

Trump's Second Term: The Global Ramifications of a "Great Again" America



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With the Trump administration moving swiftly to finalize its appointments for a second term, a clearer picture of its imminent policy direction is emerging. Among the most headline-grabbing announcements are plans to impose a 25% tariff on all imports from Canada and Mexico and an additional 10% tariff on goods from China, effective on his inauguration day. Yet, what sets this proposal apart is not the scope of the tariffs but the rationale behind them. Unlike past justifications focused on addressing trade imbalances, this time the administration claims the measures aim to curb the influx of illegal drugs like fentanyl and unauthorized immigration into the United States. By leveraging tariffs—an external economic tool—to address what are fundamentally domestic concerns, the Trump administration signals a novel, albeit controversial, approach to policymaking. Whether such measures will effectively resolve the challenges of drug trafficking or illegal immigration is uncertain. However, what is abundantly clear is that tariffs will once again be a central instrument of Trump's policy arsenal, one that carries implications far beyond U.S. borders.

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The Erosion of Trust and Leadership in U.S.-China Relations

The most troubling consequence of escalating U.S.-China tensions is the erosion of global trust in U.S. leadership and the resulting uncertainty in the global trade landscape. Take, for instance, the United States-Mexico-Canada Agreement (USMCA), which explicitly incorporates provisions on tariff regulations. Imposing unilateral tariffs on Canada and Mexico would violate the very terms of this agreement. Adding to the complexity, Canada recently announced its own 25% tariffs on Chinese steel and aluminum imports, alongside a 100% tariff on Chinese electric vehicles. This move was widely interpreted as an effort to align with U.S. policy toward China. China's swift retaliation—launching an anti-dumping investigation into Canadian canola seeds—underscored the fragility of the global trade order. Remarkably, this investigation was initiated without any formal complaints from Chinese businesses, signaling the Chinese government's willingness to act decisively and unilaterally. Against this backdrop, Trump's plans to impose tariffs on Canada appear counterintuitive and risk alienating a crucial ally amid a fraught geopolitical climate.

A Cost-First Vision of American Leadership

Throughout his campaign, President Trump repeatedly floated ideas such as withdrawing not only from the Indo-Pacific Economic Framework (IPEF), and the Paris Climate Agreement, but even from the World Trade Organization (WTO), and NATO. His rhetoric suggests a cost-centric view of America's role on the global stage, seeking to reduce expenditures on international commitments to maximize domestic benefits. But can such policies, grounded in transactional logic, deliver the prosperity Trump envisions for a more insular America?

Economic research casts doubt on this proposition, particularly in the realm of trade. Since the early days of the U.S.-China trade war, studies have consistently warned that the primary casualties of such conflicts would be the two main belligerents. Universal tariffs, a key Trump policy, have been shown to fail at reducing America's trade deficits while simultaneously depressing GDP. Meanwhile, China's own countermeasures, including retaliatory tariffs and export controls, have similarly inflicted economic damage on itself.

However, these conflicts have created rather unintended winners. Research by Fajgelbaum et al. (2024) reveals that trade disputes during Trump's first term spurred growth in third-country trade flows as businesses and governments sought to fill the void left by U.S. and Chinese retrenchment. The IMF's 2023 report echoed this, highlighting how nations steering clear of the new "Cold War 2.0" between the U.S.-led West and the East bloc with China and Russia have benefited economically. India, often cited as a leading neutral player, stands out

as a case in point. Its projected growth rate for 2025 has been revised upward to 6.8%, according to the Korea Institute for International Economic Policy (KIEP), even as many other economies have faced downgrades.

Yet such benefits come with caveats. While neutral nations may seize short-term opportunities, the structural uncertainty of a fragmented global economy makes long-term stability elusive.

Trade Wars Have No Winners

In trade wars, there are no ultimate winners—least of all the primary participants. Escalating hostilities exacerbate economic losses on both sides while eroding the trust necessary for cooperation. History has demonstrated that a rules-based international trade order, underpinned by mutual trust, is in everyone's interest. Unfortunately, rebuilding that trust amid intensifying conflict is no easy task.

The path to resolution lies in restoring leadership grounded in negotiation and mutual respect. The current erosion of U.S. leadership may reflect domestic dissatisfaction with America's global role. However, it is worth remembering that post-World War II, the U.S. played a pivotal role in establishing institutions such as the IMF, the World Bank, and the WTO, laying the foundation for a market-based global economy. These initiatives not only advanced global prosperity but also allowed the U.S. to reap significant economic and geopolitical rewards.

Reconsidering the Meaning of "Great Again"

Trump's rallying cry of "Make America Great Again" (MAGA) evokes the legacy of President Ronald Reagan, who championed free trade as a cornerstone of American prosperity in the 1980s. Yet the policies proposed under Trump's second term raise questions about whether his vision of greatness is consistent with Reagan's. A retreat from global leadership risks leaving America isolated, diminishing its influence in shaping the global economy.

As trust in U.S.-led trade systems wanes, alternative frameworks like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—which notably excludes both the United States and China—are gaining economic traction. According to Canada's 2023 report, intra-regional trade among CPTPP members with no prior free trade agreements grew by 13.2% between 2018 and 2021, highlighting the advantages of diversification. This beneficial outcome also aligns with India's neutral approach that continues to deliver significant economic gains, as recognized by the IMF and KIEP.

In the end, the question remains: Can America truly thrive in isolation? Or does greatness lie in reclaiming its role as a trusted leader within a cooperative global framework? The answer may determine whether Trump's vision of America resonates beyond his own political base—or becomes a cautionary tale for future leaders. **KIEP**