MEDIA RELEASE

AARES
AUSTRALASIAN AGRICULTURAL & RESOURCE ECONOMICS SOCIETY

PO BOX 1371, MITCHAM NORTH VIC 3132 P: 03 8393 9383 E:OFFICE@AARES.ORG.AU

Media are welcome to attend the AARES annual conference at the Grand Chancellor Hotel Brisbane. Please contact Cathy Reade 0413 575 934 to arrange interviews or to register to attend. The conference program is here, with Australian and international specialists making over 200 presentations across a broad range of energy, agriculture, development and environment issues.

Embargo: 9am, 10 February 2025

TRUMP'S TARIFF CHAOS:
Unravelling the trade and income impacts suggests there's no need to panic

Prior to the 2024 USA election, President-Elect Trump proposed a 10% tariff on all imports and a 60% tariff on imports from China. After the election, he also proposed a 25% tariff on trading partners Canada and Mexico. If these policies are implemented, what are the trade and income impacts, and what is the best response?

A new analysis of the implications of these proposed tariffs is being presented by Dr David Vanzetti, Adjunct Senior Lecturer at the School of Agricultural and Resource Economics, The University of Western Australia, who will be speaking at *Meeting the Challenges of Transition to a Sustainable Future*, the Australasian Agricultural and Resource Economics Society (AARES) Conference, 11-14 February in Brisbane. AARES is the pre-eminent society promoting research relevant to Australasia in agricultural, environmental, food and resource economics and agribusiness.

"During the previous Trump Administration, it was claimed that China was using unfair trade tactics in promoting its exports, including an undervalued exchange rate, state-owned or state-supported companies, theft of intellectual property, and limitations on foreign investment. The current idea seems to be that a 60% tariff would bring China into line and seek to reduce the US bilateral trade deficit with China," explained Dr Vanzetti.

"Assuming President Trump implements these policies, our new analysis quantified the potential medium term trade and national income impacts on the United States, China and other countries using a global computable general equilibrium model," said Dr Vanzetti.

"Our results suggest that while the tariffs are bad policy, and have large bilateral trade effects, they are not catastrophic in terms of income and employment. The US itself is somewhat worse off in trade and real income (GDP), and real wages are likely to fall because of the increase in prices, although these are one-off increases."

"We quantified annual US losses amount to 0.6% of GDP, and countries other than China, Canada and Mexico would gain from the trade diversion away from imports from these countries. This includes Australia, which experiences a loss in exports to China but gains in exports to the United States, India and other countries."

"In terms of supporting domestic US industries, the effects are likely to be marginal, as Chinese imports can be replaced with imports from other countries, such as Japan, Korea, the European Union and several countries in South-East Asia, which face lower tariffs. A further problem for the US is that many of the intermediate inputs into the production of Chinese exports are sourced from the United States and other developed countries. This applies to mobile phones and other technology intensive products, so cutting off imports stifles US exports."

"More broadly, the policy undermines the global rules-based system of international trade overseen by the WTO and in this sense makes most countries worse off. However, retaliation is not a sound economic policy as all countries would become worse off, with negligible impact on the US," he said.

"For example, if all countries were to respond with equivalent retaliatory tariffs, we found everyone would be worse off, with little additional harm to the United States, where GDP losses rise to 0.8%. Therefore, the threat of retaliation is less credible," he said.

"The motivation for this research was the effects on third countries like Australia. We find that third countries are likely to benefit from the initial round of proposed tariffs, but not from a retaliatory tariff war," he concluded.