

PREFACE:

PRESIDENT-ELECT TRUMP'S GRAND EXPERIMENT: RAISING TARIFF RATES

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In November 2024, U.S. citizens elected Mr. Donald Trump as the 47-th President of the United States for a term of four years starting January 2025. This election result may be viewed as the Americans' wish to protect the current global hegemony of the U.S. economy, currency, technology and military power from a potential threat by China.

During his first administration, then-president Trump started raising tariff rates on imported goods from China in 2017 as a strategy to protect the U.S. economy and employment.

Indeed, the introduction of higher tariff rates on imported goods from China, which the Biden administration kept in place, seems to have coincided with the recent slowdown of the Chinese economy. As a result, the current U.S. hegemony in the aforementioned four fields stands unchallenged as of today.

During the election campaign in November 2024, Mr. Trump made public his intention to raise the U.S. tariff rates for imported goods from Canada and Mexico by 25%, and to impose an additional tariff rate of 10% for those from China. Raising the tariff rates for Canada and Mexico is especially surprising, as they are considered friendly countries to the U.S.

This dramatic shift in the U.S. trade policy signifies a great change from free trade to protectionism. Regarding this decision, the President-elect Trump appears to follow his own instincts, ignoring the lessons of history, including the good performance of the global economy after the World War II (WWII), which was largely achieved by adhering to the principles of free trade.

Before the WWII, many countries started imposing higher tariffs on imported goods from perceived enemy nations, which divided them into blocks, eventually leading to WWII. Learning from this bitter experience, countries around the world have made every effort to lower tariff rates since then, creating international institutions like GATT (the General Agreement on Tariffs and Trade) and WTO (the World Trade Organization) in order to promote international trade.

Economic theories, originated by the famous economist David Ricardo back in the 19th century, have also been in favor of promoting trade across countries since WWII. Therefore, Mr. Trump's introduction of higher tariff rates in 2017 was indeed a dramatic shift from the post-WWII principles of free trade. At the

same time, it is also a grand experiment, spanning more than seven years, on whether or not tariffs might work as a strategy for a hegemonic country to protect its power from challengers.

What will be the economic effects of higher tariff rates on the U.S., as well as on the world economy? The macroeconomic initial impacts of higher tariff rates on imported goods from China are roughly equivalent to an additional consumption tax on imported goods from China. The result of this will be a reduced consumption level in the U.S., which will eventually lead to a deceleration in economic growth rates around the world. Higher tariff rates are certainly harmful to the world economy as a whole, as well as to consumption within the U.S.

However, the economic impacts of higher tariff rates are not limited to the above effects alone. The ways in which revenues collected from higher tariff rates will be spent by the U.S. government might have major economic repercussions. If the U.S. government spends those revenues wisely, thereby increasing U.S. citizens' purchasing power and/or fortifying the productive side of the U.S. economy, the U.S. government might be able to increase total domestic spending, thereby further strengthening the U.S. economy. The overall net effects of collecting and spending the additional tariff rates by the U.S. government are not obvious. Therefore, raising the tariff rates might not be necessarily harmful for the U.S. economy as a whole.

Mr. Trump's strategic policy seems to have been successful, at least up until now, in preventing the Chinese economy from surpassing that of the U.S. At the same time, however, it should be admitted that the U.S. higher tariff rates certainly involve some risk. In a worst-case scenario, they might put the world on the wrong path, a path leading to a war between economic blocs, causing the world to repeat the same mistakes that it made before the WWII.

Part I of this year's Economic Outlook discusses the economic status quo in the major countries along the Pacific Rim surrounding Japan. Part II outlines the performance of the Japanese economy in general, and that of the Kansai area in particular. Given that the Osaka-Kansai Expo will be held in 2025, we have added an EXPO 2025 Chronology in Part III for your convenience. Part IV contains a Statistical Annex. Although this Economic Outlook is an abridged English-language version of the original Economic Outlook 2024 published by APIR in Japanese, some of the authors have updated their manuscripts in order to provide readers with the latest information. Also, a new article has been added in Section 7 of Chapter 1. (Preface written as of January 10, 2025)