International Trade Tariffs Past and Present: A Review of Historical and 2025 U.S. Tariff Impacts on Inflation, Consumption, Reshoring, and Substitution

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July 5, 2025

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Abstract:

This paper examines the historical economic effects and potential impact of the 2025 U.S. trade tariffs across four key categories: inflation, consumption, reshoring, and substitution. Drawing on evidence from the Smoot-Hawley Tariff Act of 1930 and the 2018-2019 U.S. trade war with China, combined with current economic models created by institutions including the Yale Budget Lab and Wharton Budget Model, this study examines whether the tariffs will achieve their intended goal of reducing the trade deficit and reshoring manufacturing. The analysis suggests that the tariffs will increase consumer prices and decrease consumption by 3.5% by the end of 2030. Furthermore, historical evidence suggests that reshoring is likely to be limited, as companies usually relocate production to lower-tariff or non-tariffed countries in response to tariffs rather than domestically due to wage disparities. Given this forecasted lack of reshoring, a decline in the trade deficit is unlikely. The tariffs are also forecasted to decrease GDP by 0.4% in the short term and up to 5.1% by 2054. Although the tariffs may fail to achieve their stated goals, they serve as a negotiating tool to strike favorable trade agreements.

[1] This paper was completed under the guidance and influence of Sanket Mohapatra, IIMA

1. Introduction

1.1. Brief Background

Trade tariffs are taxes imposed on imported goods and services. They can be used to increase government revenue, rebalance trade, or negotiate (Hahn, 2025). In April 2025, the Trump administration imposed tariffs on 57 countries at rates not seen since the Smoot-Hawley Tariff Act of 1930 (Harithas, Meng, Brown, & Mouradian, 2025). The administration claims that these tariffs were aimed at a variety of objectives, the first of which is to bring manual labor and manufacturing jobs back to the U.S. Since the 1960s, corporations within the U.S. have been offshoring manufacturing and production abroad to countries like China, India, and Vietnam, where labor is significantly cheaper (U.S. Government Accountability Office, 2006). While beneficial to companies, executives, and shareholders, these efforts have left many without employment and negatively impacted the domestic economy. Furthermore, the administration states that its widespread tariffs aim to reduce the trade deficit, citing that the U.S. has historically had lower tariff rates than many countries, including China, India, and Vietnam, causing the nation's revenue to fall behind (Trump, 2025). Overall, the Trump administration's tariffs attempt to bolster the U.S.'s global trade revenue and standing.

1.2. Area of Focus

Trade tariffs have been employed in different situations in the past century. First, as mentioned in the previous paragraph, was the Smoot-Hawley tariff, introduced to

protect domestic industries from competition (Nalepinski, 2025). Another was the imposition of tariffs by President Trump in 2018 on China (Zirpoli, 2025). In the months following his return to office in 2025, President Trump has instigated a new global trade war with a wave of tariffs. This paper will focus specifically on reviewing the existing evidence on the impact of trade tariffs on inflation, consumption, reshoring, and substitution.

As discussed in this paper, tariffs have typically led to inflation by increasing the prices of imported goods, prompting retailers to raise prices or reshore, which involves moving production back to its original country (Hahn, 2025). The amount of inflation resulting from tariffs depends on their incidence or the extent to which raised prices are passed through to consumers (Cavallo, Gopinath, Neiman, & Tang, 2021). If they do indeed result in inflation, consumer response varies depending on the number of viable domestic or non-tariffed substitutions (Konish, 2025).

Evidence suggests that President Trump's tariffs may adversely affect the U.S. economy. Data and studies suggest they will increase inflation, decreasing consumer purchasing power. Concurrently, historical evidence and new studies suggest the tariffs may fail to cause reshoring, a key goal, and may not have dampened inflationary effects due to substitution limitations. Lastly, they are also leading to retaliatory tariffs, which may ignite a new global trade war or de-escalation through trade deals.

2. Rationale and Background for Imposing Tariffs

This section addresses the methods and goals of the Trump administration's tariffs. The two key goals are reshoring and reducing the trade deficit, while the key methods involve various different clauses and bargaining tactics (Zirpoli, 2025). The section also discusses the nuances of companies' decision-making strategies and provides examples of why they may be cautious about reshoring. Overall, it aims to break down the rationale and intention behind the tariffs for companies and employees before examining their predicted macroeconomic effects.

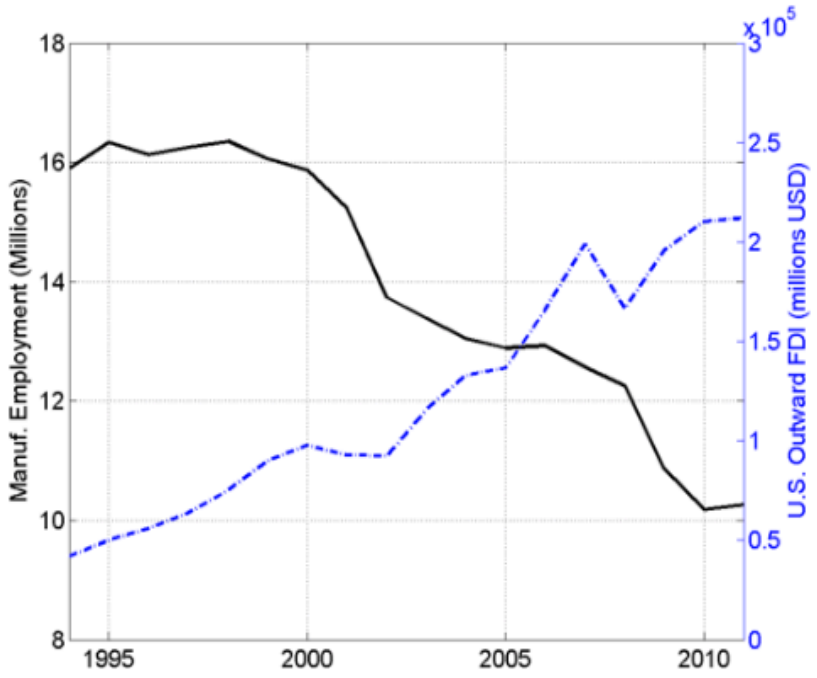
As briefly mentioned in the introduction, the first goal of the Trump Administration is to bring manufacturing and production jobs back to the U.S. (Sutton, 2025). To achieve this, Sutton notes the administration has been employing trade tariffs to prompt U.S. companies to reconsider whether overseas manufacturing is more cost-effective than domestic manufacturing without tariffs. In doing so, it attempts to reverse a trend that began gaining traction in the 1960s: U.S. corporations offshoring manufacturing and production to countries such as China, India, and Vietnam, where labor is cheaper (U.S. Government Accountability Office, 2006).

To analyze the offshoring trend, it is essential to examine the data. Figure 1, part of a study by Flaaen, Pandalai-Nayar, and Boehm (2019), illustrates that the increase in offshoring, as indicated by the rise in U.S. Outward FDI, is inversely correlated with a decrease in U.S. manufacturing employment. This provides suggestive evidence that the

surge in companies opting for cheaper foreign labor is tied to the occupational displacement of millions.

Figure 1

U.S. Outward FDI & Employment of Manufacturing



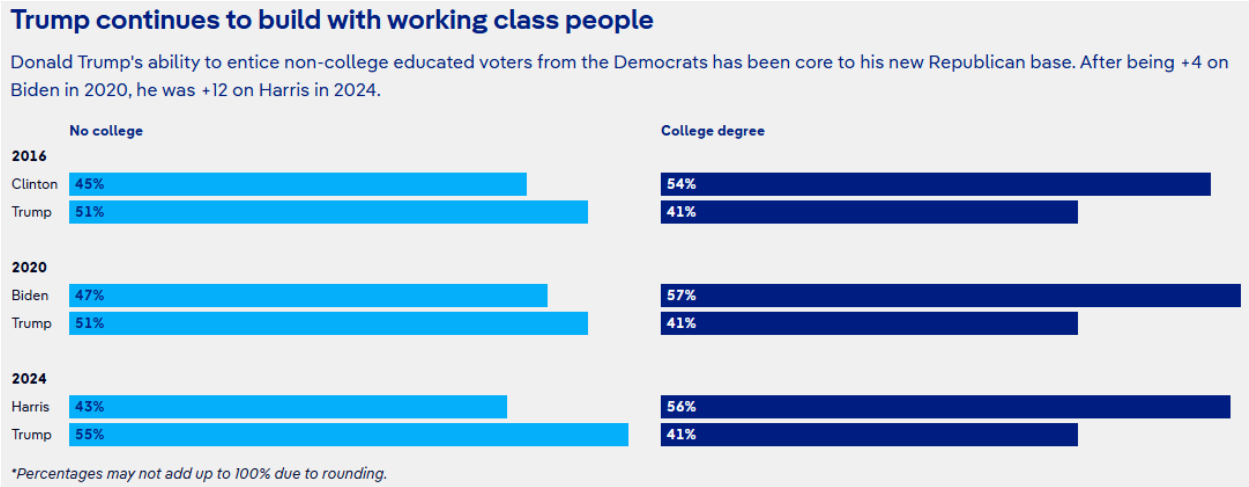
Source: Flaaen, Pandalai-Nayar, & Boehm (2019)

One explanation for President Trump's emphasis on reshoring is the role of blue-collar voters. Historically, Trump has out-earned opposition from those without college degrees. Figure 2 shows that this has been the case in all three of his presidential campaigns (Agius, 2024). Many people who have lost manufacturing and production jobs to the offshoring trend lie within this category. Beattie suggests that Trump may have utilized tariffs to appeal to this portion of his voter base and address their needs, specifically by increasing domestic manufacturing jobs (Beattie, 2025). Alternatively,

corporations, high-skilled workers, and investors benefit from reduced wages because it increases profits. Profit benefits shareholders, enables higher salaries in executive positions, and is more favorable overall for companies' health and sustainability (Levy, 2005). Regardless, when deciding whether to bear the tariffs or reshore manufacturing, companies must consider that tariffs sometimes fail to offset the cost of reshoring.

Figure 2

Share of Votes With or Without College Degrees per Candidate



Source: Agius, 2024

Box 1: The Shift of iPhone Production to China

Apple's iPhone is a great example to illustrate further why foreign manufacturing in China is much more feasible for companies. The iPhone X, which retailed for $1,000, was manufactured and assembled in China, resulting in a total value added of around $104 (Xing, 2019). While this accounts for 25.4% of all the materials and assembly costs for the phone, the total value addition is only 10.4% of the phone's total value.

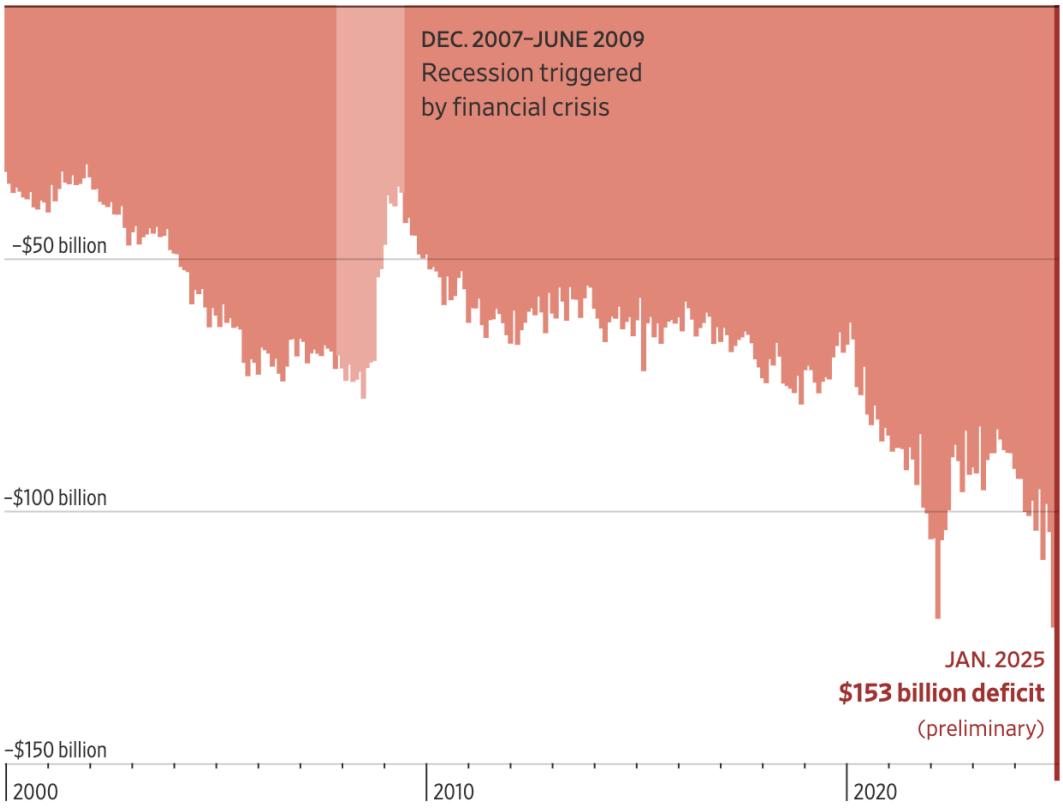
Compared to the iPhone 3G, where only assembly was performed in China, only 3.6% of the materials and assembly were accounted for in China, which accounted for a lesser 1.3% of its value (Xing, 2019). The difference between the iPhone X and 3G shows that the higher total manufacturing and assembly cost leads to more value addition. Thus, comparing the $3.63 hourly wage of workers in China when working on Apple's latest iPhone 16 to the minimum wage in California, $16.50, it is apparent something would shift: either Apple's profit margins reduce or retail prices do (Leswing, 2025). Most likely, both would shift, with some analysts suggesting that Apple's latest model would cost somewhere between 25% more than its original price and $3,500 (Leswing, 2025). Overall, even with Trump's tariffs, the iPhone may still be cheaper to manufacture abroad, highlighting the widespread appeal of offshoring.

Aside from reshoring manufacturing, Trump's other primary goal with his tariffs is to reduce the U.S. trade deficit, the difference between all U.S. imports and exports. After beginning to decrease after COVID-19, the deficit is now back on the rise, as Figure 3 shows, a trend President Trump aims to thwart (DeBarros & Santilli, 2025). In April 2025, however, the deficit was $61.6 billion, a 55.5% decrease from March (U.S. Bureau of Economic Analysis, 2025). While seemingly a positive sign, the size of the decrease is more attributable not to the April deficit but to the record $140.5 billion March deficit caused by businesses stockpiling imported goods before Trump's tariffs (Mutikani, May 6, 2025). Seen explicitly as an issue by the administration, the U.S.'s deficit to China was

the largest of any country in 2024 at $295 billion (DeBarros & Santilli, 2025). As such, the Trump administration has targeted China with heightened focus and tariff rates (Council on Foreign Relations, 2025).

Figure 3

U.S. Monthly Trade Deficit



Source: DeBarros & Santilli (2025)

In addition to reducing the trade deficit and reshoring manufacturing, the Trump administration has openly implied that the tariffs are also being used as a bargaining chip. Council of Economic Advisers Chairman Miran (2025, para. 16) claims that countries "won't face tariffs if they make their stuff in this country." By imposing high tariffs on nearly all its trade partners, the U.S. could incentivize some to relocate manufacturing

operations rather than facing the tax. According to the administration, these deals could significantly benefit the U.S. economy by increasing GDP. Soon after the administration's initial sweeping tariffs, they agreed to a 90-day tariff pause with China, allowing both to reach a longer-term agreement. A deal was agreed upon during that pause, according to Trump (Hoskins & Sherman, 2025). Although it is not publicly official, the agreement's existence shows that tariffs are an effective bargaining tool.

President Trump has invoked multiple clauses to impose such steep tariffs in setting his 2018 and 2025 tariffs (Zirpoli, 2025). The first is Section 232 of the Trade Expansion Act of 1932, which authorizes presidents to impose tariffs if imports threaten national security. President Trump first invoked this clause to impose tariffs on steel and aluminum during his first term, and in 2025, he reused it to modify these tariffs (Zirpoli, 2025). The second clause used by the Trump administration to impose tariffs was section 301 of the Trade Act of 1974, which allows the U.S. Trade Representative, under the guidance of the president, to impose tariffs in response to a country's infringement on the U.S.'s commerce rights or incompliance with trade agreements (Zirpoli, 2025). In 2018, the USTR used these to place additional tariffs on China. The last clause the administration uses is the International Emergency Economic Powers Act of 1977 (IEEPA), which heightens the president's economic control under a general national emergency. In 2025, Trump became the first president to invoke this clause to impose tariffs, doing so on almost all of the U.S.'s trading partners (Zirpoli, 2025). In the latter instance, Trump faced backlash when the U.S. Court of International Trade found that he had exploited the IEEPA and ordered him to roll back his tariffs (Romm, 2025).

However, an appeals court overturned this ruling, allowing Trump's tariffs to stand. Some other economists also argue that the tariffs do not align with World Trade Organization (WTO) rules; however, the organization has not yet taken direct action against the tariffs (Economic Times, 2025).

To summarize this section, the Trump administration invoked various clauses, including Section 232, Section 301, and the IEEPA, to encourage the reshoring of manufacturing, reduce the U.S. trade deficit, and bring countries to the negotiating table. Its methods have been criticized by peers and countries alike, but their effects on the economy are yet to be seen. The rest of this paper examines the likely outcomes, determining whether the tariffs will lead to the desired outcomes and the side effects or ramifications that follow.

3. Macro Effects

3.1. Effects of Tariffs on Investment and Economic Growth

The following section examines the macroeconomic effects of trade tariffs on the U.S. Historically, tariffs have been shown to decrease a country's GDP. The first significant tariff was the Smoot-Hawley Tariff of 1930, aimed at protecting domestic businesses from competition at the start of the Great Depression (Iacurci & Solá, 2025). Within two years of their introduction, imports to the U.S. dropped by over 40%, with some simulations attributing a quarter of this decline to the tariff (Irwin, 1996). Overall,

the tariff significantly worsened the already deteriorating economic condition of the U.S. during the Great Depression (Crucini & Kahn, 2003). The next major instance was Trump's 2018 tariffs on China, which sparked a trade war with the country. One analysis estimates that the tariffs cost businesses and consumers 0.27% of GDP in imports, highlighting their detrimental impacts (Fajgelbaum, Goldberg, Kennedy, & Khandelwal, 2019). Only in 2022 did imports from the country return to pre-trade war levels (Bown, 2022). Another study, by Amiti, Redding, and Weinstein (2019), found that the 2018 tariffs on steel and aluminum from China resulted in a deadweight loss of $8.2 billion within the year, likely leading to a decrease in real GDP. Even if the tariffs had saved 35,400 industry jobs as intended, as the study analogizes, each saved job would correspond to $252,000 in deadweight loss. In other words, the tariffs would still have adversely affected GDP even if they achieved their desired effects. Together, these instances suggest that tariffs are often associated with negative impacts on GDP.

Table 1:

Trump Administration Tariffs Effects Assuming 100% Pass-Through to Consumers (% change)

	2030	2034	2039	2044	2049	2054
Gross domestic product	-0.4	-0.7	-1.3	-2.1	-3.2	-5.1
Capital stock	-0.6	-1.3	-2.5	-4.0	-6.1	-9.6
Hours worked	-0.2	-0.2	-0.3	-0.5	-0.8	-1.3
Average wage	-0.2	-0.5	-1.0	-1.6	-2.5	-3.9
Consumption	-3.5	-3.1	-3.0	-3.0	-3.1	-3.3
Debt held by the public	-7.3	-9.9	-11.3	-12.0	-12.1	-11.6

Source: Wharton Budget Model (2025)

As illustrated in Table 1, Trump's April 10, 2025, tariffs are expected to lead to reductions in wages, consumption, and GDP, both in the short and long term (Wharton Budget Model, 2025)[2]. Consistent with studies referenced in the previous paragraphs, trade tariffs will gradually impact GDP, with most of the effects being observed in the long term. In contrast, the decrease in consumption due to these tariffs is primarily confined to the period between their imposition and 2030.

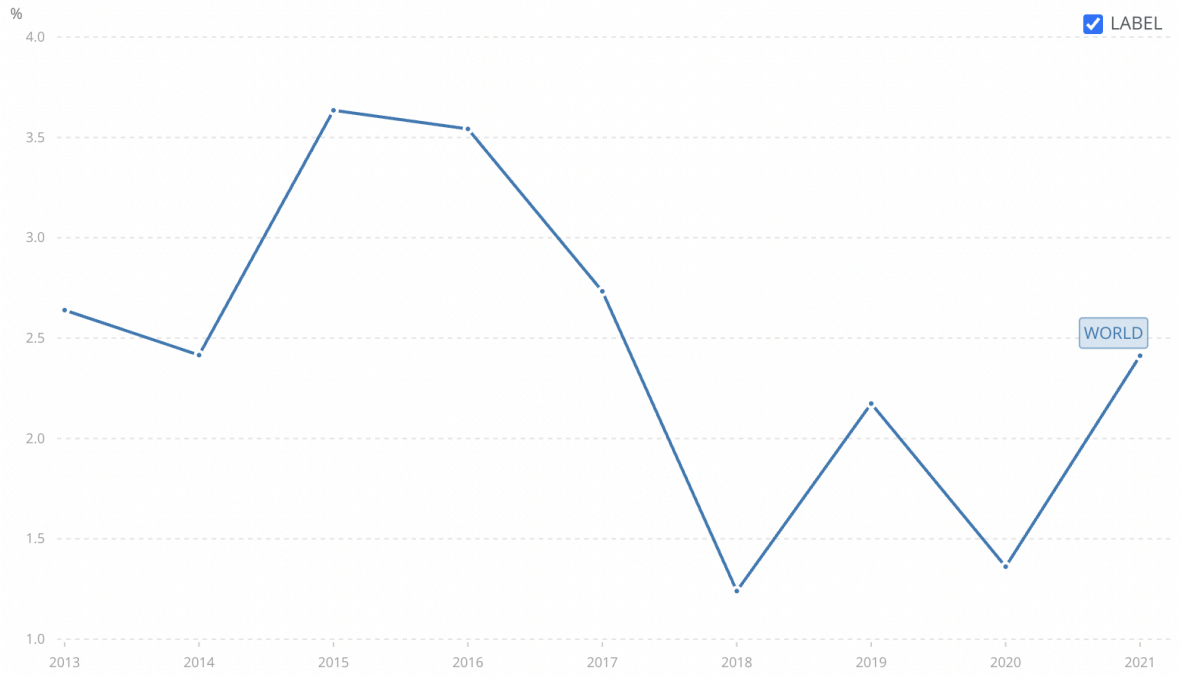
[2] A pause has been imposed on the April 10 tariffs set to end on July 9 while the U.S. negotiates trade deals (Pettypiece & Kopack, 2025). A separate 90-day trade pause with China was announced on May 12, during which there is a 10% base tariff and an additional 20% fentanyl tariff bringing the total effective tariff to 30% (Keaten, McHugh, Kurtenbach, & Moritsugu, 2025).

Retaliatory tariffs caused by those imposed also contribute to declining U.S. output and, thus, GDP. Many countries, including China and Canada, have already imposed retaliatory tariffs on the U.S.; others are expected to follow suit (Rosch & Tsui, 2025). According to the Center for American Progress, these threaten around 2.6 million jobs in the U.S. (Baker & Mulholland, 2025). If even a portion of these jobs were lost, GDP losses would be substantial, as output would decrease (Oner, 2010). Some economists forecast that the retaliatory tariffs proposed by Canada, China, and the EU in response to the Trump administration's April 10 tariffs may lead to a 0.2% decrease in GDP (York & Durante, 2025).

Studies on the history of tariffs also show that they adversely affect investment. According to a steady-state analysis by Crucini and Kahn (2003), when tariffs increase from 10% to 30%, investment declines by 3.1%, which they label as the second-highest decline following exports. One reason for this is uncertainty. A study by Handley and Limao (2015) finds that even if tariffs are perceived as a potential future threat, firms may hold off from investing in foreign markets. In 2025, the triggers of this correlation are becoming apparent. A model by Hobijn and Nechio (2025) forecasts that near-term investment goods prices will increase by 9.6% if a 25% tariff is imposed globally on imported goods and services. Given the increase, foreign investment into the U.S. would likely decline, as common behavior suggests that price increases lower demand. Furthermore, given the unpredictable nature of President Trump's tariffs, uncertainty may also lead foreign investors to delay their investment plans, as outlined in Handley and Limao's (2015) study.

Figure 4:

Foreign Direct Investment in the U.S. (% of GDP)



Source: World Bank (Retrieved June, 2025)

As shown in Figure 4, FDI in the U.S. dropped significantly in 2018 following Trump's declaration of mass trade tariffs on China (World Bank, 2025). During the period when tariffs were imposed, FDI decreased from 2.7% of GDP in 2017 to 1.2%. As illustrated in the previous paragraph, tariffs cause investor uncertainty, correlating with higher near-term investment goods prices and an overall reduction in foreign investment. To summarize Section 3.1, the Trump administration's tariffs are forecasted by several economists to decrease GDP, both directly and indirectly, notably through the effects of retaliatory tariffs and reduced FDI.

3.2. Effects of Tariffs on the Trade Deficit

This section evaluates whether President Trump's tariffs will reduce the trade deficit. Referencing the 2018-19 tariffs, the trade deficit to China did decrease. From 2018 to 2024, it decreased from $418 billion to $295 billion (Palmer, 2025). While it may logically follow that the overall trade deficit dropped, as the U.S. deficit to China is the largest, that was not the case.

Economists and analysts forecast that tariffs imposed by the Trump administration will fall short of achieving their stated goal of reducing the trade deficit. As Figure 5 shows, higher tariffs are correlated with wider trade deficits, a trend that directly contradicts the administration's sentiment (Gagnon, 2025). The deficit widens because raising tariffs decreases U.S. exports, which occurs because fewer foreign imports lead to a higher foreign value of the dollar and, consequently, higher U.S. import costs for other countries, according to the author. While it is acknowledged that many factors influence the chart, Gagnon argues that if higher tariffs are not correlated with a higher deficit, they have no impact at most. Altenberg finds the same, arguing that the tariffs will not help the trade balance, meaning they will not reduce the trade deficit (Altenberg, 2025). Overall, some economists' view on the tariffs is that they will not achieve their proposed goal of reducing the U.S. trade deficit.

Figure 5

Trade Balance (% of GDP) vs. Average Tariff Rate

Source: Gagnon (2025)

3.3. Effects of Tariffs on Inflation

This section discusses the forecasted inflationary effects of President Trump's tariffs. First, it is essential to acknowledge that tariff pass-through to retail prices is a crucial but difficult-to-estimate factor in determining the level of inflation. Cavallo, Gopinath, Neiman, and Tang (2021) examined short-term pass-through using data from the first 18 months of Trump's 2018 tariffs, finding that there was limited pass-through to retail prices. However, they noted that the long-term effects were uncertain. Assuming a pass-through of 100% to consumer prices, Hobijn and Nechio (2025) estimate that a 25%

tariff on all goods imported from U.S. trade partners may raise consumer prices by around 2.2% in the near term. In another study using data from the 2018-19 tariffs, Minton and Somale (2025) have found that a 20 percentage point increase in China tariffs would raise core goods Personal Consumption Expenditures (PCE) prices by 0.62 percentage points. From January to March of 2025, they reported that core goods inflation was 0.15 percent, with tariffs on China contributing 0.08 percentage points. Given these studies and estimates, further escalation of trade tariffs will likely contribute to increased consumer prices in the long term.

4. Consumption

4.1. Broad Effects of Increasing Prices

This section will cover how the Trump administration's tariffs will shift consumption. It first examines whether consumption will increase or decrease and then describes the specific near-term effects. As shown in Table 1, most of the effects on consumption due to these tariffs will be apparent by 2030 (Wharton Budget Model, 2025). Specifically, it predicts a 3.5% decrease in consumption by the end of the year. According to the U.S. Bank (2025), consumer spending comprised more than ⅔ of 2024 U.S. GDP. A decline in overall consumption would likely have negative implications for the U.S. economy through decreased consumer purchasing power.

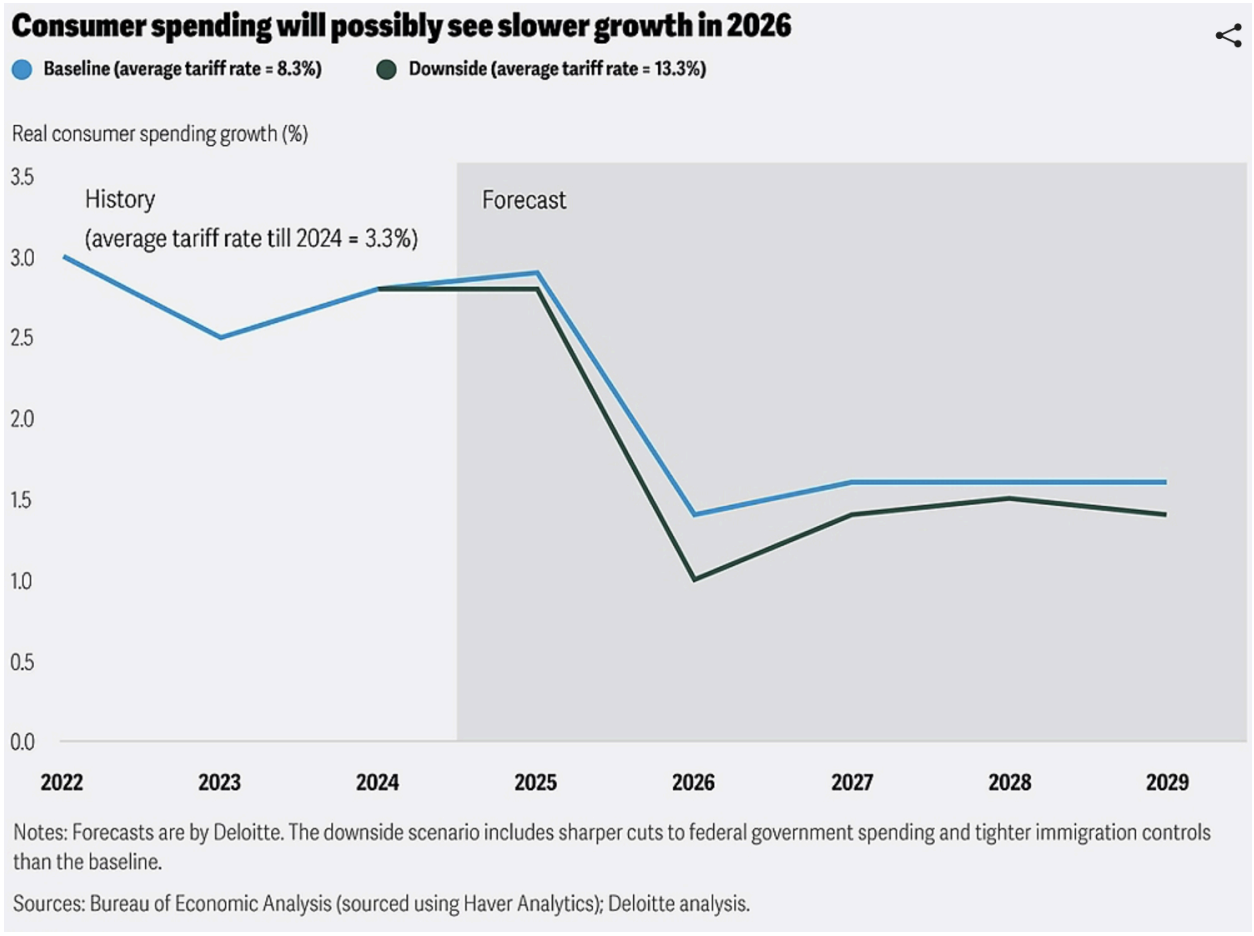
To effectively analyze the good-specific effects of tariffs on consumption, it is important to establish the difference between elastic and inelastic demand. Elastic goods

and services are those in which the price significantly impacts consumer demand. On the other hand, inelastic goods and services are those where price has less of an effect on demand. According to Hahn (2025), the decline in consumption in response to tariffs depends on the price elasticity of demand (PED). A PED below 1 suggests that a product is inelastic, while a PED above 1 suggests it is elastic (Anderson, McLellan, Overton, & Wolfram, 1997). Given the likely steep increase in retail prices tied to tariffs, as established in Section 3, negative consequences may follow for consumption in areas with a PED of over 1. As established by Anderson, McLellan, Overton, and Wolfram (1997), a few of these elastic items include fresh tomatoes, restaurant meals, and automobiles. If their prices were to increase, declines in consumption would be more pronounced compared to items like salt and coffee, which are considered inelastic.

Acknowledging the heavy decline in consumer purchasing power associated with these tariffs is also important. According to Barua and Wolf (2025), the inflation caused by the high average tariff rate would dent purchasing power. According to The Budget Lab (2025), the increase in consumer prices would equate to a pre-substitution loss of approximately $4,700 per household in purchasing power, thereby reducing consumer spending growth in 2026, as shown in Figure 6 (Barua & Wolf, 2025). As purchasing power declines, many consumers shift their spending focus to inelastic, essential goods rather than elastic items, albeit not at a one-size-fits-all scale (Mena, 2025).

Figure 6

Projected Consumer Spending Growth (%)



Source: Deloitte (2025)

4.2. Specific Effects of Increasing Prices

While it is likely that inflationary effects will follow these tariffs in the long term, as established in section 3, there is conflicting data on the immediate effects of tariffs on retail prices. Cavallo, Gopinath, Neiman, and Tang's (2021) assertion that the 2018 tariffs had little effect on retail prices over 18 months suggests consumption would likely remain stagnant for a similar time. Alternatively, Hobijn and Nechio's (2025) estimate

that consumer prices would rise by roughly 2.2% indicates that the results would be far more detrimental.

In a shorter period, roughly a couple of months after tariffs are threatened or imposed, their effects on retail prices are limited due to the lag effect. This is because many products sold at any given time were imported several months earlier. Thus far, retail sales at stores and restaurants initially increased after warnings of future tariffs in March but declined 0.1% in April and 0.9% in May, a sign that consumption is beginning to fall following a stockpiling period (U.S. Department of Commerce, 2025). Federal Reserve Chair Powell expects the pass-through of tariffs to consumer prices to become much more apparent in July and August 2025 (Lawder, 2025). Should no deal be made with China after the 90-day tariff pause, Powell notes these effects will be significantly elevated (Lawder, 2025).

5. Response of Producers and Consumers

5.1. Reshoring & Global Shifts in Production

This section discusses whether President Trump's tariffs will achieve their goal of reshoring production. Economists and analysts speculate they may not cause reshoring (Fox, 2025). In 2018, when Trump levied tariffs against China, this was the case (Stackpole, 2024). Instead of moving production back to the U.S., companies moved it to other countries with cheap labor, like Vietnam, as Stackpole notes. Many argue that these tariffs will not universally cause reshoring, even though they have been placed on almost

all U.S. trade partners (LaRocco, 2025). LaRocco reports the leading cause for this, as indexed in a CNBC survey, is high costs, including moving supply chains and high-skilled labor costs. Even in the face of significant tariffs, some companies suggest the wage gap is too high between some foreign and domestic labor.

Box 2: Apple Reshoring Reluctance

As illustrated in Box 1, Apple's costs would rise significantly should it reshore production to the U.S. In the face of President Trump's 145% tariff on China, Apple CEO Tim Cook obtained an exemption from the iPhone tariff (Mickle, 2025). Soon after, Mickle reports, Trump threatened to levy a 25% tariff on iPhones produced anywhere outside the U.S. in response to Apple's supplier Foxconn's new India factory aimed at avoiding high tariffs in China. Apple is an example of a larger effort to avoid Trump's tariffs (LaRocco, 2025).

Should reshoring efforts occur, domestic labor shortages pose a significant challenge (Moser, 2025). Moser notes that certain manufacturing industries demand highly-technical skills, including semiconductors and automation. Even as people obtain the necessary degrees for these skills, Moser argues rapid evolution of technology outpaces this education, leaving companies short of labor should they shift manufacturing to the U.S. Consequently, should lower-skill manufacturing return to the U.S., Firooz, Leduc, and Liu (2025) argue that they may turn to automation, not necessarily bringing

more jobs to the U.S. Thus, coupled with higher labor costs and shortages, companies may be disincentivized from reshoring, and those that do may not contribute to achieving President Trump's goal of bringing manufacturing jobs back to the U.S.

5.2. Substitution of Consumption

This section addresses the effects of Trump's tariffs on substitution and whether those effects will be able to neutralize the tariffs' impact on inflation. By driving up the costs of imported goods, President Trump's tariffs are likely to cause substitution (Azzimonti, Edwards, Waddell & Wyckoff, 2025). Higher imported goods typically lead to higher retail prices in the long term (Hobijn & Nechio, 2025). As retail prices rise, more elastic products will be substituted while less elastic products will remain, as described in Section 4. The Budget Lab (2025) estimates that substitution will decrease the average effective tariff rate, but not completely nullify it. This signals the U.S. dependency on imported goods and the lack of comprehensive, viable domestic substitutes. This is shown in Table 2, which forecasts the average effective tariff rate to be 15.4 pre-substitution and 14.0 post-substitution. While showing that substitution is likely to dilute the tariff rate slightly, the difference is not pronounced, corroborating the inflation findings in Section 3.

Table 2:

Average Effective Tariff Rate & Import Share Change Post-Tariffs

		Import Share		Average Effective Tariff	
	Effective Tariff	Pre-Substitution	Post-Substitution	Pre-Substitution	Post-Substitution
China	33.2	14%	6%	4.5	2.0
Canada	17.2	13%	15%	2.2	2.6
Mexico	14.7	15%	17%	2.3	2.5
Rest of World	11.0	58%	62%	6.4	6.8
Total		**100%**	**100%**	**15.4**	**14.0**

Source: The Budget Lab (2025)

Box 3: Fruits & Vegetables: An Example of U.S. Import Dependance

Examining the source of U.S. fruits and vegetables illustrates U.S. dependency on imported goods. In 2007, fruit and vegetable supply was respectively 50% and 20% imported (U.S. Department of Agriculture, Economic Research Service, 2025). Since the proportions have only increased, now at 59% and 35% respectively, according to the U.S. Department of Agriculture. This small example indicates how vital trade is for the country. Given these new tariffs, it would be largely unfeasible for the country to replace all imported fruits and vegetables domestically. This shows how the lack of viable substitutes requires the continuation of imports, even through tariffs.

6. Conclusion

President Trump's tariffs are still in their early phase. While the future unfolding of the situation remains unpredictable, some conclusions can be drawn. Firstly, Trump's tariffs may not achieve their goals of reshoring and reducing the trade deficit. Instead, historical evidence and early forecasts suggest limited reshoring and a possibly widened trade deficit. Furthermore, given the dependence of the U.S. on imported goods, substitution is unlikely to significantly offset the forecasted inflation and potential GDP decrease impacts of these tariffs. With this inflation comes a decrease in consumption as well.

Another intention of the president was to bring countries to the bargaining table. Admittedly, the complete success of the tariffs in striking trade deals cannot be fully determined at this current point. However, dealmaking has not occurred at the administration's proposed rate, having only struck preliminary agreements with China and the United Kingdom (Breuninger, 2025). According to administration officials, more deals are set to be announced shortly before the end of the 90-day tariff pause on July 9, which the administration claims may be extended (Breuninger, 2025). Some deals may not be made. An example is U.S. talks with Canada, which Trump claimed to have terminated after Canada began implementing a digital services tax (Romm, Deuhren & Stevis-Gridneff, 2025). Looking ahead, the tariffs have strained some relationships with trade partners which could signal complexity for future trade deals.

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