EPPLER
CAPITAL FUNDS

FEBRUARY 2025 BLOG

TARIFFS: THE PAST, PRESENT, AND FUTURE IMPACT

WHAT ARE TARIFFS?

Tariffs are taxes or duties imposed on imported goods by a government to make foreign products more expensive, encouraging consumers to buy domestically produced goods. Tariffs serve multiple purposes: protecting domestic industries, retaliating against unfair trade practices, and generating government revenue.

A BRIEF HISTORY OF TARIFFS:

Tariffs have played a significant role in global trade and economic policies for centuries. In the United States, tariffs were a primary source of government revenue in the 18th and 19th centuries before the introduction of the income tax.

- **The Tariff of 1789:** One of the first major policies of the new U.S. government, it aimed to protect American industries from foreign competition while generating revenue.
- **The Smoot-Hawley Tariff Act (1930):** Passed during the Great Depression, this act raised U.S. tariffs on over 20,000 imported goods. Other nations retaliated, leading to a significant drop in international trade and worsening the global economic crisis.
- **Post-World War II Trade Liberalization:** The General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO) led to a reduction in tariffs, promoting free trade among nations.
- **Recent Years:** Before the 2016 Trump administration, tariffs were mostly used to regulate trade disputes rather than as a major economic policy tool.

TRUMP ADMINISTRATION'S FIRST TARIFF POLICIES

During his first administration (2017-2021), President Donald Trump introduced aggressive tariff policies under the banner of "America First." His administration sought to reduce the U.S. trade deficit and bring manufacturing jobs back to the country. The key tariffs included:

1. **Steel and Aluminum Tariffs (March 2018):** The U.S. imposed a 25% tariff on steel and a 10% tariff on aluminum imports, citing national security concerns. The tariffs primarily affected China, Canada, Mexico, and the European Union.
2. **China Tariffs (2018-2020):** The U.S. imposed tariffs on over $360 billion worth of Chinese goods, including electronics, machinery, and consumer goods. China retaliated with tariffs on U.S. agricultural and industrial products.
3. **Tariffs on European Goods (2019):** The Trump administration imposed tariffs on European Union products like wine, cheese, and aircraft in response to a long-standing dispute over aircraft subsidies.
4. **Auto Tariff Threats:** Though never fully enacted, the administration threatened tariffs on imported automobiles, which created uncertainty in global markets.

EPPLER
CAPITAL FUNDS

TRUMP'S PROPOSED TARIFFS IN 2025

With Trump's second presidency in full swing, he has proposed new tariffs in 2025 as part of a broader economic strategy. These include:

1. **Reciprocal Tariffs:** President Trump has proposed the "Fair and Reciprocal Plan," aiming to impose tariffs on imports that match those levied by trading partners on U.S. exports, addressing trade imbalances and protecting domestic industries.
2. **Higher Tariffs on China:** Trump has proposed increasing tariffs on Chinese imports, particularly in sectors like technology, pharmaceuticals, and heavy manufacturing.
3. **Tariffs on Mexico and Canada:** A 25% tariff on imported goods from Mexico and Canada has been proposed but is currently delayed. Energy imports from Canada may face an incremental 10% tariff.

ECONOMIC IMPACT OF THE TARIFFS

On the U.S. Economy:

Tariffs have mixed effects on the U.S. economy. While some industries benefit from protectionist measures, others struggle with higher costs and retaliatory actions.

- **Higher Costs for Businesses and Consumers:** Many U.S. companies rely on imported raw materials and parts. The increased costs lead to price hikes for consumer goods such as electronics, automobiles, and household products.
- **Job Gains and Losses:** While steel and aluminum manufacturers experience job gains, industries that rely on these materials, like automobile manufacturing and construction, face increased costs, potentially leading to job cuts.
- **Inflationary Pressure:** Tariffs contribute to higher prices for imported goods, putting upward pressure on inflation.
- **Trade Deficit:** Despite efforts to reduce the trade deficit, the gap persists, as tariffs shift supply chains rather than significantly increasing U.S. exports.

On Financial Markets and Stocks

The stock market continues to react sharply to tariff announcements and retaliatory measures.

- **Market Volatility:** Each time new tariffs are announced or trade tensions escalate, stock markets experience sharp fluctuations.
- **Sectoral Effects:** Companies in sectors reliant on global trade, such as technology (Apple, semiconductor companies) and automotive (Ford, General Motors), face declines due to increased costs and supply chain disruptions. On the other hand, domestic steel and aluminum producers see temporary gains.
- **Investor Uncertainty:** Tariff-related uncertainty prompts investors to shift funds to safer assets like gold and bonds.

On Global Trade

The U.S.-China trade war continues to disrupt global supply chains. Companies are relocating manufacturing from China to countries like Vietnam and India to avoid tariffs. This shift alters international trade patterns and increases costs for businesses adapting to new supply chain structures.