in a sweeping manner, given his populist orientation. Instead, in line with the policy direction of his first administration, tariff hikes will be phased in, focusing on capital and intermediate goods, serving as a bargaining tool in long-term trade negotiations. The new administration may impose selective high tariffs on Chinese electric vehicles produced in Mexico to curb China's transshipments. Except for this case, the overall increase in effective tariff rates for non-Chinese exporters is expected to be modest. For instance, tariffs on semiconductor imports from South Korea and Taiwan—suppliers that can hardly be substituted—could be passed directly on to US importers. For this reason, major forecasters including Bloomberg and Goldman Sachs project a 20 percentage point increase in the effective tariff rate on Chinese goods, while across-the-board tariff increases are estimated to remain at 2-3 percentage points.⁶⁾ This prediction is also echoed by financial markets where participants have responded cautiously to Trump's tariff promises. For instance, the end-of-2025 federal funds rate that anchors the federal funds futures market climbed only by 15 basis points (bp) between November 4 and 6, 2024, immediately following the US presidential election.

4) McKibbin, W., Hogan, M., Noland, M., 2024, The international economic implications of a second Trump presidency, PIIE working paper 24-20.

5) In the US, the large-scale deportation of undocumented immigrants is a politically charged issue. Considering that these immigrants are estimated to comprise 4% to 5% of the total US workforce, implementing Trump's proposed plans for mass deportation using military force would inevitably result in reduced labor supply, economic growth decline, and rising inflation.

6) Yahoo Finance, November 16, 2024, Goldman Sachs projects more U.S. tariffs on Chinese goods by early 2025; Bloomberg, November 19, 2024, US INSIGHT: How trade war II may actually unfold our baseline.

China's economic growth rate, which stayed at 6.7% in 2018, is projected to drop to 4.8% by 2024, representing a substantial slowdown compared to Trump's first term. In the PIIE scenario of a 20% increase in US tariffs, China's growth rate is anticipated to fall by 0.4%. A depreciation of the yuan may be employed as a countermeasure to US tariff hikes. However, the CNY-USD exchange rate has already risen from 6.3 yuan per dollar in Trump's first term to 7.2 yuan, leaving limited room for further depreciation due to concerns about crossing the 8-yuan threshold that is regarded as a critical psychological limit to avoid capital outflows. Furthermore, discussions under the Biden administration to restrict Chinese transshipment as a form of tariff evasion are expected to intensify in Trump's second term, forcing China to expand fiscal spending to stimulate domestic demand.

Implications for the Korean economy

Trump's second-term trade policies present the following implications for the Korean economy. First, even if the actual tariff increases fall short of what he promised during the presidential campaign, a gradual escalation of trade tensions, as observed under the Trump first administration, could negatively affect economic growth through both the direct effects of tariff hikes and the pessimistic outlook of economic agents. During the 2019 US-China trade dispute under the first administration, the global economic slowdown was attributed to weakened global demand (0.2%p) and sentiment shocks (0.1%p).⁷⁾

Second, as Trump's economic policies are likely to sustain higher interest rates, the yuan's depreciation and China's reduced trade surplus, fueled by trade disputes, may put additional upward pressure on the KRW-USD exchange rate that has remained elevated amid the global strength of the US dollar. In Korea, the sluggish recovery of domestic demand leaves only limited room for maneuver in monetary policy, highlighting the need for proactive fiscal expansion to offset external shocks. As illustrated in Table 1, Korea's trade surplus with the US has grown 3.7 times compared to 2018, prompting growing calls for increased imports of US goods and higher defense spending by Korea. Under these conditions, expanding fiscal spending seems inevitable.

7) Kang, H.J., 2019, Assessment of the impact of recent internal and external factors on Korea's economic slowdown, Korea Capital Market Institute Issue Papers 19-14.

Table 1. Major countries reporting trade surpluses with the US under Trump's first and second administrations

(USD 100 million, %)

	2024		2018	
China	2,887	(24.9)	4,192	(47.7)
Mexico	1,665	(14.4)	815	(9.3)
Vietnam	1,208	(10.4)	395	(4.5)
Germany	849	(7.3)	683	(7.8)
Ireland	827	(7.1)	468	(5.3)
Taiwan	729	(6.3)	155	(1.8)
Korea	669	(5.8)	179	(2.0)
Japan	661	(5.7)	676	(7.7)
Canada	597	(5.2)	198	(2.3)
US trade deficits	11,577	(100.0)	8,787	(100.0)

Note: () represents the proportion.

Source: Korea International Trade Association (KITA)

Third, despite the anticipated gradual and pragmatic approach of the Trump administration, attention should be given to the risk of tariffs on certain manufacturing items that hold substantial trade deficits and symbolic importance. A notable example is automobiles and auto parts, which account for one-third of Korea's total exports to the US in the first nine months of 2024. In 2018, Trump's first administration already considered imposing tariffs on imported vehicles under Section 232 of the Trade Expansion Act, citing potential threats to national security as justification. Although the probability remains low, the imposition of a 20% tariff on imported vehicles would result in an estimated KRW 21.7 trillion in direct and indirect production losses for Korea, with a reduction in added value equivalent to 0.3% of GDP,⁸⁾ leading to significant ripple effects on the economy. This underscores the need for close monitoring of potential tariff policies targeting Korea's key export sectors.

8) The estimate is calculated using the 2020 input-output table, based on the assumptions that the domestic automobile industry fully passes on to tariff increases to prices and demand for imported vehicles is perfectly elastic.

Finally, the protectionist stance of the Trump administration is expected to further accelerate the expansion of Korean companies' production facilities in the US, a trend already motivated by large-scale subsidies introduced under the Biden administration through the Inflation Reduction Act and the CHIPS and Science Act. In the long term, this requires the development of industrial strategies to address potential challenges, such as deindustrialization in Korea and the resulting declines in domestic investment and employment.