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What a second Trump presidency means for the US and Asia

The election of Donald Trump to a second term as President of the United States raises questions about the potential impact of his America First policies on the US and global economies. Specifically, what effect might these policies have on Asia?

Geopolitically, the world has changed since his first term as President. During his tenure, the US experienced low inflation and strong economic growth until the Covid pandemic hit. His priorities included tax cuts, reducing climate change commitments, enforcing stricter border control, and imposing tariffs on countries he viewed as unfair trading partners, especially China.

Under Biden's presidency, Covid concerns lessened but inflation increased. Trump's immigration policy was partially reversed. Geopolitical alliances became more defined, with NATO and allies on one side, and an expanded BRICS along with closer Russia-China ties on the other. Conflicts in Ukraine and the Middle East saw US support for Ukraine and Israel. Overall, both the US and global political-economic climates have become less favorable compared to Trump's previous term.

With the start of Trump's second term, tariffs are a key focus. The goals are to protect US industries, contain China, and raise revenue. Trump proposes tariffs of 10%-20% on all imports, with higher rates for countries opposing US interests. Specifically, Chinese imports face a minimum of 60% tariff. Additionally, he suggests 25% tariffs on

goods from Mexico and Canada, though this may be a negotiating tactic.

The focus of Trump II's proposed tariff policies appears to have shifted towards generating government revenue. This is significant because some of the proposed tax measures, such as extending the 2017 Tax Cuts and Jobs Act, reinstating the deduction for state and local taxes, lowering the corporate tax rate for domestic production, and exempting certain types of income from the income tax, along with the costs associated with deporting a large number of undocumented immigrants, are anticipated to increase existing budgetary gaps.

Trump's immigration policy focuses on stronger border control, repatriation of all illegal immigrants, prioritizing dangerous criminals, and ending birthright citizenship. Trump estimates 15-21 million illegal immigrants, while the Department of Homeland Security estimated 11 million in 2022. Pew Research Center reported that unauthorized immigrants made up 5% of the U.S. labor force in 2022, about 8.3 million people. The American Immigration Council estimates deporting a million people annually would cost at least USD 88 billion, nearly three times the combined budgets of ICE and Customs and Border Protection for 2024. (Source: "How far will Donald Trump go to get rid of illegal immigrants?" The Economist, January 9, 2025)

The stated reasons for the removal of illegal immigrants include protecting US jobs, reducing the crime rate, lowering welfare expenditures, and preserving American culture. However, it is considered unlikely that all illegal immigrants or unauthorized persons will be deported due to the high costs and logistical challenges of implementing mass deportation. Most illegal immigrants work in the agriculture, construction, and services sectors, where replacing these workers would be challenging.

In addition to their unrealistic expectations regarding the extent of illegal immigrant deportation, the statements on immigration may discourage overall immigration to the United States, including the influx of foreign talent. This could increase wages in impacted sectors, potentially affecting other sectors as well, thereby contributing to overall inflation and reduced output growth.

Policy considerations:

1. In discussions regarding the America First policy, the subject of increasing productivity is often overlooked. Without enhancing productivity in US firms, there will be no comparative advantage to support reshoring industries to the US or revitalizing existing ones. Implementing tariffs to protect domestic industries without boosting productivity may not effectively grow the US economy or sustainably generate more jobs. Instead, it could potentially lead to higher inflation rates.
2. Immigration policy plays a crucial role in attracting global talent to the United States and maintaining a productive labor force. Restrictive immigration policies may hinder productivity and compromise the US's technological superiority and leadership. Furthermore, policies proposed under Trump II could damage the reputation of the United States as a refuge for oppressed individuals and as an attractive destination for global talent, thereby deterring foreign professionals from entering the country. Notably, foreign-born scientists, professionals, and entrepreneurs, such as Elon Musk, have made substantial contributions to the US's position as a leading economy and technology innovator.
3. Using blanket and higher tariffs to contain China could harm it but may not significantly benefit the US. It will also impact other countries, especially in Asia. A 60 percent tariff on Chinese imports could disrupt global supply chains and increase US inflation. These tariffs will affect other Asian nations directly

and indirectly. A 2019 study shows that tariffs under Trump I negatively impacted Asian countries, except Singapore. China responded by boosting domestic demand and expanding sales to Africa, Latin America, and the Middle East through agreements like BRICS and the ASEAN-China FTA. This strategy will likely continue under Trump II. However, the US can better sustain a trade war than China, as only 10 percent of US GDP comes from exports compared to China's 20 percent.

4. Trump's tariff policy may accelerate the growth of RCEP and BRICS, two alternative economic blocs. BRICS, which includes Russia and India, represents about 40% of the world's GDP on a PPP basis. Recent members are Thailand, Indonesia, and Iran. It has been argued that, contrary to conventional wisdom, countries may well be better off joining a particular side rather than pursing strategic ambiguity. Countries join these blocs because (1) China might withstand a trade war with the US, and (2) US tariffs affect other countries too, prompting them to hedge their positions.
5. One reason for Trump II's tariff proposal is to generate revenue for his proposed tax reforms. According to the Tax Foundation's General Equilibrium Model, Trump II's proposed tariffs would offset more than two-thirds of the long-term economic benefit of his proposed tax cuts. The tax proposals are estimated to reduce federal tax revenue by USD 3 trillion from 2025 through 2034, before decreasing to USD 2.5 trillion on a dynamic basis.
6. The dominance of the United States and the US Dollar may be threatened by increased uncertainty, perceived erosion of the rule of law and credibility of institutions, an anticipated larger budget deficit, and expected higher inflation that will necessitate higher interest rates within the US. Additionally, there is a growing desire among countries to join groupings such as BRICS. Increased uncertainty is likely to impact global financial

markets. The volume and direction of global capital flows may be negatively affected, resulting in reduced capital availability for developing countries that require it. Developing nations must mitigate these risks by developing more effective hedging instruments and other risk management tools.

7. The market euphoria in the US following Trump's election and persistent high inflation will likely keep interest rates high and the USD strong. As other currencies weaken, inflationary pressures will rise and hinder economic growth in those countries. This will incentivize seeking alternatives to the USD as a reserve and settlement currency.

References:

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