Visiting Scholars' Opinion Paper

KIEP Visiting Scholars Program

The Advent of the Trump 2.0 Era and Countries' Responses: Focusing on the Global South

KIEP Korea Institute for International Economic Policy

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The Advent of the Trump 2.0 Era and the Global South's Response: making a case for the 'Smart Autonomy' approach

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1. President Trump Second Term: first impressions

Donald Trump's resounding victory in the US elections is expected to have a tectonic reverberation both in United States and the world—an impact likely to be even more significant than during his first term. This is due to a broad set of factors.

First, it is worthwhile to highlight his current victory. Trump's triumph is notable not so much for the number of electoral votes secured but for winning the popular vote, a significant achievement for the Republican Party, which have managed this feat only once in the last 35 years, which was in a very particular context: the post 09/11 and the Iraq war. Another remarkable aspect of his victory is that the Republican Party secured the majority in both the Senate and the House of Representatives, which will give President Trump much greater latitude for action, freeing him from the constraints of some negotiations with the Congress. Additionally, the US election was concluded relatively quickly. Unlike previous elections, in which results have often taken days due to tight margins, Trump's substantial lead in electoral votes sealed his victory swiftly, amplifying the impact of his success.

Given the character of this victory, many have been speculating what we can expect from a second Trump administration. To anticipate this, it is useful to compare the contexts of Trump's two victories. In his first term, Trump was effectively an outsider. Not quite popular within the Republican Party, the president-elect depended on the party's traditional machinery to constitute his government—a challenging task that took months to fill second- and third-tier federal positions[1]. Furthermore, as a political novice, Trump was unfamiliar with the levers and gears of government, which led to many of his proposals, particularly the controversial ones (such as banning Muslims from certain countries), being blocked due to unconstitutionality, institutional checks and balances, or even by federal officials which identified legal violations in some of Trump's proposals. Trump's presidency was also hampered by the pandemic, a global phenomenon that effectively froze politics worldwide for at least 18 months, diverting governments' attention from their priority agendas to addressing the health crisis and mitigating its effects.

Finally, Trump's first election took place in a much more stable international context. At the time, the primary global threat was the declining civil war in Syria and a weakened Islamic State. Indeed, Trump's election (along with Brexit) was considered by many to be the primary destabilizing factor in the international system at the time (Nye 2017 and Shake 2017). This was because Trump was elected on a platform that dismantled priorities and abandoned values upon which US (and other Western countries) foreign policy had been built and promoted since World War II. The trade war against China initiated during Trump's first term also disrupted global value chains, adding tension to the system.

2. Expected Impacts: A look towards the global south

Against this backdrop, what can we expect? A political science maxim states that second-term presidents tend to radicalize, particularly those with authoritarian tendencies. The impossibility to seek reelection discourages engagement in negotiations and making concessions.

1. NPR website. "Trump Leaves Top Administration Positions Unfilled, Says Hollow Government By Design". https://www.npr.org/2017/10/12/557122200/trump-leaves-top-administration-positions-unfilled-says-hollow-government-by-des (Accessed Dec. 11, 2024).

In Trump's second term, we can indeed expect a more aggressive and radicalized behavior. This is due to several factors. First, Trump is now more experienced, having learned what did not work during his first term, thus it is expected that he has gained knowledge about the workings of government. Second, Trump now has a broader and more loyal base of supporters. The composition of his administration will likely emphasize unquestionable loyalty—an inclination suggested by his choice of running mate, J.D. Vance, and his first picks for his cabinet.[2] Third, Trump will face fewer obstacles, given the Republican majority in the Senate, in the House, and in the Supreme Court. Fourth, and perhaps most dramatically, is the recent decision by the U.S. Supreme Court (July 2024), presuming criminal immunity for the U.S. Presidents in official government actions—a ruling that provides significant latitude for potential actions by Trump, even illegal ones, such as pursuing political rivals[3].

With this context in mind, another way to analyzing a second Trump administration is by examining his campaign promises. During his first term, Trump sought to fulfill almost most his promises, even some of the most controversial ones. Key promises in his current campaign include:

- **Economy:** On the domestic front, Trump pledged to reduce the corporate tax rate from 21% to 15% and significantly cut federal spending (though without specifying which programs would be most affected). Concerning foreign trade, he promised to significantly increase tariffs on imported products—a global tariff increase from 10% to 20%, with a 60% tariff on goods from China. Additionally, he threatened to impose a 100% tax on import coming from BRICS countries, if they pursue any mechanism that would be an alternative to the dollar within the group transactions.
- **Immigration:** Strengthening borders to thwart illegal immigration, implementing mass deportations of undocumented immigrants and overturn a constitutional right of *jus solis* (preventing the children that born in US, from migrant parents, to obtain American citizenship)
- **Environment:** Promoting fossil fuel production, reversing environmental measures from the Biden administration and abandon the country's National Determined Contributions (NDC) within the COP framework.

2. CBS website. "Trump administration tracker shows his latest top staff picks for his 2025 term". https://www.cbsnews.com/live-updates/trump-administration-nominees-2025/ Accessed on: Dec. 15, 2024.
3. Washington Post website. "Read the full text of Supreme Court's decision on Trump's immunity" https://www.washingtonpost.com/politics/2024/07/01/trump-immunity-scotus-decision-full-text-pdf/ Accessed on: Dec. 12, 2024.

- **Health:** Handing the sector over to Robert F. Kennedy, an anti-vaccine advocate and proponent of alternative approaches to traditional medicine and potentially leaving the WHO.
- **Social Issues:** Combating the progressive agenda on topics like abortion rights, LGBTQI+ rights and what he calls "woke indoctrination" in American schools.
- **Domestic Policy:** Threatening to pursue and punish political rivals and using military force against "domestic enemies," particularly "radical left lunatics."
- **Foreign Policy:** Adopting a more aggressive stance toward China and Iran, offering unwavering support to Israel in the Gaza and Lebanon conflict, reevaluating the U.S. role in NATO and the security agreements with allies in Europe and Asia, and disengaging from the war in Ukraine.

As outlined, expectations for a second Trump term indicate significant impacts on the U.S. and the world. For better or worse (depending on one's perspective), Trump will enter his second term with more experience, fewer institutional constraints, greater domestic legitimacy for his agenda, and in a far more complex international scenario. What seems certain is that we are headed for a more turbulent future.

3. Drawing inspiration on Brazilian Foreign Policy Traditions

Since the beginning of the XXth century the Brazilian foreign policy has been characterized by a set of guiding principles. Two of them, which have been under intense external criticism from several Western countries, will be key to draft the Brazilian (and possibly from other developing countries) policy pathway to navigate this turbulent future. The first guiding principle is the idea of Universalism (Lima 2018, Saraiva 2014 and Milani 2017). It refers to the idea of maintaining broad and diverse international relations, avoiding alignment with specific geopolitical blocs or ideologies. In this case, Universalism implies inclusivity within its foreign relations, engaging with countries from all regions and political systems, regardless of their ideological stance or nature of government. It also entails the country commitment to multilateralism and other formats of international cooperation. The logic behind the Universalism has been instrumental to support moves towards a strategic diversification of its partners, thus avoiding dependence from global powers.

The Universalism principle is rooted in the other guiding principle of the Brazilian foreign policy, the idea of national Autonomy (Lima 2018, Saraiva 2014 and Milani 2017). Its first approach, known as "Autonomy through Distance," was adopted during the military regime (1964-1985). This approach did not indicate a rupture with either of the two global superpowers, rather it sought distancing itself from the ideological/power agenda from both the United States and the Soviet Union. During the 1990s, in the post-Cold War era, Brazilian foreign policy entered a new phase: "Autonomy through Participation." In this context, President Fernando Henrique Cardoso's government recognized globalization as an "irresistible force." Consequently, this approach indicated that the best strategy for the country to exercise its international autonomy was to invest in the multilateral project and strengthen international instruments and regimes. An assertive participation in the developing of the multilateral agenda would allow Brazil not only to contribute to its construction, but also give it the opportunity to include its perspectives and priorities in the global debate.

During the Workers' Party administrations, a new logic was adopted. Throughout this first decade, we witnessed the ascension of a number of emerging countries to the center stage of decision-making fora in global governance. The creation of the G20 at the turn of the century already set the tone and the creation of the G20 Finance Track in the aftermath of the 2008/09 global financial crisis, helped to consolidate this trend. This new context showcased an environment in which these emerging countries found themselves empowered to seek new alternatives for their own development. The logic of "Autonomy through Diversification" reflected this new international scenario. Stronger and more self-confident, President Lula's government sought to diversify its range of international partnerships without compromising its relationship with the US and the West. It fostered the creation of a significant set of dialogue spaces and sought to institutionalize some relationships considered more strategic, such as BRICS, IBAS, CELAC, UNASUR, among others.

4. "Smart Autonomy": a pragmatic approach for developing countries

Since the first election of President Donald Trump in the US, the Brexit victory in the UK, and the strengthening of anti-globalist groups, the winds of Multilateralism and Globalization weakened. The intensification of US-China rivalry, the outbreak of COVID-19, the Ukraine War, and Donald Trump's return to power in the US seem to have solidified the trends seen since 2016. We live in a new era, one of strong anti-globalization players and return of geopolitical rivalries, in which addressing new international threats and developing global public goods will be increasingly harder and subordinated to the political and security agendas of the major powers.

In this new context, the developing countries' diplomacy must reinvent itself; a recalibration is necessary to mitigate the effects of these new challenges and seize the scarce opportunities for their development. For this, we need to exercise our autonomy intelligently and pragmatically, while broadening (while also focusing) our foreign partnerships. Thus, we propose a new logic: Smart Autonomy.

Currently, the Global South cannot afford to have anything less than good working relations with both China and the US. As an example of Brazil, most developing countries simply cannot choose between them. The US is a primary source and destination of foreign direct investment, the destination of most countries diaspora, and a country with which we share deep cultural ties. China is the main trading partner of more than 120 countries,[4] the world's second leading economy, and the nerve center of the most dynamic region on the planet. Both countries are indispensable for most countries development. Undoubtedly, some countries will be caught in the crossfire in the future, as happened in the case of the US pressure on several Latin American countries regarding 5G technology adoption (Winter 2024). Navigating through the geopolitical interests of China and the US, avoiding alienating either side or incurring significant economic damage, will be an art.

4. Wilson Center Website. "China Is the Top Trading Partner to More Than 120 Countries". Accessed at: https://www.wilsoncenter.org/blog-post/china-top-trading-partner-more-120-countries#:~:text=TradeChina%20Mainland-,China%20is%20the%20top%20trading%20partner%20to%20more%20than%20120,trader%20with%20Russia%E2%80%94and%20Ukraine. Accessed on: Dec. 11, 2024.

The same applies to our international positioning. Multilateralism is in crisis, but that does not mean we should outright abandon this precious asset of modern international society. Its crisis should not be understood as a decay, but "about transformation, complexity, competition and uncertainty" (Lupel 2023). Multilateralism is a cornerstone for the development of emerging economies as it fosters equitable participation in global governance, ensuring their voices are heard and interests are represented in shaping international policies. Developing countries often lack the economic and political leverage to unilaterally negotiate favorable terms in trade, climate, or security matters. Multilateral institutions, such as the United Nations, World Trade Organization, and other regional bodies, along with coalitions such as the G77 and the G20, provide a platform where collective bargaining can amplify their influence.

Moreover, multilateralism facilitates access to critical resources, knowledge, and partnerships that are vital for economic and social advancement. Through cooperative frameworks and knowledge-sharing mechanisms developing nations are in a better position to adopt best practices in governance, education, and technological innovation, which accelerates their integration into the global economy. Thus, multilateralism strengthens resilience against global challenges that disproportionately affect developing nations, such as climate change, pandemics, and financial crises.

However, this does not mean that Multilateralism should be our sole bet. Despite its importance and significant contribution, quite often multilateral institutions have also frustrated our expectations and many global initiatives have fallen short of its potentials. The reform of multilateral financial institutions such as the World Bank and the International Monetary Fund are a long standing demand from the Global South that is yet to be addressed. Other examples could be drawn from the Brazilian experience. Brazil previously made its choice by focusing entirely on the multilateral solution of the WTO Doha Round and missed the timing to advance in other trade partnerships (Hopewell, 2016). As a result, the Brazilian participation in international trade remained stagnant for decades.

Subsequently, alongside standing for multilateralism, developing countries' strategy should also be more aggressive in establishing tactical partnerships with countries that also see internationalization as a path to their development and are less tied to geopolitical interests. What might seem a paradox at first glance is, in fact, the core characteristic of the Smart

Autonomy approach. While multilateralism is paramount for developing countries to cope with most global challenges, its tempo and compromising nature has been unsuited to offer practical and effective solutions for more operational issues. Moreover, dependence from both global powers, US and China, should be circumvented to avoid being trapped on their rivalry. In that sense, focusing on tactical bilateral and/or minilateral partnerships could offer an effective alternative for countries to address some of their most objective issues. These tactical partnerships require a deeper understanding of the players involved, along with joint planning and cooperative developmental and economic initiatives. Tactical partnerships will probably be more effective and solid in contexts in which countries share similar principles (rule based order, multilateralism, universalism, etc.), but devoid of ideological bonds. Whereas ideologies may change more easily, especially in democratic nations, a nation's principles are more stable and tent to endure even internal power shifts. Brazil again is an interesting example. Its foreign policy principles (among which we include the aforementioned autonomy and universalism) have withstood both right wing and left wing governments; authoritarian and democratic regimes.

To illustrate this argument, we suggest a possible Brazil-South Korea tactical partnership.

Brazil and South Korea's complementary strengths, if aligned, can drive substantial mutual benefits and global impact. Strengthening their bilateral relationship not only would foster economic growth but also enhances their capacity to address shared challenges such as climate change, food security, and technological transformation. Economic cooperation between Brazil and South Korea holds immense potential, particularly in trade, infrastructure, and technology. South Korea's expertise in high-tech industries, such as semiconductors, electronics, and green technologies, can support Brazil's efforts to modernize its manufacturing sector and expand its digital economy. Conversely, Brazil's vast agricultural output and mineral wealth can ensure a stable supply of critical commodities to South Korea, diversifying its resource base. Infrastructure investment is another promising area, where South Korea's proven proficiency in smart cities, transport systems, and energy infrastructure can help Brazil address logistical bottlenecks and boost economic competitiveness.

Furthermore, closer collaboration in multilateral forums such as the United Nations and G20 can amplify their collective voice on issues like climate action, global trade reform, and digital governance. By leveraging their particular strengths and fostering deeper collaboration across economic, cultural, and strategic domains, Brazil and South Korea can establish a partnership that could serve as a model for interregional cooperation in an increasingly interconnected world.

Additionally, a tactical partnership between Brazil and South Korea would face fewer limitations due to geopolitical issues. Both countries are middle powers with relative low material capabilities in terms of defense and do not pursue an expansionist or hegemonic agenda abroad. On the contrary, both Brazil and South Korea have a track record of practicing a foreign policy oriented towards a positive agenda. Lastly, both countries face similar challenges from the US-China divide. Despite the fact that the South Korea-China relationship is significantly more complex than the Brazil-China connection, China is their top trading partner, accounting for over 20% of trade volume in both countries.[5] Thus, despite Brazil and South Korea's deep relationship with US, both cannot abandon their relationship with China, neither be caught in their geopolitical dispute.

Final Remarks

In an era characterized by "transformation, complexity, competition and uncertainty" (Lupel 2023), compounded with a new Trump administration, declining Europe and consolidating China, developing countries will have to reshape their foreign policies to adapt to this trying environment.

From the perspective of the new Trump administration, new calculations will have to be made, in order to brace for the novel MAGA foreign policy. From the previous experience, we could anticipate a return of Trump's unique diplomatic style which combine coercion with rough negotiations. In fact, there are some countries that would embrace this transactional approach, by aiding in advancing US new priorities to obtain some tangible gains. Ideology might also play a role. At least many leaders seem to be counting on their ideological alignment with President Trump to reap dividends—one glaring example is the Argentine

5. OEC website. "China/South Korea". https://oec.world/en/profile/bilateral-country/chn/partner/kor. Accessed on: Dec. 13, 2024.
OEC website. "China/Brazil". https://oec.world/en/profile/bilateral-country/chn/partner/bra. Accessed on: Dec. 13, 2024.

president, Javier Milei.[6] Others leaders, leaning to the left in the political spectrum, shall meet steeper resistance from the American president.

It is to be expected some level of US disengagement both from the multilateral efforts, as much from many regional issues/tensions. Distancing from much of the world affairs will give the US foreign policy more room to focus on president Trump's priorities. Among these we could highlight migration, fighting drugs traffic (especially opioids), economic protectionism (mainly through tariffs), renegotiation of alliances and partnerships, and contain China. Self-regarded as a prime "dealmaker" Trump will strive to resolve (take credit for) some key conflicts such as the war in Ukraine and Gaza, in order to raise his statesmanship profile (emulating Trump's effort to address the North Korean issue during his first term).

Confronted with this scenario, the proposed Smart Autonomy approach could offer some guidelines for developing countries to navigate through these new waters. It is a flexible and pragmatic approach. It focuses on building a positive agenda with both major powers while avoiding geopolitical pressures they impose. Smart Autonomy recognizes the importance of multilateralism but also sees tactical engagement with key countries as crucial. Emerging developing countries are stronger and more resilient than they were in the XXth century. The transformation of the world economy to a carbon neutral model combined with the technological transition of the 4th Industrial Revolution offers a window of opportunity for some countries to leapfrog in these sectors (Neves 2023). Thus, formulating more robust strategies to align with this approach might be instrumental for our future development.

6. Buenos Aires Times website. "Milei visits Trump's home turf eyeing free-trade deal with United States" https://www.batimes.com.ar/news/argentina/milei-visits-trumps-home-turf-seeking-free-trade-deal-with-us.phtml. Accessed on: Dec. 12, 2024

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02

India

Trump 2.0 and Likely Trade Implications for India

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Trump 2.0 and Likely Trade Implications for India

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Abstract

The President-designate of the USA, Donald Trump, has warned the world of another round of trade war. Opinions shared in public media tell of a not-so-encouraging situation. It is obvious that India, though not part of such trade war, is going to face cascading effects in trade and strategic issues having long-term impacts. Today, the US's trade with India amounts to about US$123 billion, recording a trade deficit. India has already faced the withdrawal of GSP benefits in 2019 during Trump 1.0. The withdrawal of the GSP benefits had limited impact on India's exports to the US in later years. Today, the economic uncertainties are more complex than that of Trump 1.0. The world today has been facing high supply chain risks, thereby hurting the supply chain performance. Countries are also using several export control measures, thereby disrupting the trade integration. There are also regulatory and compliance issues, and changes in regulations can disrupt established supply chains or burden with additional costs and time. Additionally, natural disasters and climate risks further compound these challenges. Shortages of critical mineral and materials, logistics constraints, rising inflation, etc. are adding to the spiraling effect of disruptions and uncertainties. In such a critical juncture, Trump 2.0 may cause havoc to Global South coun-

tries like India and can dent their journey towards the developed world. Based on preliminary investigation, this article discusses the likely trade implications for India and the way forward.

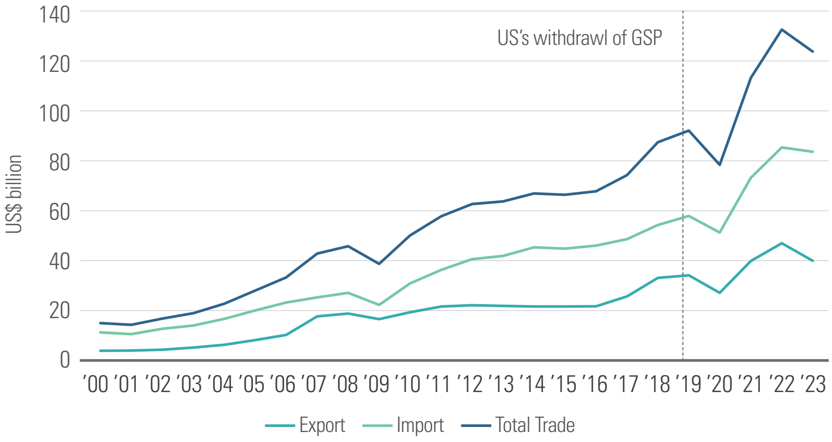
Keywords: Trump 2.0, India, China, Trade, Supply chain

1. Introduction

The President-designate of the USA, Donald Trump, has warned the world of another round of trade war. Opinions shared in public media can be grouped in three categories: first, the US's rise in trade tariffs against China and other neighbouring countries such as Mexico and Canada may reduce USA's import dependence on China; second, there is likely rise in FDI from China to the USA in those areas where US's domestic demand is relatively high; and the world strategic order is likely to be divided into groups with one heavily aligned with the US. It is obvious that India, though not part of such trade war, is going to face cascading effects in trade and strategic issues. For example, Basu (2025) argued that Trump 2.0 will see stronger US security ties with India.[1] The FIEO, on the other hand, has claimed that India may gain in some of the sectors if the US tries to reduce its dependency on Chinese imports.[2] Subramanian (2024) strongly argued for Trump's return as an opportunity for India.[3] Therefore, these ex-ante evaluations tell us mixed scenarios, though not denying possible fall out on global uncertainties.

1. Refer, Basu (2025), available at https://www.orfonline.org/research/trump-2-0-will-see-stronger-us-security-ties-with-india
2. Refer, Mathew (2025), available at https://www.fortuneindia.com/long-reads/trump-20-what-lies-ahead-for-india-us-trade/119875
3. Refer, Subramanian (2024), available at https://www.project-syndicate.org/commentary/how-should-india-respond-to-trumps-tariffs-by-arvind-subramanian-2024-11

Figure 1.
The US's Trade with India



Source: Drawn by author based on IMF DOTS

Today, the US's trade with India amounts to about US$123 billion (Figure 1), recording a trade deficit. India has already faced the withdrawal of GSP benefits in 2019 during Trump 1.0. In June 2019, the Trump administration withdrew the GSP scheme for India. India was the largest user of the program, accounting for US$5.7 billion in exports under the GSP in 2017.[4] Apparently, the withdrawal of GSP benefits had a limited impact on India's exports to the US.

Today, the economic uncertainties are more complex than that of Trump 1.0. The Trump 2.0 in post-pandemic carries new threats that were not there in the pre-pandemic years. Today, the world economies have been facing high supply chain risks such as growing maritime choke points such as in the Indian Ocean and Red Sea, lowering water level in Panama canal, cyber security threats, labor shortages, supply disruptions, and geopolitical tensions, which can hurt supply chain performance. On the other hand, countries are also using several export control measures, thereby disrupting trade integration. For example, China and the United States both have export control measures to protect their national security and foreign policy interests, which include restrictions on the export of dual-use items,

4. Refer, https://www.thehindubusinessline.com/economy/india-us-totalisation-pact-gsp-restoration-will-need-to-wait-till-after-us-elections-goyal/article68718872.ece

advanced computing chips, and semiconductors. Some of these measures are also affecting India and other developing countries in their respective growth path. While the blockchain and AI-driven security solutions can help mitigate the supply chain risks, India has been a slow-starter due to export control measures imposed by the US and China on critical technology and intelligence systems. There are also regulatory and compliance issues. For example, changes in regulations can disrupt established supply chains or burden with additional costs and time. Besides, there are natural disasters and climate risks. Shortages of critical mineral and materials, logistics constraints, rising inflation, etc. are adding to the spiraling effect of disruptions and uncertainties. In such a critical juncture, Trump 2.0 may cause havoc to Global South countries like India and can dent their journey to the developed world.

2. The Genesis

Beginning from 2018, there has been a continuous trade war going on between the US and China. The countries imposed rounds of tariffs against each other's imports. In January 2018, USA imposed tariffs against washing machines and solar cell imports and also signed tariffs on imported steel and aluminium from all nations in March 2018. China retaliated by imposing tariffs on US$3 billion of goods in April 2018. Also in the same month, it began collecting anti-dumping tariffs on Sorghum imports from the US worth US$1 billion. In response to that, in May 2018, USA announced a US$ 1.3 billion fine and other penalties for ZTE, the Chinese telecommunication tech company. Again on 15 June 2018, USA announced tariffs on imported goods worth US$50 billion, rolled out between July and August. On the same day, China responded with the announcement of US$50 billion in tariffs, rolled out between July and August. On 6 July 2018, USA imposed a 25 percent tariff on US$34 billion worth of goods, and on the same day, China also imposed a 25 percent tariff on US$34 billion of goods (Chang et al., 2021). Similarly, in August 2023, tariffs on US$16 billion worth of goods were imposed by both the countries. The tariff imposition war continued in 2019 and later too. In 15 January 2020, the two countries signed a phase one deal, where they agreed to roll back all the tariffs, expansion of present trade and new commitments related to intellectual property rights, technology transfer and currency practices. However, the trend reveals that tariffs remained almost the same. Historically, it seems to be the biggest and longest-lasting trade war (Fajgelbaum and Khandelwal 2022).

In the past, there were various instances when huge protectionist measures were applied such as Smooth-Hawley tariffs ranging to the average of 42.5 percent. In this case also, many trading partners retaliated such as Canada, which accounted for almost 20 percent of the US's exports, also increased the tariff duties (Irwin, 1998; 2017). The impact of US-China trade war is way beyond than this act (Fajgelbaum et al., 2024). Since the nature of trade and composition has changed over the years and now most of the trade is now in intermediate goods, the impact of tariff increase is much larger than expected in olden times (Johnson and Noguera, 2012; Antras and Chor, 2022). It is in this context we intend to study the impact of the recent tariff imposition policy of Trump and its ex-ante evaluation in present context.

The Trump administration has decided to again increase tariffs and this is popularly called "Trump 2 tariffs" and it is primarily targeting China and is expected to disrupt the trade dynamics. Amiti et al. (2019) indicated that the tariffs increased import costs for the US businesses, which also led to the higher consumer prices and along with this the US exports were negatively affected by retaliatory tariffs. This led to the trade diversion effects with countries, namely, Vietnam and Mexico benefiting as alternate suppliers. In a recent study, Oxford Economics has found that non-China Asia would be the net loser from the full-blown tariff scenario.[5]

Since most of the trade is in intermediate goods and maximum parts of the products are outsourced to save costs, the trade war has also impacted global supply chains (OECD Report, 2020). Politically, the tariffs fueled a broader decoupling trend between the US and China, aligning with geopolitical goals beyond trade.

For India, the Trump presidency may pose both challenges and opportunities for the Indian economy. America-first development may constrain FDI into India while tariff escalation to counter the higher trade deficit of US with India may impact India's high growth rates in GDP. Strained relations with China and Russia however may divert its trade to East Asia and India. Most importantly Trump's focus on making efforts to reduce wars around would promote growth through peace, inducing a favourable climate for investments all around. Strategic partnerships, defence cooperation and quadrilateral military relationship would promote growth in

5. Refer, for example, to the cost of US-China decoupling, available at https://www.oxfordeconomics.com/resource/the-cost-of-us-china-decoupling

India enhancing our security interests in the South China Sea. Restrictions on movements of skilled and unskilled labour and protectionism may constrain our growth rates. President Trump and the US policy for long would focus on bilateralism, further undermining the operations of multilateral bodies like the WTO.

The continued trade war will have profound implications on their economic and strategic positioning in the coming years.

3. Simulations and Results[6]

The following seven simulations were considered by Mathur et al. (2025):

i. US imposing higher tariffs on Canada, Mexico, Western Europe, India, China, BRICS3 and other nations maintaining their tariff (rates as per the tariffs to be escalated rates given in Table 1 below)
ii. US tariff escalation with BRICS up to 20 percent
iii. US tariff escalation with China up to 60 percent
iv. US tariff escalation with Canada and Mexico up to 25 percent
v. US tariff escalation with India up to 20 percent
vi. US tariff escalation with Western Europe up to 20 percent
vii. US trade war with all trading partners and tariff escalation in both ways (India, BRICS3 and Western Europe imposing tariff rates of 35, 20 and 10 percent, respectively)

The tariff rates are decided on the basis of the possible tariff escalation by the trading partners of the US. The rates are given below in Table 1.

Trump's promise to impose tariffs of 60 percent on Chinese imports into the United States, 25 percent or higher on goods from Mexico, and 10 to 20 percent on everything else.7 Based on this information all the simulation scenarios were built by Mathur et al. (2025). The CGE analysis was done by Mathur et al. (2025) based on the Global Trade Analysis Project (GTAP) version 11 database. The GTAP was established in 1992 with a purpose of lowering the entry barrier for individuals interested in analysing international economic issues within a comprehensive, economy-wide framework.

6. Based on Mathur et al. (2025)
7. Matthew P. Goodman: Council on Foreign Relation, Nov 2024

Table 1.
Possible Escalation by the Trading Partners of the US

(%)

	Mexico Tariff Rates for US Imports	Indian Tariff Rates on US Imports	BRICS Tariff Rates on US Imports	China Tariff Rates on US Imports	Canada Tariff Rates on US Imports	West Europe Tariff Rates on US Imports
Grain Crop	0.0004	14.78	5.18	4.47	0	1.719
Meat and Meat Products	0	25.54	8.107	9.07	6.64	12.409
Extraction	0	2.275	0.097	0.78	0	0.14
Processed Food	0	92.41	10.57	11.19	3.966	8.14
Textile	1.408	10.06	17.39	8.59	0	7.05
Light Manufactur-ing	0.0007	9.18	12.63	13.95	0	2.27
Heavy Manufacturing	0.016	7.19	5.97	4.49	0	1.52
Average	0.206	23.064	8.563	7.505	1.515	4.749
Tariff to be Escalated	10	35	20	25	10	10

Source: Authors' own calculations based on IMF DOTS and GTAP11

The GTAP database is built to reflect the world economy for a given reference year and underlies most, if not all, Applied or Computable General Equilibrium models (Aguiar et al., 2019). Domestic transactions, global bilateral trade patterns, international transport margins and protection matrices that link individual countries and regions, can all be described by the GTAP database. The Database offers production values, as well as intermediate and final consumption of products and services expressed in millions of current US dollars, for each nation or region. It also captures many domestic policies, including value-added taxes, producer subsidies and consumption taxes (Aguiar, Narayanan, and McDougall 2016). Generally speaking, the GTAP classifies resource extraction, manufacturing, food production, services, and agriculture in order to encompass all economic sectors in a given nation. Each country's unique Input Output Tables (IOTs), which show the relationships between various sectors within that nation, are used by the GTAP database. With an emphasis on those mainly found in the Middle East and Central Africa, the most recent version of GTAP has integrated 20 more nations as compared to version 10 (Aguiar et al. 2019).

The GTAP version 11 increases its geographic coverage to 141 individual countries and 19 aggregate regions to capture global economic activity, compared to GTAP version 10 data, which included 121 countries. Individual countries in the new version account for 99.1 percent of world GDP and 96.4 percent of world population.

Some of the outcomes of the Mathur et al. (2025) are relevant in the context of this paper.

- The paper details if the new tariff policy by President Designate Donald Trump on Canada, Mexico, the EU, India, China and BRICS3 can be helpful in reducing trade deficits with these nations and can still be welfare supportive. The simulation scenario results are presented in Appendix 1. In Mathur et al. (2025), the tariff rates are decided on the basis of present rates and simulated values. The scenario 1 in which US is imposing higher tariffs on Canada, Mexico, Western Europe, India, China, BRICS3 and other nations maintaining their tariffs, the US seems to gain in terms of welfare measured in terms of equivalent variation. The gain is as high as US$209.66 billion. Mexico, China, India, Canada all seem to have welfare losses. In terms of trade balance also, not much improvement is visible. The trade balance of Canada, Mexico and China seems to have reduced from the baseline scenario although it is positive with the rest of the world. Generally, the growth rate in terms of nominal and real GDP reduces to less than one percent of the trading partners which get impacted heavily due to the imposition of the US tariffs on imports from such nations.

- In simulation scenario 2 where the US tariff escalation takes place with BRICS countries only, the BRICS countries are heavily impacted, mainly Brazil, Russia and South Africa in terms of growth rates and welfare.

- In scenario 3, if the US tariff escalates with China up to 60 percent then we see a major negative impact on welfare and nominal growth rates. The surplus trade balance also reduces in comparison with the baseline scenario.

- In scenario 4, we have assumed that the tariff that they impose on goods from Mexico and Canada is up to 25 percent, which leads to a massive reduction in nominal growth rates and welfare levels. It seems that Canada and Mexico would be the two countries which would be majorly impacted by the Trump tariffs among other nations.

- In scenario 5, if the US escalates tariffs with India up to 20 percent, we see that nominal growth rates in India reduces by 3.19 percent and welfare levels as negative US$ 15 billion.

- In scenario 6 where US tariff is escalated up to 20 percent with Western Europe, this leads to a negative growth rate of 2.64 percent and also a negative welfare of around US$89 billion.

- In scenario 7 where there is a trade war of US with all the trading partners with tariff escalation both ways, India, BRICS3 and Western Europe have positive welfare and growth rates while imposing tariff rates of 35, 20 and 10 percent, respectively on US imports. Canada and Mexico despite the reciprocal tariff rates of 10 percent are not able to improve their economic conditions, they still have negative welfare and negative nominal growth rates. It may be that they need to increase the tariff rates beyond 10 percent. China reciprocates and imposes tariff of 25 percent on US imports and yet it has negative welfare and negative nominal growth rates.

- China and India may increase domestic consumption, incomes and imports and thereby reduce trade deficit with the US in the hope that the Trump administration may not escalate the tariff levels. However, if the US follows the same policy by reducing tax rates in their country, increasing imports may further increase the trade deficit and the Trump government may erroneously raise the tariff rates. Hence, timeline would tell us the economy wide impact of the Trump policies domestically and internationally.

What follows is that the applied general equilibrium model simulations using the latest GTAP database in Mathur et al. (2025) shows that indeed the US can gain in terms of nominal GDP growth with improved trade balance with the world and welfare by imposing tariffs of the tune of 60 percent on China, 25 percent on Canada and Mexico and 20 percent on India, BRICS3 and western Europe. The major setback in terms of welfare, trade balance and growth would be felt in terms of serial order on the US partners Canada, Mexico, then China followed by BRICS3, India and western Europe. If all of these nations respond back by imposing reciprocal tariffs triggering trade war then India, BRICS3 and Western Europe would marginally gain in terms of welfare and nominal GDP growth. The tariffs that these countries should then impose on the US would be 35 percent, 20 percent and 10 percent, respectively, to adequately respond to the US tariffs. China imposing a reciprocal tariff of 25 percent on the US imports, and Canadians and Mexican imposing 10 percent tariffs on the US imports would not be able to improve their countries negative welfare and VGDP growth because of the US imposition of tariffs. Only China's trade balance may reduce, but still would be in surplus by imposing reciprocal tariffs.

4. Sectoral Implications

4-1. Trade Sector

Donald Trump's return to the White House is poised to significantly influence India's trade sector, presenting a mix of challenges and opportunities. His administration's emphasis on imposing tariffs and prioritizing US economic interests over multilateral cooperation is expected to reshape India-US trade relations.

Trump's tariff-centric trade policies are a major concern for India. With a trade surplus of over US$46 billion with the US, India could face heightened scrutiny and potential retaliatory tariffs. This is particularly challenging for key export sectors like pharmaceuticals, textiles, and machinery, which might encounter higher entry barriers in the US market. During his election campaign, Trump repeatedly criticized India's high tariffs, describing the country as one of the "most protectionists." The likelihood of reciprocal tariffs on Indian goods is high, which would erode India's competitive edge in its largest export market.

The loss of Generalized System of Preferences (GSP) benefits under Trump's first term further complicates India's position. Although Indian exports grew post-GSP removal, maintaining greater access to the US market remains critical. Trump's administration is expected to leverage this dependence to extract trade concessions, including lowering tariffs on US goods like energy products and agriculture.

Geopolitical factors also add to the complexity. Trump's transactional approach and focus on domestic priorities could dilute the strategic partnership between India and the US, especially in countering China. Although Trump has aggressively targeted China with tariffs, his isolationist tendencies may lead to limited engagement on broader security concerns in the Indo-Pacific, leaving India vulnerable to China's expansionist strategies.

On the positive side, Trump's trade war with China offers India an opportunity to capitalize on the "China plus one" strategy. Global manufacturers are increasingly diversifying supply chains away from China, and India has already benefited from this trend, as evidenced by investments from companies like Apple. If India continues to improve its manufacturing ecosystem and infrastructure, it could position itself as a preferred alternative for companies seeking to reduce dependency on China.

Another potential opportunity lies in negotiating a bilateral trade agreement with the US. Trump's administration is likely to push for a structured trade deal that aligns with US interests, but India could benefit if it secures preferential access for key exports such as apparel, gems, and jewellery. By reducing tariff disparities, a bilateral agreement could provide a significant boost to Indian exports.

Trump's second term may likely to reshape global trade patterns, with cascading effects on India. While the challenges are significant, the potential to leverage global shifts and deepen bilateral ties with the US could transform India's trade sector. Whether India can navigate these complexities effectively will determine its future role in global trade.

4-2. Technology Sector

The return of Donald Trump to the US presidency is set to bring transformative challenges and opportunities for India's technology sector. Trump's second term could redefine global technology dynamics. This will have significant implications for India's IT industry, artificial intelligence (AI) ambitions, and broader tech innovation ecosystem.

• AI and Innovation Ecosystems

Trump 2.0 is expected to prioritize strategic technologies such as AI and Quantum Information Science (QIS) as part of a tech arms race with China. These domains are not only crucial for national security but also integral to sustaining US technological dominance. However, Trump's proposed dismantling of Biden's AI safety and accountability measures might shift US AI development towards rapid innovation with limited regulatory oversight, potentially making the technology landscape more competitive and unpredictable.

For India, this presents both a challenge and an opportunity. The growing techno-nationalism could restrict Indian firms' access to US-led innovation ecosystems and limit collaboration opportunities with US tech companies. At the same time, India can capitalize on its robust IT and AI talent pool to position itself as a global leader in these technologies. Strategic collaborations, such as the Reliance Jio-NVIDIA partnership, illustrate the potential for Indian firms to integrate into global AI ecosystems.

• IT Industry under Pressure

India's IT sector, which generates a significant portion of its revenue from the US, could face renewed headwinds. Trump's first term saw restrictive immigration policies, including tightened H-1B visa regulations, which disrupted the mobility of skilled Indian professionals. A continuation of these policies is anticipated, posing operational challenges for Indian IT giants like Infosys and TCS, which rely heavily on US markets.

In response to previous restrictions, Indian IT companies increased hiring in the US, with Infosys employing over 25,000 American workers. While this adaptation mitigated immediate risks, it also escalated operational costs. Under Trump 2.0, heightened regulatory scrutiny and economic uncertainties in sectors like healthcare and retail—key revenue generators for Indian IT firms—could exacerbate financial pressures

4-3. Trade Tariffs and Supply Chain Impact

Trump's proposed 20 percent tariff on imports, including technology products, could disrupt global supply chains and inflate costs for Indian manufacturers and IT exporters. Indian firms relying on affordable hardware imports for software services or electronics production would face increased operational expenses. Furthermore, protectionist policies could curtail India's exports to the US, especially in technology-driven sectors like electronics and software solutions.

The implications of Trump 2.0 for India's technology sector are multi-faceted. While the policies may introduce significant challenges, such as restricted access to innovation and increased costs, they also underscore the importance of self-reliance and strategic adaptation. India's ability to navigate these shifts will determine its trajectory as a global tech leader in an increasingly polarized world.

4-4. Defence Sector

Under Trump's first term, India-US defence relations were strengthened through increased arms sales, joint military exercises, and strategic alignment against shared adversaries like China in form of QUAD and other initiatives. Trump 2.0 is likely to continue this trend.

Arms Trade and Technology Transfers: The US has become a major supplier of advanced defence equipment to India, including the MH-60R Seahawk helicopters and C-17 Globemaster aircraft. The Trump administration's push for defence exports aligns with India's growing military modernization needs. However, India might face challenges if Trump adopts stricter terms for technology transfers or higher costs for equipment under a more protectionist stance.

Strategic Alliances and Regional Security: The Indo-Pacific strategy remains a cornerstone of India-US defence cooperation. Trump's emphasis on countering China could lead to deeper engagements within frameworks like the Quad, involving Japan and Australia. However, the transactional nature of Trump's diplomacy might strain India's strategic autonomy, as the US could demand more explicit support in its regional security policies.

Potential Challenges: Trump's unpredictability and his focus on bilateral trade deficits could spill over into defence agreements. Additionally, his administration's immigration policies may limit the exchange of skilled professionals in defence research and development, indirectly affecting India's capabilities.

4-5. Climate Policy

The Trump administration's approach to climate change is marked by skepticism. He withdrew from the Paris Agreement during his first term. A Trump 2.0 presidency could weaken global climate initiatives, affecting India's sustainable development goals.

Rollback of US Commitments: The US is a major player in global climate financing and technology transfer. Trump's disinterest in multilateral climate agreements could limit funds and technical support available for India's renewable energy initiatives. This could slow down India's ambitious targets, including achieving 500 GW of renewable energy capacity by 2030.

Increased Fossil Fuel Promotion: Trump's focus on reviving the US fossil fuel industry could influence global energy markets, reducing the competitiveness of renewable energy. This might affect India's efforts to transition to cleaner energy sources.

Potential for Bilateral Tensions: Trump's stance on climate might also affect India's access to advanced clean energy technologies. Furthermore, his administration's regulatory rollbacks could embolden other nations to deprioritize climate action, undermining India's leadership role in global sustainability.

5. Conclusions

In summary, one-way tariff is beggar-thy-neighbour policy, that is the US gains at the cost of others by imposing tariffs. Tariff war may lead to improvement in trade balance for some, but collectively speaking world welfare and GDP growth decline. Canadians, Mexicans and Chinese would be grossly impacted negatively by the US tariffs. There is no doubt that protectionism is on rise with tit-for-tat tariff policies at the forefront. There would be substantial trade diversion because of the trade war from the US traditional trading partners to Latin America, Oceania, East Asian and the MENA region. The processed food and manufacturing trade would be substantially diverted by the advent of the trade war. Aligning with the US administration means access to American technology, investment, EV, etc. and also a security safeguard. This looks like a narrow scenario. Countries at the same must look beyond, and continue to strengthen the interests of Global South in trade and technology, finance and investment, communication and transportation, education and skilling, ocean and resources, etc.

India staying at the receiving end shall wait and watch the situation unfolding. There might be some new trade and supply chain opportunities for India. Given that China plus policy is getting new momentum, India might receive some pleasant surprises. However, it may depend on the intensity of geopolitics and India's interests as well.

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Appendix 1.

GTAP results of different simulation scenarios

Countries/ Region	EV	Trade Balance with the world	VGDP	QGDP
Scenario 1: US imposing higher tariff on Canada, Mexico, Western Europe, India, China, BRICS 3 and other nations maintaining their tariff				
Oceania	2154.41	-7147.08	1.89	0.05
EastAsia	48332.78	-49847.4	3.31	0.07
India	-885.24	-4835.97	0.67	0.01
US	209663.4	109271.2	7.63	-0.14
BRICS3	-1730.75	-12185.5	0.52	0.03
Canada	-68193.4	28859.38	-11.5	-0.4
Mexico	-48831.3	7800.66	-13.5	-0.22
China	-284895	21965.51	-9.2	-0.7
South East Asia	25914.05	-13352.9	3.41	0.07
SouthAsia	5466.67	-4354.32	2.92	0.17
North America	504.68	1509.54	6.02	-0.22
LatinAmerica	13625.87	-13282.4	4.28	0.14
WestEurope	-22858	-41682.4	0.3	0.02
MENA	15097.33	-16236.6	2.05	0.14
SSA	6417.77	-3995.28	1.59	0.19
RestofWorld	3398.57	-2486.46	1.59	0.14
Scenario 2: US Tariff Escalation with BRICS only				
Oceania	-567.22	-74.18	0.03	0
EastAsia	1779.16	-1538.18	0.18	0
India	668.96	-518.99	0.16	0.01
US	-233.78	5374.45	0.11	0
BRICS3	-12322.6	5897.11	-2.19	-0.08
Canada	1289.89	-798.18	0.4	0.01
Mexico	1012.73	-297.84	0.5	0.01
China	3072.83	-3246.27	0.18	0.01

Countries/ Region	EV	Trade Balance with the world	VGDP	QGDP
South East Asia	305.38	-445.33	0.13	0.01
SouthAsia	85.23	-140.86	0.1	0
North America	20.83	67.04	0.26	0
LatinAmerica	340.07	-394.4	0.07	0
Western Europe	4148.36	-2889.95	0.12	0.01
MENA	-315.89	-728.76	0.05	0
SSA	-96.89	-101.52	-0.04	-0.01
RestofWorld	318	-164.14	-0.03	0
Scenario 3: US Tariff Escalation with China				
Oceania	979.59	-3305.83	0.36	0
EastAsia	24761.26	-22501.5	0.84	0.03
India	7829.35	-5817.88	1.88	0.02
US	75770.5	52678.04	4.69	-0.12
BRICS3	5447.72	-8484.76	1.27	0.07
Canada	17936.87	-17968.9	7.68	0.25
Mexico	25162.74	-7767.44	11.76	0.31
China	-327887	65820.08	-11.79	-0.84
South East Asia	19454.09	-6485.11	1.49	0.02
SouthAsia	4926.29	-2094.99	1.69	0.17
North America	-111.06	704.9	2.4	-0.06
LatinAmerica	6989.5	-6141.07	2.46	0.11
Western Europe	39489.8	-30722.9	1.58	0.09
MENA	7278.43	-5647.88	0.83	0.13
SSA	5127.63	-1222.94	0.65	0.18
RestofWorld	2516.82	-1041.64	1.01	0.15
Scenario 4: US Tariff Escalation with Canada and Mexico				
Oceania	-249.89	-1889.85	0.76	0.02
EastAsia	11272.09	-13966.6	1.29	0.02
India	3434.47	-4556.92	1.22	0.03
US	120753.7	13880.42	1.56	0.02

Countries/ Region	EV	Trade Balance with the world	VGDP	QGDP
BRICS3	366.11	-4559.03	0.96	0.01
Canada	-97674.1	56820.31	-23.03	-0.77
Mexico	-85404.2	19687.24	-30.36	-0.63
China	20534.52	-23193.4	1.36	0.06
South East Asia	1950.05	-3684.25	1.04	0.01
SouthAsia	329.83	-1497.66	0.99	0
North America	209.11	209.23	1.03	-0.01
LatinAmerica	3710.71	-3630.79	0.8	0.01
WestEurope	18681.51	-25094.2	1.05	0.02
MENA	619.25	-5789.25	0.93	0
SSA	157.74	-1802.04	0.81	0.01
RestofWorld	-250.1	-933.21	0.79	0
Scenario 5: US Tariff Escalation with India				
Oceania	314.96	-305.78	0.18	0
EastAsia	1980.72	-1787.97	0.21	0
India	-15013.9	8596.6	-3.19	-0.08
US	-3212.4	4070.56	0.03	-0.01
BRICS3	505.31	-557.68	0.17	0
Canada	1397.39	-1261.63	0.44	0.01
Mexico	1486.12	-518.73	0.57	0.02
China	2967.25	-2549.13	0.2	0.01
South East Asia	1195.84	-524.28	0.18	0
SouthAsia	512.38	-241.92	0.15	0.01
North America	54.4	86.11	0.34	0
LatinAmerica	633.25	-551.85	0.21	0
Western Europe	4821.06	-3298.53	0.18	0.01
MENA	1667.19	-804.4	0.15	0
SSA	516.01	-249.52	0.12	0.01
RestofWorld	11.83	-101.85	0.11	0

Countries/ Region	EV	Trade Balance with the world	VGDP	QGDP
Scenario 6: US Tariff Escalation with Western Europe				
Oceania	1676.97	-1571.44	0.56	0.03
EastAsia	8539.51	-10053	0.8	0.01
India	2195.86	-2538.76	0.61	0.02
US	16585.52	33267.74	1.24	-0.03
BRICS3	4272.7	-4481.08	0.32	0.01
Canada	8856.58	-7932.23	3.01	0.09
Mexico	8911.33	-3302.59	4.04	0.07
China	16418.05	-14865.9	0.85	0.07
South East Asia	3008.68	-2213.93	0.58	0.03
SouthAsia	-387.05	-378.88	0	-0.01
North America	331.4	442.26	2	-0.14
LatinAmerica	1952.34	-2564.27	0.74	0.02
Western Europe	-89998.7	20323.21	-2.64	-0.1
MENA	5848.35	-3266.3	0.1	0
SSA	713.28	-619.25	0.04	0
RestofWorld	802.03	-245.63	-0.29	-0.01
Scenario 7: US Trade war with all trading partner with tariff escalation both ways				
Oceania	4834.85	-9932.73	3.22	0.07
EastAsia	64444.46	-67281.5	4.8	0.09
India	2818.89	-8340.61	2.2	-0.01
US	81239.66	160436.7	3.61	-0.17
BRICS3	2832.46	-13343.5	2.22	0.01
Canada	-52927.2	37114.91	-9.36	-0.36
Mexico	-35601.6	15164.58	-11.89	-0.15
China	-275262	19141.99	-7.71	-0.8
South East Asia	31545.64	-17533.4	4.7	0.09
SouthAsia	5793.45	-6104.29	4.12	0.16
North America	871.11	1569.63	6.64	-0.05
LatinAmerica	19293.06	-17820.9	5.27	0.16
Western Europe	12905.38	-60093.9	1.81	0.04
MENA	19945.27	-23023.5	3.27	0.14
SSA	7766.61	-6336.81	2.84	0.21
RestofWorld	4175.39	-3616.65	2.99	0.16

Source: Authors' own simulation results using GTAP11

KIEP Visiting Scholars Program

The Advent of the Trump 2.0 Era and Countries' Responses: Focusing on the Global South

03

Nigeria

The Advent of the Trump 2.0 Era and the Global South's Response: the Case of Nigeria

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The Advent of the Trump 2.0 Era and the Global South's Response: the Case of Nigeria

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Abstract

The re-election of Donald Trump as the 47th President of the United States has created ripples around the world, driven by controversial policies during 2017-2021 first term in office. The re-election of Trump for a second term holds far-reaching implications for the Global South. Trump plans to impose tariffs, ranging from 10 to 20% on all imports from the European Union (EU), 60% on imports from China; 100% on imports from countries contemplating to replace the dollar with a new currency, as well as 100 to 200% on imports from American companies that relocated abroad. Confronted with Trump's protectionist agenda, leading nations in the Global South, including China, India, and Brazil, are aligning their interests in an increasingly multipolar world order. In the case of Nigeria, Trump's promise to produce more oil, aimed at reducing gasoline prices in the United States, threatens to undermine Nigeria's foreign exchange earnings, prompting a rethinking on Nigeria's oil production and export strategies.

1. Introduction

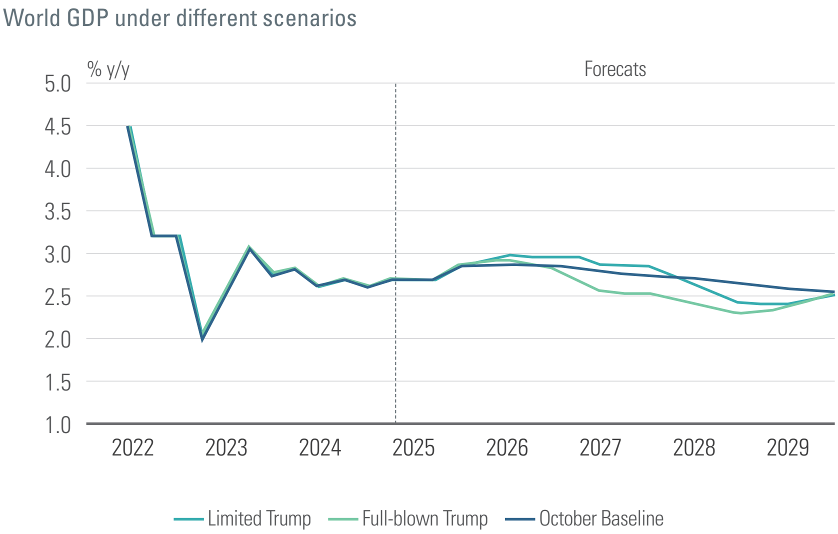
The emergence of Donald Trump as the 45th President of the United States in 2016 presented significant dimensions in the nation's political economy. It set the stage for a paradigm shift in America's political consensus that had prevailed since the Great Depression (1929-1939), affirming that a liberal, US-led, rule-based international trade framework was in the best interest of the United States (McKibbin, Hogan and Noland, 2024.8). Once in office, Trump began to dismantle America's foreign trade policies. His ideas are driven by nationalist and protectionist trade agenda, together with immigration campaign promises. Trump pulled the United States out of the trans-pacific partnership negotiations during his first week in office, launching trade wars with major trade partners, including the European Union and China; renegotiating free trade agreements with several countries; and embarking on deportations, while attempting to ban immigrants from predominantly Muslim countries.

The emergence of Trump in November, 2024, a phenomenon widely acknowledged as Trump 2.0, poses serious consequences, not only for the United States, but also the global economy. In the run-up to the election, Trump pledged to employ tariffs as a major tool of American's foreign trade policy. Among other things, Trump plans to impose tariffs, ranging from 10 to 20% on all imports from the European Union (EU), 60% on imports from China; 100% on imports from countries contemplating to replace the dollar with a new currency, as well as 100 to 200% on imports from American companies that relocated abroad (Brugier, 2014.1). Most analysts affirm that a large increase in US tariffs would likely trigger inflation and cause the Federal Reserve Bank to raise interest rates, a prospect that would dampen economic growth in the United States (Brooks, 2024.1). Should Trump raise US tariffs on major trading partners, it would undermine free trade. Increasing US tariffs on European imports have potentially significant consequences for Europe's manufacturing sector, especially, autos, pharmaceuticals and machinery- and accompanied by secondary effects on enterprises that service them. The potential impact of US tariff increase holds serious consequences for China, which relies on exports to sustain economic growth. China's manufacturing sector, which accounts for about 26% of its GDP, is particularly vulnerable to the damaging impacts of any increase in US tariffs (Cenitti *et al.*, 2019.2).

Oxford Economics (2024.2), in a study of the potential consequences of

Trump's re-election, adjusted its global economic outlook. The study reveals that the impact of Trump's election on global growth is likely to be limited in the near term. This however marks major implications for trade and the composition of growth, as well as on financial markets. The study also reveals that the effects of Trump's election may grow overtime, as the scope of US tariff increases become clear. More radical increase in tariffs on US imports may severely impact the global economy. Targeted tariffs on China, the EU, Mexico and Canada will undermine exports of the affected sectors to the United States. However, the impact on overall export volumes may be tampered by trade diversification and higher US demand, driven by US fiscal policy. Overall, the impact on different sectors could be larger, depending on the form of the new tariff policy. Figure 1 illustrates the likely trajectory of global economic growth in the medium term. The Oxford Economics (2024.2) reveals that Trump's election is likely to push up global growth initially, while medium term effects are less rosy, depending upon three forecast scenarios, associated with the application of tariffs.

Figure 1.
World GDP under different scenarios of Trump 2.0 Presidency



Source: Oxford Economics, 2024

Figure 1 shows the World GDP forecast for 2025 at 2.8%, and expected to increase marginally to 2.9% in 2026. It also reveals various World GDP forecast scenarios under Trump's limited increase on US tariffs, full-blown increase, as well as the October, 2024 baseline. The forecast scenarios cover the medium term, 2025 - 2029.

The major objective of this study is to shed light on the advent of Trump's presidency and the response from the Global South, with evidence from Nigeria. The study is structured into five sections. Section one introduces the challenges posed by Trump's re-election around the world. Section two examines Trump's policy on international trade, while section three explores the response from the Global South. Section four elaborates evidence from Nigeria, while section five ends the study with conclusion.

2. Trump and International Trade Policy

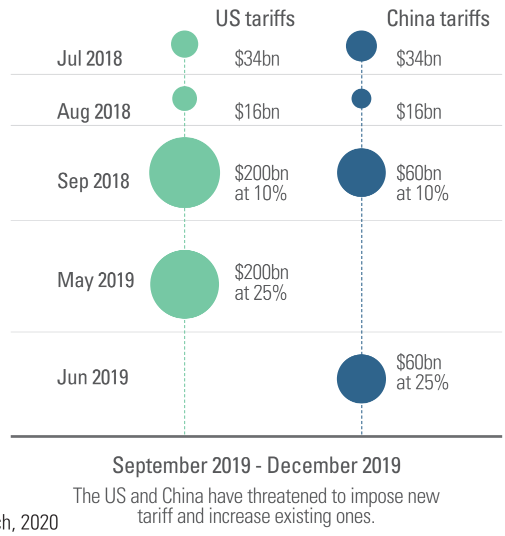
The election of Trump as the US president sets the stage for a re-calibration of international trade policies around the world. Trump, the self-proclaimed "tariff man", is poised to unleash increased tariffs on imports from America's trading partners. Trump's foreign trade agenda is anchored in the 19th-century mercantilism, characterized by protectionism and aggressive application of tariffs. Trump acknowledges tariffs as multi-dimensional tools, a means to an end (negotiating leverage to force a deal), and as ends to themselves. In the latter, tariffs have been levied to encourage reshoring American manufacturing and to generate revenues to pay for tax reductions and spending. Under this scenario, tariffs are either assumed to be "costless", without negative impacts borne by domestic consumers (through higher prices), or by businesses (through high-priced inputs, as well as disrupted supply chains), or that tariffs are likely to increase consumer prices, but that the price is worth paying, as a rightful burden to revive the American industrial base (Rediker, 2024.1).

Trump's tariff agenda, however, poses a threat to America's major trading partners, as the resurgence of protectionism in an interconnected world holds a slew of economic, strategic, and international risks. In an assessment of Trump's trade policy during his first tenure, Murphy (2021.4) reveals the negative impacts of increased tariffs on US imports. According to the author, tariffs trigger uncertainties that stifle economic growth, in addition to raising costs for businesses and consumers. In addition, business managers are less inclined to make long-term capital investment and hiring decisions, against the backdrop of uncertainty surrounding their future ability to acquire critical inputs at a reasonable price, or to export products, accompanied by prospects to pay foreign retaliatory duties. The assessment also reveals that in 2018-19, US business investments unexpectedly declined, despite the benefits of tax cuts and Jobs Act, while various indices of business confidence dropped, in a development widely attributed to Trump's tariff increases on US imports that triggered trade conflicts with some of America's major trading partners.

The United States, under the Trump administration, unleashed more tariffs than any other period in the post-World War II era. In 2018, the United States unleashed a trade conflict with China, with serious consequences, not only for the United States and China, but also the global economy (Igbatayo, 2022.294). Initially, the United States imposed sequentially higher tariffs on three "lists" of goods from China, valued at US$ 34billion, then US$16billion more, and finally an additionally US$200 billion. This development triggered a sharp decline in US imports from China in all three categories of goods covered by the tariffs. In response, China retaliated with the imposition of tariff hikes on US goods, forcing a downward spiral on US exports to China. Figure 2 illustrates the timelines and values of tariff hikes on bilateral trade between the United States and China in 2018-19.

Figure 2.
Escalation of Tariffs in the U.S.-China Trade Conflict, 2018-2019

How the US-China trade war has escalated



Source: BBC Research, 2020

Figure 2 reveals the scope of tariff hikes between the United States and

China in 2018-19 period. While the United States imposed tariffs valued at more than US$360 billion on Chinese goods, China retaliated with tariff hikes, valued at US$110billion on US exports to China.

Analysts agree that Trump's second term would likely witness an escalation of trade conflict with America's major trading partners, particularly with an imposition of tariffs, including across-the-board tariffs of 10%, or 20%, or higher, as well as a proposed 60% tariff on Chinese imports (Rockwell, 2024.1).

3.Trump Presidency 2.0 and Response from the Global South

The election of Trump for a second term holds far-reaching implications for the Global South. Trump's pre-disposition to protectionism is at odds with a liberal, free trade policy framework, which the United States has spear-headed since the end of World War II until his emergence as President in 2016. The anticipated policy shift, marked by "America First" doctrine, is likely to fuel a US retreat from supporting international development agencies, particularly the World Trade Organization (WTO), leading to a vacuum in the Western-dominated, rule-based multilateralism that characterizes the global economic order. This prospect might allow the Global South to explore a multipolar framework that is in tandem with its interests, opening up opportunities for stronger alliances with non-Western powers, including Brazil, China, India and Russia (Klingebiel, Baumann and Sumner, 2024.1). While a multipolar system could empower the Global South with a more diversified range of partnerships, it is also laden with risks escalating global rivalry. For example, Trump has promised to impose 100% tariffs on imports from countries which abandon the US dollar as a trading currency. Also, Trump's anti-multilateral agenda is likely to extend to such key international agencies as the United Nations, where the United States may push for reforms to serve its own narrow interests. This may mean reductions on its contributions to development programs, or withdrawing from agencies which the Trump administration may consider as misaligned with US interests. This development would destabilize funding for peacekeeping, human rights, and humanitarian assistance, and impact heavily on conflict-prone, and low-income countries that depend on these programs. These prospects may strengthen the Global South in the search for regional alliances, seeking to fill the void left by US disengagement. It could also lead to the resurgence in South-South cooperation, including increased opportunities for China, India, Brazil and other powers to assume a more assertive leadership role in global governance, in an increasingly multipolar world order.

In the light of the isolationist agenda that characterizes Trump's ideological doctrine, the framework of global trade governance has assumed a paradigm shift, particularly in East Asia-Pacific region. Confronted with "America First" rhetoric, rising tariffs, and a transactional approach to trade, Asian policy makers are rethinking their traditional reliance on US-led global economic order. Countries in the region are increasingly embracing regionalism, intra-Asian partnerships, as well as a more self-sufficient economic strategy to cope with a Trump-driven, emerging world order (Asia Live, 2024.1). Even traditional US allies, including Japan, South Korea and Australia, are becoming more critical of Trump's trade policies and embracing regional solidarity, openness and activism.

Trump's election also holds serious consequences for Latin America, particularly on two issues that dominate Trump's agenda: migration and tariffs. Mexico lies at the core of Trump's campaign promises to curtail unrestrained flow of migrants from Latin America into the United States, and China's relocation of industries to Mexico to avoid tariffs imposed on China's exports to the United States. Consequently, border control, migration policy, as well as war on drugs define Trump's agenda on bilateral relations with Latin America. Trump has threatened to impose 25% tariffs on goods imported from Mexico, unless it mitigates the flow of migrants and drugs into the United States (Dammert, 2024.2). Mexico's President, in an interaction with Trump, has promised to address the various issues raised by Trump to avoid punitive sanctions. In Argentina, a realignment of foreign policy to Western powers, particularly with the United States, holds positive outlook for Milei, the Argentine's President and Trump, who are both far-right ideologues (Edelman, 2024.5).

Trump's re-election as US president signals a new chapter in US-Africa relations, marked by uncertainties and potential opportunities. It is noteworthy that US-Africa bilateral relations in 2017 - 2021 were generally characterized by mistrust, hostility and neglect (Singh, 2024.3). There is renewed anxiety in African countries about Trump's approaches to development issues of primary concern to the region. This includes support for the United Nations peacekeeping operations, global climate change agreement, as well as the African Growth and Opportunity Act (AGOA), which grants duty-free status on goods imported into the United States from African countries. There is widespread concern among African observers that Trump will reduce US interests across the continent, in a trend similar to his first term. However, ongoing research at the University of Pretoria's African Centre for the study of the US, reveals that Trump 2.0 could be a mixed bag, featuring both promise and fear for Africa. Trump's preference for transactional approaches to foreign engagement and his priority for selective relations based on US strategic needs could translate into positive foreign relations, investment and trade with some African countries. On the other hand, it might undermine African agency and voices in global affairs. This could be bad for good governance, stability, support for human rights, and climate change. It may also negatively impact African migration to the US (Isike and Oyewole, 2024.2).

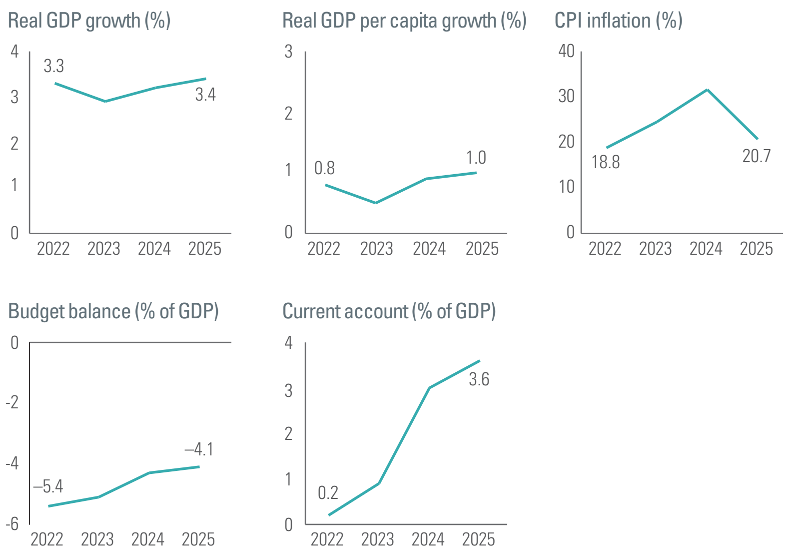
4. Trump Presidency 2.0 and Implications for Nigeria

4-1. Nigeria's Macroeconomic Profile

Until recently, Nigeria was Africa's largest economy, but its economic performance was hit by macroeconomic externalities, particularly declining crude oil prices, which undermined government revenues and foreign exchange earnings. Consequently, economic growth slowed from 3.3% of GDP in 2022 to 2.9% in 2023. Growth was however driven by services and agriculture on the supply side, and by increasing consumption and investment on the demand side. Inflation has emerged as a significant drag on Nigeria's economic performance, rising from 18.18% in 2022 to 24.5% in 2023, and fuelled by escalating petrol prices, and a depreciating domestic currency, the Naira. Petrol prices increased by 167%, from Naira 254 per litre in May, 2023 to Naira 671 in December, 2023 (AfDB, 2024.1).

In a development that compounded inflation, the floating of the domestic currency against the US dollar resulted in exchange rate depreciation by 95.6% in 2023. Also, the fiscal deficit narrowed from 5.4% of GDP in 2022 to 5.1, against the backdrop of improved government revenues, which rose from 6.7% of GDP in 2022 to 7.3% in 2023. International reserves remained robust, but slipped from 6.6 months import cover in 2022 to 5 months in 2023, in a manifestation of tight global financing conditions. Figure 3 illustrates key macroeconomic indicators in Nigeria from 2022, with projections to 2025.

Figure 3.
Nigeria's Key Macroeconomic Indicators, 2022 - 2025



Source: AfDB, 2024

Figure 3 illustrates Nigeria's key macroeconomic indicators: Real GDP growth, Real GDP per capita growth, CPI inflation, Budget balance, and current account from 2022, including projections to 2025. An African Development Bank (2024.1) report projects Nigeria's economic growth, rising to 3.2% in 2024 and 3.4% in 2025, and driven by improved security, higher oil production, as well as stronger consumer demand.

4-2. Nigeria's Economy and the Petroleum Industry

The petroleum industry is the cornerstone of the Nigerian economy. While its share of the nation's GDP has declined from 34% in 2000 to less than 10% in recent times, it accounts for more than half of government revenues and 75% of Nigeria's annual foreign exchange earnings (Lloyds

Bank, 2024.1).

Crude oil was discovered in Nigeria's Niger Delta region in 1956 and the nation commenced exportation with 5,000 barrels in 1958. Nigeria's crude oil is popular in global markets. Its Bonny light crude commands premium prices, owing to its low sulphur content. Table 1 reveals key data on Nigeria's oil and gas industry in 2022.

Table 1.
Key Data on Nigeria's Oil and Gas Industry, 2021

Value of petroleum exports (million $)	53,457
Proven crude oil reserves (million barrels)	36,967
Proven natural gas reserves (billion cu. m.)	5,913
Crude oil production (1,000 b/d)	1,138
Marketed production of natural gas (million cu. m.)	44,307
Refinery capacity (1,000 b/cd)	486
Output of petroleum products (1,000 b/d)	6
Oil demand (1,000 b/d)	518
Crude oil exports (1,000 b/d)	1,388
Exports of petroleum products (1,000 b/d)	--
Natural gas exports (million cu. m.)	32,190

*Note: b/d (barrels of crude oil production allocated by OPEC per day), cu. m. (cubic metres), b/cd (barrels of crude oil processed by refinery per calendar day)

**Source: Adapted from OPEC Annual Statistical Bulletin, 2022

Table 1 shows key data on Nigeria's petroleum industry in 2022, revealing the value of petroleum exports at US$53.4billion, while the value of proven crude oil reserves stood at 36.9billin barrels. Crude oil production also stood at 1.138million barrels per day (b/d). Nigeria is a major player in the global energy chain, driven by major exports of crude oil and natural gas. Crude oil and lease condensate exports from Nigeria averaged about 1.9million b/d between 2013 and 2022. However, exports in 2022 declined, averaging about 776,000b/d lower than the 10-year high of 2.1million b/d (Igbatayo, 2024.5).

4-3. Trump 2.0 and Nigeria's Petroleum Exports

Trump's agenda on accelerated drilling of crude oil and natural gas poses a threat to the stability of prices in the global markets. In 2023, Nigeria exported crude oil, with a market value of US$3.89billion to the United States (Trading Economics, 2024.1). Already, the United States is the largest producer of crude oil in the world, averaging 12.9 million b/d in 2023.

In an effort to attack inflation, Trump promises to bring down gasoline prices below US$2.00 a gallon, specifically targeting a past price of US$1.87. In order to achieve this objective, however, the benchmark crude oil price would have to drop by more than two-thirds, from its current price of about US$70.00 per barrel. The prospect holds grave implications, not only for Nigeria's crude oil export revenue, but also US petroleum companies' profits. Consequently, US oil executives are unwilling to share Trump's aspirations for a substantial reduction in crude oil prices, despite their overwhelming support towards the Trump election bid (Saraghan, Richards, Anchondo, and Webb, 2024.1). Apart from Trump's agenda to keep oil prices down, US oil industry players are also worried about massive tariffs Trump is promising on imports, which could drive up the cost of steel for drilling oil rigs and pipelines. However, it is expected that Trump will rollback regulations aimed at keeping in check US crude oil production, aimed at limiting carbon emission targets under the 2015 Paris climate change accord. Nigeria's exports to the United States are also subject to higher tariffs under the incoming Trump administration, as the AGOA trade framework lapses in 2025 and Trump's opposition against its renewal. This holds grave consequences for the nation's export revenue on goods destined for the United States, prompting a rethinking on Nigeria's export strategies.

Conclusion

Trump is a controversial politician and nationalist, whose global agenda has taken the world by storm. Trump threatens to unsettle international relations, as the global community awaits the implementation of his campaign promises, particularly immigration, and international trade. A radical politician, Trump is largely motivated by the 19th century mercantilist and protectionist activities that surrounded international trade in that era. A Champion of "MAGA" doctrine, Trump is determined to protect American interests, with an aggressive application of tariffs on imports. His agenda aims to weaponise tariffs against United States trading partners, in a development that is at odds with the principles of free trade. While the United States has led multilateral institutions embracing free trade, particularly since World War II, the emergence of Trump in 2016 upturned the global economic order with his transactional approaches to international trade.

The prospects of Trump Presidency 2.0 hold grave consequences, particularly for the Global South. From China, India, Brazil, South Africa and other emerging and developing economies, there is an alignment of interests aimed at addressing the impacts of Trump's tariffs on imported goods. The Global South is particularly worried about the prospects of Trump's antagonism on migration, reduced funding for critical international development agencies. There is also widespread concern for Trump's withdrawal from the 2015 Paris climate change accord. However, Trump's isolationist tendencies are creating opportunities for some countries in the Global South to fill the vacuum left by the United States in an increasingly multipolar world order.

The emergence of Trump 2.0 also has implications for the Nigerian economy, which is largely driven by the production and export of crude oil and natural gas. The United States is a prime destination for Nigeria's petroleum exports. However, in an attempt to tackle inflation, Trump promises to pursue aggressive production of crude oil to drive down the prices of gasoline, in a development that will destabilise crude oil prices and threaten Nigerian government revenue and the nation's foreign exchange earnings. Also, Trump has promised not to renew AGOA, upon its expiration in 2025, threatening to expose Nigeria's exports to the United States to high tariffs under the incoming Trump presidency.

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04

Poland

04-1

On the Eve of the "Trump 2.0 Era" - The Perspective of the European Union and Poland

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The Advent of the Trump 2.0 Era and Countries' Responses: Focusing on the Global South

04-2

The Advent of the Trump 2.0 Era from Poland's Perspective

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On the Eve of the "Trump 2.0 Era" – The Perspective of the European Union and Poland

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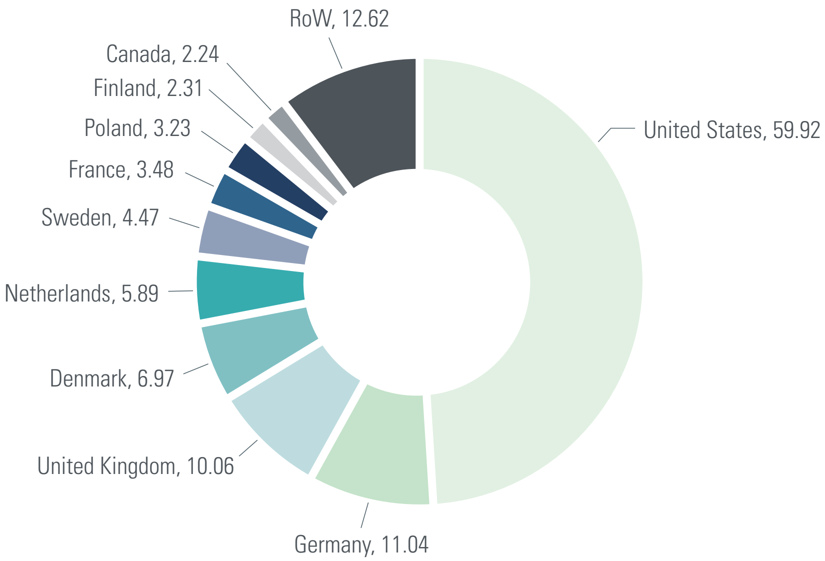
On 7 December 2024, Donald Trump arrived in Paris for his first international trip since his election victory to attend the reopening ceremony for the Notre Dame Cathedral restored after the 2019 fire. The visit was the first unique chance for European leaders to meet the US President-elect and to put out feelers on Trump's first political decisions when he takes office in January 2025.

The outcome of the US 2024 election has triggered a dynamic political discussion on the future EU-US relationships during the second Trump presidency. While many questions and doubts are being raised in the minds of European politicians and the public, one thing is fully agreed—we are on the eve of a new era of transatlantic relations. The main concerns are growing around the issue of the US involvement in military aid to Ukraine, security and cooperation within NATO, as well as a potential US-EU trade conflict. Politicians and journalists, followed by the wider public, are navigating the haze created by Trump's campaign statements and recent media interviews, the first decisions on the new administration, and unofficial leaks from the President-elect's surroundings. Europe also has a political experience from Donald Trump's first term. However, the incoming presidency will be different and implemented in a completely different international environment.

1. The war in Ukraine

The Russian invasion of Ukraine in February 2022 launched a completely new political situation on the continent. The war, which has now lasted more than a thousand days, has produced no resolution and its subsequent course remains unclear. From the very beginning, the US has been heavily involved in military assistance to Ukraine. Until now the United States has committed approximately 60.7 billion USD in security assistance to Ukraine. This has been followed by billions of dollars delivered via humanitarian and financial support. The US has emerged as the leader in support for the embattled country and the scale of military assistance exceeds that provided by other countries (Graph 1).

Graph 1.
Bilateral military allocations to Ukraine by main donors (billion EUR, 24.01.2022-31.10.2024)



Source: Author's elaboration on Ukraine Support Tracker Data (IFW, 2024).

The scale and the scope of military support (including NASAMS, Patriot air defence systems, HIMARS, and M1A1 Abrams tanks) have made the US support crucial for the defence capabilities of Ukraine. The upcoming political change in Washington raises serious questions about further US commitments to support Ukraine. While the current US administration has tried to utilize as much as possible of the remaining funding for Ukraine authorized by Congress before the end of President Biden's term in office, the US policy towards Ukraine and the conflict after the 20th of January 2025 remains highly unclear.

During the 2024 election campaign, Donald Trump said a negotiated peace would be a priority for his office. He has also been vocal in his opposition to further military assistance. Those political declarations have raised several questions about further US military assistance, the US leadership of the Ukraine Defence Contact Group, and the long-term security guarantees provided by the country to Ukraine in June 2024.

The campaign Donald Trump's rhetoric of being able to end the war "within 24 hours" has so far not lived to see concrete proposals for achieving a realistic peace. Bringing an end to the war in Ukraine was one of the election promises of Donald Trump, who even claimed that he would achieve this before formally taking power. So far, we know that the President-elect has appointed retired General Keith Kellogg as special envoy for Russia and Ukraine. Kellogg, known for his "peace plan," proposes a ceasefire and negotiations between the conflicting parties. The peace negotiations between Ukraine and Russia should be achieved, putting pressure on both sides and making Washington's continued support for Kyiv conditional. He also suggested that the potential ceasefire and peace do not necessarily mean that Ukraine would agree to lose territory permanently. Moreover, he stressed that Russia's possible reluctance to ceasefire and enter peace negotiations could prompt the new president to hand over a "massive" number of armaments to Ukraine. In the context of the latter, it should be mentioned that the general uncertainty in Kyiv regarding further US military support to Ukraine is sometimes mixed with hopes for more decisive actions of the new US administration, if Russia decides to reject peace negotiations and continue its military aggression.

The still veiled plan of the new US administration for a ceasefire and ultimately the end of war in Ukraine has been accompanied in recent weeks by calls from the President-elect addressed to European leaders for increased support to Ukraine. There has been a growing expectation that European countries will take the main responsibility for supporting Ukraine and ensuring a lasting peace. The value of the military support allocated by European countries to Ukraine equals that provided by the

US (ca. 59 billion EUR). Additionally, EU countries provided ca. 48.6 billion EUR of financial assistance and 10 billion EUR as humanitarian aid (all values by the end of October 2024). Nevertheless, the political rhetoric coming from the President-elect says that Europe must dramatically increase financial and military support to Ukraine. As Donald Trump said recently "Ukrainian survival and strength should be much more important to Europe than to us."

Europe, looking forward to Donald Trump's new term in office, has been increasingly aware of the growing need for its greater political and military involvement in Ukraine. However, the EU consists of 27 different countries, some of which have different visions of the conflict. Working out a common position in such a group is neither easy nor quick. Moreover, two important countries on the continent—Germany and France—are threatened by a political crisis and entangled in their domestic troubles. German Chancellor Scholz has been seen as indecisive last months and with the current minority government after the collapse of the coalition in November 2024, the situation is even more gloomy. Elections scheduled for 23 February 2025 should result in a settlement, but it will take further weeks for a new government to be formed, meaning that Germany will remain without political leadership in the coming months. The months in which Europe needs to develop a common and strong position regarding the new geopolitical situation. The new potential German Chancellor Friedrich Merz is clearly taking a hardline stance towards Russia and advocates strengthening support for Ukraine, but it is currently uncertain if and when he will take over as head of the German government.

Europe's second-largest economy, France, is also mired in political turbulence. On 13 December 2024, a new government was formed under the leadership of Francois Bayrou, but the political situation in France is far from stable. The new Prime Minister has to deal with a budget crisis and a strongly divided parliament. President Emanuel Macron's political position is weak, although he has been trying to play an active role in recent weeks in building stronger European leadership in support of Ukraine. So far, he is the only politician in the EU to have had a trilateral conversation with the Ukrainian President and the US President-elect during their recent visit to Paris. A few days after the talks in Paris, Emanuel Macron visited Warsaw, where he held talks with Prime Minister Donald Tusk on the situation in Ukraine.

The visit to Warsaw is, in the opinion of many commentators, a sign of an imminent shift of European leadership towards Central and Northern Europe. In the view of the political weakness of the Western European countries, it is Poland, together with the Baltic and Scandinavian countries, that is being identified as the new candidate for EU leadership with regard to further support for Ukraine and stronger European co-operation in security issues. The political summit of Nordic and Baltic countries, and Poland—held on 27 November 2024 in Harpsund (Sweden)—confirmed not only the strong determination of those countries to support Ukraine and to increase their defence spending, but also symbolically highlighted the growing political and military role of the countries of the Baltic Sea region.

From the beginning of the war, Poland has been one of the most important providers of aid to Ukraine. In the first days of the war, the country took in hundreds of thousands of refugees. Poland was the first to decide to provide Ukraine with tanks, and the scale of delivered aid in relation to GDP puts the country among the leaders together with the Baltic and Scandinavian states. Poland has been also acting as the hub for international assistance to Ukraine. This is the only EU country that directly borders with Ukraine and Russia. This unique geographical location brings serious security challenges but also provides a background to play an important role in the stabilization process for the continent. The reason why Poland has a historical chance to be among the most important European countries in the era of Trump is that it takes its security and the need to arm itself seriously. The highest spending on defence in relation to GDP in NATO, the biggest army in the EU (the third one in NATO, after the US and Turkey), and its ambitious arms programme knocks Trump's argument that Europeans are free riders on security out.

Moreover, Poland has now leaders with a lot of experience on the international stage. Prime Minister Donald Tusk served as the President of the European Council for five years (2014-2019) and is now classified as one the most influential politicians on the Continent. Foreign Minister Radosław Sikorski knows Washington circles like few others in Europe and the current President Andrzej Duda, in office until the middle of next year, has always been in friendly relations with President-elect Donald Trump. Such political leadership gives Poland a strong political potential to initiate policies within the EU and also develop transatlantic relations with the upcoming administration in Washington.

The shift in the European political gravity centre is more than just symbolic. During the first half of 2025, Poland will hold the Presidency of the EU Council. The rotating six-month responsibility of the country for organizing the EU's work in the Council comes at a challenging time. The Programme of the Polish Presidency elevates "security" as a central piece of EU debates, policies and activities. Poland's desire for mainstreaming security through all areas of internal and external EU policies is the only proper necessity in times of increasing geopolitical tensions, the erosion of the rules-based international order and hybrid attacks targeting European democracy and security. The upcoming six months will be for the country the opportunity to push the EU towards more active steps in strengthening its security and resistance in all aspects, it will also be for Poland the test of political abilities to conduct the European agenda and shape the EU's policies.

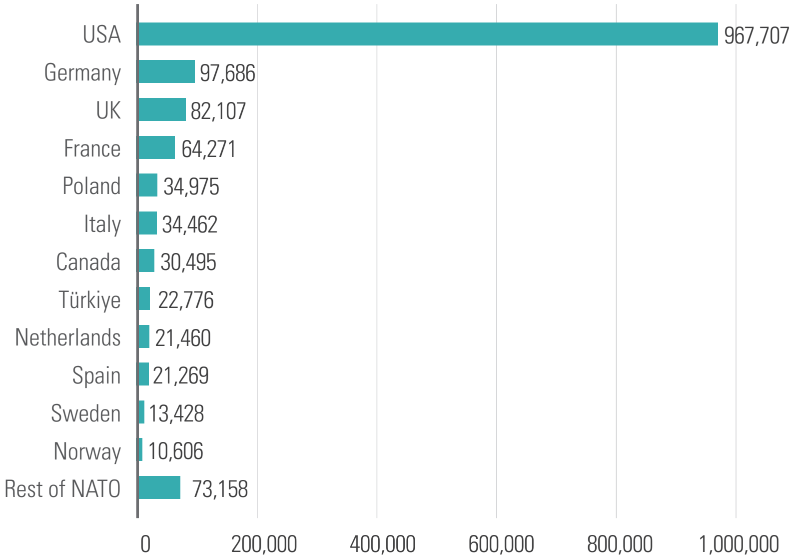
2. Security and defence capacity

While the re-election of Donald Trump brings a lot of questions and high uncertainty on the US support to Ukraine, there is a strong consensus across Europe that the new leadership in Washington will significantly affect the nature of NATO co-operation and the engagement of US in Europe's security. The need for stronger Europe's self-reliance in building its security and defence capacities has not been a novelty and the issue has been raised for years, also under many previous US presidents. However, there is a common expectation verging on certainty that the issue will be among the main topics on the US-Europe agenda.

Already during his first term in office, Donald Trump criticised other NATO members for spending not enough on defence and insisted that a disproportionate financial burden of maintaining the alliance's military capacities falls on the US (Graph 2). At the same time, he questioned whether the organisation was still needed. During the 2024 presidential campaign he used those arguments many times, accusing the European allies as "free riders" and even threatened not to defend countries that do not fulfil allied commitments related to defence expenditure.

Graph 2.

Defence expenditure by NATO members in 2024 (million USD, current prices)

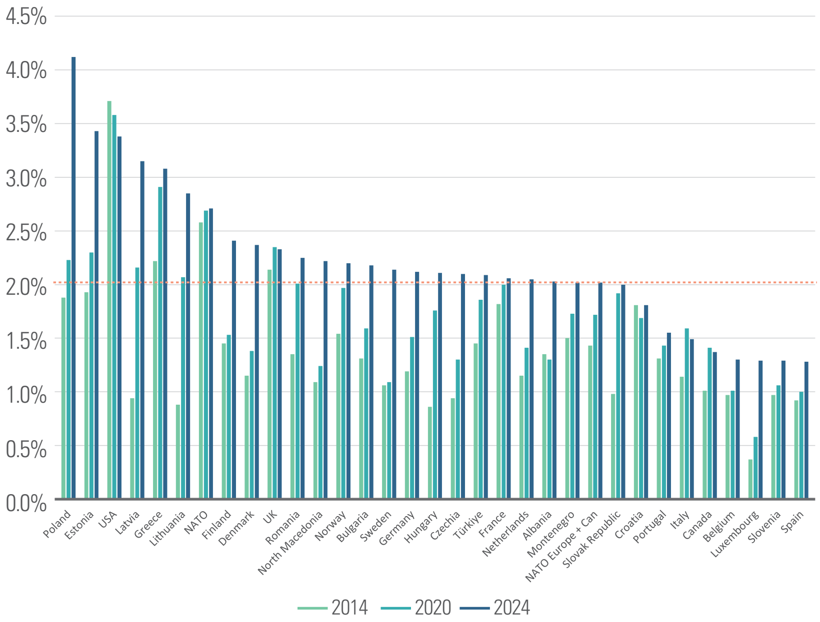


Source: Author's elaboration on NATO Statistics (NATO, 2024)

In 2014 NATO leaders called for all allies to stop cuts to defence budgets and move towards the NATO-agreed guideline of spending at least 2% of GDP on defence within a decade. At the same time, the allies also agreed to move towards spending at least 20% of annual defence expenditure on new major equipment and related research and development. At the 2023 Vilnius Summit, NATO leaders agreed on a renewed Defence Investment Pledge, confirming the commitment to investing at least 2% of GDP annually in defence. It was also emphasized that—in the context of current security challenges and existing shortfalls—expenditure beyond 2% of GDP will be needed in order to remedy existing shortfalls. Despite their NATO commitments, some member states have failed to fulfil their obligations. Although arms expenditure has increased in recent years, including in countries that were previously far from the threshold of 2% of GDP, there is still much to be done in this aspect (Graph 3).

Graph 3.

Defence expenditure by NATO members as a share of GDP



Source: Author's elaboration on NATO Statistics (NATO, 2024)

Trump's incoming presidency is bound to increase pressure for higher military spending. In his first term, the country particularly criticized by Donald Trump was Germany, Europe's largest economy. In the view of many, Germany—like many others in Europe—enjoyed a peace dividend by neglecting to spend on armaments and modernizing the army. There has been some improvement recently, but political expectations are nevertheless more far-reaching. In 2024 as many as nine of the NATO 32 members have not reached the commitment of 2% of GDP for defence spending. Traditionally, little is spent on defence by the southern European countries, which are furthest from the threat posed by Russia. The group also includes Canada, whose Prime Minister has announced that it will not reach this level until 2032. Similar timeframe plans are also in place for other countries that do not meet this commitment. However, it appears that Donald Trump's victory may significantly accelerate the process of achieving the declared threshold.

NATO allies are already in discussions about increasing the mentioned target, but many capitals are concerned about the difficult fiscal situation. According to the Alliance officials, the new arms production capacity targets could increase this to as much as 3% of GDP. The new Secretary General of NATO Mark Rutte admitted in an interview in December 2024 that the 2% of GDP is not enough in the long term to deter potential adversaries. This corresponds with the line presented by Donald Trump. As reported by Financial Times on 20 December 2024 the expectations from the new US administration go far beyond that level. According to the press report, Donald Trump will demand NATO allies increase defence spending to even 5% of GDP. The same report delivered that the re-elected US President would settle for 3.5% of GDP, but the higher defence expenditures should be clearly linked with the offer of more favourable trading terms with the US. At the same time, the sources confirmed that noticeably higher defence spending by NATO European allies would be accompanied by the continuation of the US military aid to Ukraine. New decisions will be made in June 2025 during the NATO Summit in the Hague, but it seems almost certain that 3% of GDP is a minimum level of NATO defence spending.

Regardless of the final level of defence expenditure to be accepted by the allies, EU countries are aware of the need to increase spending significantly. Trump's new term in office can only accelerate this process. In recent months and weeks, there have been a number of initiatives to increase Europe's security and defence capabilities. It also seems that 2025 will bring new important decisions in this regard.

As mentioned, the Polish Presidency starting on 1 January 2025 put security as the central piece of the political agenda. In the Presidency priorities, the Polish government underlines the urgent necessity of EU defence actions, that would complement the efforts of NATO, including increased military spending, a stronger defence industry and addressing defence capability gaps. The Polish Presidency will also push for an in-depth debate on defence financing in the EU. Mobilising significantly increased defence spending remains a major challenge for European NATO members and the debate on new possible financial tools in the EU is ongoing. The President of the European Commission Ursula von der Leyen said the EU needs 500 billion EUR in additional investment in the coming decade to remain competitive defence industry and meet current demand. This enormous financial effort must be accompanied by much better coordination of Europe's fragmented defence industry. Moreover, the EU Defence and Space Commissioner Andrius Kubilius also announced his intention to increase defence spending in the EU budget. According to him this section of the budget must increase ambitiously. Commissioner Kubilius wants the EU's next seven-year financial framework (2028-2034) to allocate up to even 100 billion EUR for defence. That stands in strong contrast to the current 10 billion EUR allocated for 2021–2027. The security and defence challenges faced by European countries have also triggered a debate on possible new financial tools, including EU defence bonds. Such an instrument could raise defence spending due to lower cost of funding, improving co-ordination and avoiding duplication of defence actions (e.g. via common procurements), or realizing large projects of common interest. The idea of issuing joint debt securities to support defence spending and investment is supported by some important EU countries such as France, Italy and Poland, but also has strong opponents within the EU, including a.o. Germany and the Netherlands. Despite internal differences, one is certain—the EU's joint debt and further increase of defence spending will be on the top of the political agenda in the EU in 2025.

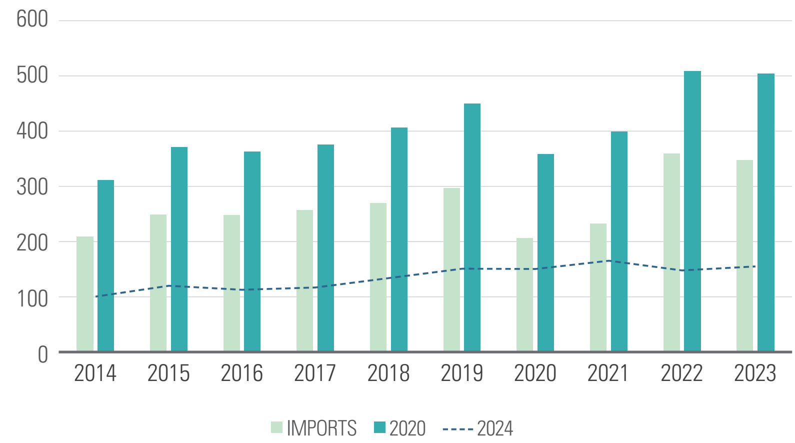
3. Trade and economic confrontation?

The re-election of Trump brings also many questions about the future US-EU trade and economic co-operation. One of the narrative axes of the presidential campaign—in line with the slogan "Make America Great Again" —was the reduction of imports to the US and support for domestic production. While China was on target as the primary addressee of this rhetoric, also European countries have been identified as partners that would face new restrictions in accessing the US market. President-elect Trump has called tariffs "the greatest thing ever invented" and he promised to increase US tariffs to 60% on imports from China and 10-20% on goods imported from other trading partners, including the European Union. These neo-mercantilistic threats may lead to a global trade war and serious repercussions for the global trading system unseen for decades. As the EU is among the biggest global traders and European economies have been historically dependent on international trade, Trump's promises have become a serious economic challenge for 2025.

The United States remains the most important trade partner of the EU. This is also the biggest market for European exporters with a total merchandise export exceeding 500 billion EUR (2023). In recent years, EU exports destined for the US have grown faster than imports from the United States that resulted in an enormous trade surplus of the European Union at the level of more than 156 billion EUR in 2023 (Graph 4).

Graph 4.

Merchandise trade of the European Union* with the United States in 2014-2023 (billion EUR)



* The United Kingdom included until 30.01.2020

Source: Author's elaboration on Eurostat/Comext Database (Eurostat 2024)

As the transatlantic trade relationship is one of the largest in the world, the EU with its enormous trade surplus stands in the firing line of Trump's trade doctrine. Higher US tariffs would challenge European exports and weak economic growth in the EU, and among the countries most affected would be Germany and Italy as the biggest EU exporters to the US. While the EU has some experience of being attacked by Trump during his first term, including higher tariffs on steel and aluminium or pulling out the US from multilateral treaties, current expectations for the Trump 2.0 era are even worse. Moreover, the threat by Trump to slap a 60% levy on all goods imported from China and in consequence US-China trade war may lead to even stronger export pressure from China to European markets.

But the EU is not defenceless and the European diplomacy has been preparing—behind the scenes—the EU's response to different scenarios. The tremendous deficit in US trade with the EU, being a salt in Trump's eye, could be balanced by increasing European purchases in the US. From Trump's statements so far, it can be concluded that the announced tariff increase on European exports may not happen if European countries significantly increase their imports of US oil and gas. Since the Russian invasion of Ukraine in 2022, the US has become one the most important suppliers of liquefied natural gas (LNG) to the European Union, providing ca. 20% of global EU LNG imports (LNG import from the US to the EU grew from 18.9 bcm in 2021 to 56.2 bcm in 2023). In this context, the EU has become an important LNG export market for the US. While the European Commission (EC) is preparing "sticks and carrots" for the re-elected Trump era, the President of the EC Ursula von der Leyen has already suggested that one way to deter Donald Trump from imposing new tariffs is for Europe to buy more LNG from America. Such a manoeuvre worked during the first Trump term when Europe declared more trade facilitations for American LNG and soybeans. Another bargaining chip on the EU's side could also be a significant increase of defence expenditure, which will be linked to a growing demand for military equipment. Part of this demand will certainly be met by purchases from the US defence industry. A set of instruments that, at the level of bilateral cooperation, could help to avoid the imposition of new duties could also include new trade facilitations in some particularly important sectors (e.g. the automotive industry) and the potential EU's offer to reduce its MFN tariff. Another "carrot" could also be a further reduction of regulatory obstacles to trade in areas such as conformity assessment or cooperation on standards. However, those potential proposals would need time to be discussed and implemented on both sides of the Atlantic.

The positive offer by the EC should be backed up with a credible threat of retaliatory actions imposed on US exports to Europe. As some analysts suggest, the EC should prepare a negative list of products which would be subject to increased duties on imports from the US on a reciprocal basis (except for those goods on which the EU is highly dependent). While the negative list is a maximum retaliatory option, the EU has many more bullets in its trade defence gun, such as application of the EU's Anti-Coercion Instrument (ACI), launching new anti-dumping or anti-subsidy investigations against US products or implementing new technical barriers to trade. The latter ones are often difficult to prove that they are intended as protectionism or retaliation. The EU remains the third biggest export market for the US (after Canada and Mexico) and such retaliatory actions could significantly harm selected sectors of the American economy. Moreover, a strong US trade conflict with China and the EU at the same time could prompt both America's partners to seek more favourable trade terms between them. This is certainly not to the liking of Donald Trump, whose rhetoric is mainly preparing for a confrontation with China and economic challenges for the US in the Asia Pacific region.

4. Conclusions

The new Trump era will bring many challenges to Europe in the coming months and years. Certainly, EU countries need to take steps to enhance their security and their military capabilities. This issue is by no means new, but the situation in Ukraine and Trump's campaign announcements are forcing a significant acceleration of this process. This will involve a significant increase in defence expenditure, as well as the need to shape a stronger political leadership. With regard to the potential economic and trade challenges associated with the return of Trump, the EU is so far taking a wait-and-see attitude and signalling—behind the scenes—its willingness to push a positive agenda while being ready with concrete countermeasures and retaliations.

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04-2

The Advent of the Trump 2.0 Era from Poland's Perspective

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Abstract

The election victory of Donald J. Trump in the United States in November 2024 and his return to power in January 2025 have provoked reactions worldwide. According to many observers, enforcing the "America First" principle and the resulting changes in the foreign economic policy of the United States threaten to weaken the traditional international economic order. At the same time, these changes encourage countries to take preparatory steps to reduce the threats resulting from the impact of instruments introduced by the still biggest world economy and to take advantage of emerging opportunities. If the future president's announcements materialize, Europe and Poland will also feel the effects of changes in the foreign economic policy of the American administration.

The study aims to analyze the current trade and investment relations between the United States and Poland and the potential economic effects of the Trump 2.0 era policy for Poland in two main areas: foreign trade and foreign direct investment. Various research methods were used to achieve the assumed objectives of the study, such as critical analysis of literature, an inference method, and a method of quantitative statistical analysis.

Keywords: economic policy, FDI, foreign trade, Poland, Trump 2.0, the United States

1. Introduction

The election of Donald J. Trump as President of the United States in November 2024 is seen by many as a significant turning point in the economic policy of the world's still most considerable economic power. Observers recall Trump's first presidency (2016-2020), which was characterized by major changes in economic policy in the world, mainly due to the growing protectionism of the United States and the implementation of the "America First" principle. The developing trade conflict with China, the withdrawal of the United States from the Trans-Pacific Partnership agreement, or the reduction of the United States' involvement in the activities of international institutions (e.g., the WTO) are examples of actions taken by the then American administration. Donald Trump's return to the White House after four years raises concerns about the return of this type of policy and its decisive strengthening.

Thus, the Trump 2.0 period may mean greater protectionism in the global economy and further marginalization of international institutions, including the World Trade Organization (WTO), the North Atlantic Treaty Organization (NATO), and the Group of 7 (G7). At the same time, threats against partners from the USMCA or the European Union may lead to the development of bilateral relations rather than multilateral trade and investment agreements. The danger of growing individualism in economic activities undertaken by countries that emphasize national sovereignty may lead to deglobalization while reducing the economic benefits of international cooperation.

As a member of the European Union and an economy with a high degree of openness, Poland is interested in the economic development it has experienced since the systemic transformation at the turn of the 1980s and 1990s. In particular, participation in European integration contributed to the country's unprecedented economic advancement, resulting from the possibility of operating on the EU common market. At the same time, in recent years, Poland has tightened its economic relations with the United States, developing bilateral trade, hosting American capital, diversifying the supply of energy resources, and strengthening cooperation in the defense sector. Considering Poland's key role as a member state of the European Union and its position as an essential partner of the United States, it is worth indicating the most critical areas in which the change of power in the United States may affect Poland's economic situation.

The study aims to analyze the current trade and investment relations between the United States and Poland and the potential economic effects of the Trump 2.0 era policy for Poland in two main areas: foreign trade and foreign direct investment. The structure of the study is subordinated to this objective. After the introduction, the second section will discuss the actions taken by the first Donald Trump administration towards the world, Europe, and Poland. The next part will concern the characteristics of the economic relations between the USA and Poland. The following part will attempt to indicate the potential impact of the actions of the American administration of the Trump 2.0 era on the Polish economy. The study ends with a general summary.

To achieve the intended objectives of the study, various research methods were used, such as critical analysis of literature, an inference method, and a method of quantitative statistical analysis.

2. U.S. Foreign Economic Policy under first Trump administration 2016-2020

Donald Trump's rise to power in the United States in 2016 was seen as a significant change in the international economic order (Stiglitz 2017). The United States, which after World War II was the architect of the world order, turned towards nationalist policies, where openness, globalization, and free flow of goods, services, or capital are not considered as bringing benefits to economies and societies (van Apeldoorn et al. 2023). In this way, economists' findings were questioned, starting with the classics of economics—Adam Smith and David Ricardo—who claimed that international cooperation and globalization brought benefits to all countries. Donald Trump clearly stated that the problems experienced by workers in the Rust Belt area of the U.S. resulted from globalization and the "worst in history" trade agreements signed by the United States (Stiglitz 2017). Such views of the President of the United States had to be reflected in the economic policy pursued by the American administration.

The foundation of US economic policy was the motto "America First." According to P. Suedfeld et al. (2021, p. 39), the term "America First" was the basis of Donald Trump's planned foreign policy regarding alliances, mutual defense, and treaty relations, approach to foreign aid, international trade, domestic economic policies, and immigration. These two words included a departure from the perception of the United States as a country with a historic mission to spread American ideals of freedom and democracy by acting as a global leader (van Apeldoorn et al. 2023, p. 109). The United States, relinquishing its leadership role, was moving towards economic nationalism. This was reflected in the actions taken. Donald Trump's administration focused on protecting the domestic market and reducing the trade deficit, mainly by introducing tariffs and non-tariff restrictions. This was manifested in the trade war with China. The high and growing trade deficit of the United States with China prompted the American administration to introduce global tariffs on steel (25%) and aluminum (10%) in March 2018 to protect domestic producers (Bown 2021). China's and then the US's retaliatory actions covered much trade between the partners. They led to a significant increase in tariffs in their mutual relations. This phase of protectionism ended in January 2020 with the signing of an agreement between the US and China. The US's transactional approach to economic policy was also reflected in the renegotiation of the NAFTA agreement (Lester & Manak 2018). The agreement, described by Donald Trump as the worst agreement concluded by the United States ever, was renegotiated due to the deficit that the United States had in trade with Mexico and Canada. In July 2020, a new agreement, the United States-Mexico-Canada Agreement (USMCA), entered into force, in which the United States secured better conditions for itself. Along with the growing importance of the bilateral approach of the United States to shaping its relations, there was a noticeable departure from multilateral rules in the global economy. This was manifested in weakening the position of the World Trade Organization (WTO), among others, by not appointing US representatives to the Dispute Settlement Body. This type of policy effectively paralyzed the institution guarding the multilateral trade system. Other manifestations of similar treatment of traditional multilateral institutions included the repeated questioning of the significance of the North Atlantic Treaty Organization (NATO) as an organization ensuring international security. There were also voices criticizing the United Nations (UN) or the G7 group (Engel 2022). Such activities were not conducive to developing global value chains and international trade.

From the point of view of the economic relations between the United States and Europe (European Union), the period of Donald Trump's first presidency was not the easiest one. However, it should be remembered that both partners are essential to supply and sales markets for each other and, simultaneously, the most important investors. In 2021, the value of EU exports of goods to the US amounted to EUR 399.5 billion, and imports of

EUR 232.6 billion, which meant a deficit of the United States at the level of EUR 166.9 billion (European Commission 2024). The United States had a surplus in service trade (EUR 85.4 billion), which did not compensate for the deficit in goods. The European Union had cumulative investments in the US worth EUR 2,655.8 billion, and the United States in the EU EUR 2,452.4 billion. From this point of view, the United States' trade deficit with the European Union caused tensions. President Donald Trump claimed that "nobody treats us much worse than the European Union" (Winter 2018). In 2019, negotiations for the Transatlantic Trade and Investment Partnership (TTIP) were formally stopped. This mega-FTA agreement began to be negotiated in 2013, with the last round of negotiations taking place in 2016. Another example of the complex nature of the US-EU relationship was the preparation by the US Department of Commerce of a report on the extent to which US automotive imports from the European Union pose a security risk to the US (Welfens 2019, p. 149). If such imports were deemed a threat to the United States national security, the president would have the power to impose a 25% tariff on imported goods without the consent of the U.S. Congress. Although this situation did not materialize, it was nevertheless a clear manifestation of the nature of the policy that Donald Trump pursued toward everyone, including his largest economic partner, the European Union.

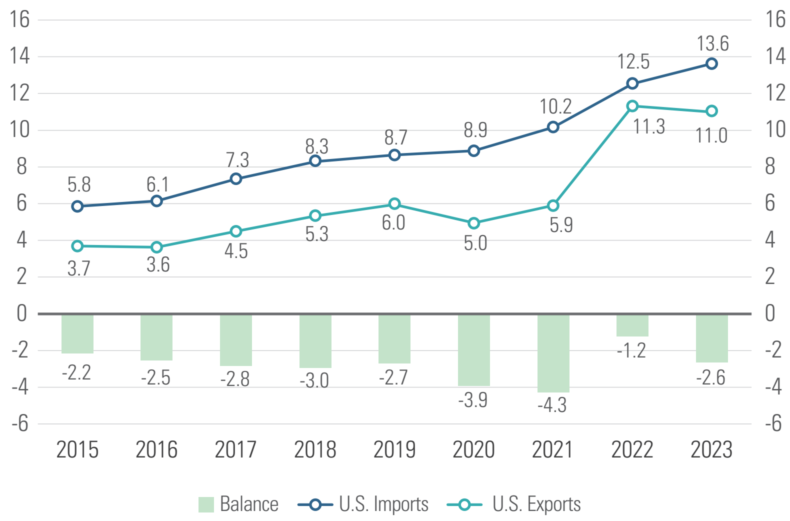
As a member state of the European Union, Poland does not pursue an independent trade policy, which is within the competence of the European Commission. Therefore, all issues, including tensions related to trade relations between the United States and the European Union, also concern Poland. Thus, the protectionist policy of the United States towards the European Union means that Poland will also be included. Another threat visible in 2016-2020 was the economic destabilization of Central Europe due to questioning and weakening of the transatlantic community within NATO. It is worth emphasizing that during the first presidency of Donald Trump, Poland tried to maintain good relations with the United States, treating them as strategically important. This resulted in an increase in Poland's importance as a trading partner of the United States. Poland moved from 10th to eighth place as an export market for the United States in the European Union (UNCTADStat 2024). This was also connected with the growing purchases of weapons and energy resources in the United States. These issues are still critical and necessary for the economic relations between the United States and Poland.

3. Economic ties between the United States and Poland

The economic effects of Donald Trump's policies on Poland after he takes power in January 2025 will manifest in various areas. Still, the two most important are foreign trade and capital flows in the form of foreign direct investment. In both cases, Poland's position in its relations with the United States has improved in recent years.

In the trade area, Poland's relations with the US have strengthened. In 2015-23, US exports to Poland increased from USD 3.7 billion to USD 11 billion, which meant an increase of 197.2%. Imports also saw a rise, but a slightly smaller one of 133% (from USD 5.9 billion to USD 13.6 billion). Although the situation was improving regarding the US trade balance, the United States still had a deficit in goods trade with Poland (see Fig. 1).

Figure 1.
Merchandise trade between the U.S. and Poland, 2015-2023, USD billion



Source: Author's calculation based on UNCTADStat (2024).

While there has been a steady increase in trade turnover on the import side, there has been an apparent increase in trade value from the United

States to Poland in recent years (2020-23). This is the result of a substantial increase in the export of SITC3 products (Mineral fuels, lubricants, and related materials), the value of which increased from USD 319 million in 2020 to USD 4 billion in 2022 (falling to a still high level of USD 2.5 billion in the following year). The detailed product structure of US exports to Poland in 2015-23 is presented in Table 1.

Table 1.
Product breakdown of US exports to Poland, 2015-2023, %

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Food and live animals	2.5	2.0	1.7	2.2	2.2	1.7	2.4	1.5	2.3
Beverages and tobacco	2.7	2.0	1.5	1.1	0.7	1.0	0.6	0.5	0.6
Crude materials, inedible, except fuels	4.0	4.1	3.9	3.2	3.9	3.5	5.0	3.6	3.5
Mineral fuels, lubricants, and related materials	1.6	0.7	5.3	8.8	11.7	6.4	13.3	36.0	22.8
Animal and vegetable oils, fats and waxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals and related products, n.e.s.	11.0	12.3	9.1	8.2	7.6	8.6	8.8	6.6	6.2
Manufactured goods	7.6	8.5	7.8	6.7	6.4	6.9	7.6	5.0	5.1
Machinery and transport equipment	39.4	40.4	35.8	33.3	30.9	40.8	35.3	23.3	30.6
Miscellaneous manufactured articles	9.2	10.4	9.7	9.7	9.6	10.7	11.5	9.2	10.4
Commodities and transactions, n.e.s.	22.0	19.6	25.3	27.0	27.2	20.2	15.6	14.3	18.5

Source: own preparation based on (UNCTADStat, 2024).

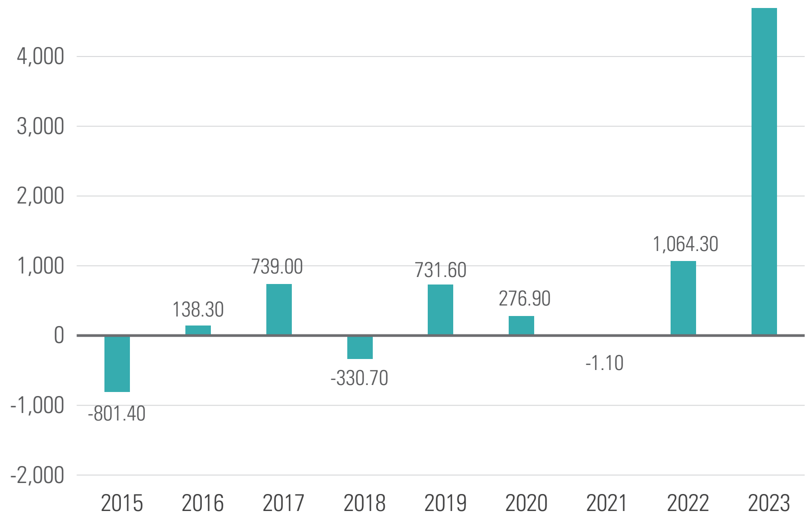
Such a significant increase in the export of mineral fuels resulted from the progressive diversification of Polish sources of supply in strategic energy resources, which was associated with Russia's military aggression and war with Ukraine. The European Union and its member states strive to become independent from supplies from the East. Poland has signed, among others, contracts to import gas from the United States. The statistics reflected this because commodity groups such as Petroleum, petroleum products, and related materials; Petroleum oils, oils from bitumen materials, crude and Petroleum oils or bituminous minerals>70% oil increased their shares in US exports to Poland to the greatest extent.

Against this background, the product structure of US imports from Poland is stable. The largest share is held by products from the Machinery and transport equipment group (51% in 2023), Miscellaneous manufactured articles (19.1%), and Manufactured goods (10.7%). The remaining product groups are much less important (UNCTADStat 2024).

It is also worth mentioning that Poland is currently a net arms purchaser. The war beyond the country's eastern border means that Poland is buying military equipment abroad in addition to its own production. Although South Korea has become one of the most important suppliers of arms to Poland in recent years, the United States has remained the primary source of supplies for Poland. According to data from the Stockholm International Peace Research Institute, in the years 2000-23, the share of the United States in total Polish arms imports was 46%, while the share of South Korea was 11% (SIPRI 2024). Growing geopolitical tensions and Poland's active defense policy mean that defense cooperation with the United States will expand, which is associated with increasing trade in arms.

The second economic area in which the ties between the US and Poland are reflected is the flow of foreign direct investment. In 2010, the equity capital of foreign companies in Poland was USD 176.2 billion; by 2022, it had increased to USD 233 billion (Cygler et al. 2024, p. 18). While Polish FDI in the US is small, American investments in Poland are significant. In 2022, the equity capital of American companies in Poland amounted to USD 26.8 billion, constituting 12% of total incoming investments (Cygler et al. 2024, p. 18). This value gave the United States the second position after Germany in the ranking of the largest foreign investors in Poland. Figure 2 shows the annual inflow of American foreign investments (outflow) to Poland.

Figure 2.
The inflow of US FDI into Poland, 2015-2023, USD million



Note: Negative value means disinvestment.

Source: NBP, 2024

Considering the entire period (2015-23), the balance of US investments in Poland is positive. Investments have grown particularly significantly in recent years (2022-23), but they were positive in most analyzed years (except for 2015 and 2018). American companies have a large share of foreign assets in Poland (10% in 2022), and companies with the highest share of US capital are major employers in Poland. In 2022, they employed almost 295 thousand workers, constituting 14% of total employment in foreign companies (Cygler et al. 2024, pp. 26, 32). The importance of American capital is also reflected in the sectoral structure of the investments undertaken. They are mainly located in the service sector (including business service centers) and the industrial sector (AmCham and SGH 2023, pp. 14–15). The United States is also a key partner in nuclear energy—Westinghouse Electric Company won a contract to build a nuclear power plant in Poland (Westinghouse Electric Company 2023).

The above brief description of Poland's economic ties with the United States allows us to conclude that the changes in foreign economic policy announced by Donald Trump may impact the Polish economy, which is of interest in the next section.

4. Trump 2.0 era and its potential impact on the Polish economy

Since Donald Trump's announcements regarding the introduction of instruments to protect the specifically understood US interests are changing, assessing the impact of these hypothetical situations on the Polish economy is complex and burdened with a great deal of generality. Nevertheless, one can attempt to indicate several areas in which the impact may become visible if these announcements materialize: 1) introduction of tariffs on all products imported to the US at the level of 10-20%; 2) introduction of a 60% tariff on imports from China; 3) introduction of a 25% tariff on imports from Mexico and Canada; 4) introduction of 100% tariffs on imports from BRICS (Brazil, Russia, India, China, South Africa) if these countries decide to undermine the global role of the US dollar; and 5) exerting pressure on the EU to increase imports of US energy resources, etc. (Bojanowicz 2024, Pitas 2024, Restuccia 2024). It is worth remembering that the scope and degree of impact depends, firstly, on the instrument being introduced and its design and, secondly, on the scope and timing of its introduction.

If the threat of imposing higher tariffs on the European Union and its member states comes true, it will result in growing trade tensions between the United States and the EU. Thus, US tariffs will indirectly affect Poland, reducing Polish exports. This is all the more likely because the European Union and Poland have surpluses in their trade balances with the United States, encouraging the US administration to harden its position. In turn, retaliatory measures by the European Union and further escalation of the trade conflict may lead to an economic slowdown in Europe, negatively affecting Polish exports to EU countries and, subsequently, Poland's economic growth dynamics.

On the other hand, Donald Trump's transactional approach to shaping international relations may encourage the European Union and Poland to increase imports of energy products from the United States. Trump's announced increase in fossil fuel production (oil and gas) and pressure on the European Union to import these products to reduce its surplus in trade with the US will lead to diversification of energy supply sources. The United States is already the second largest exporter of LNG to the European Union market after Norway (Bojanowicz 2024). As shown in Table 1, Poland also significantly increased its energy resource imports from the US.

Suppose American oil and gas production is large enough to affect energy prices in global markets. In that case, the drop in energy commodity prices may allow Poland to reduce energy import costs, positively impacting the country's trade balance. On the other hand, it will postpone the transformation of green energy worldwide, including in Poland.

One of the biggest threats to Poland is the continuation of the "America First" policy of weakening the multilateral trade system and the withdrawal of the United States from other agreements, including bilateral ones. Although the European Union does not have an active agreement with the United States, the US withdrawal from its observance is impossible. Nevertheless, the general reduction in US involvement in international trade agreements may limit EU and Polish exporters' access to the American market. This may mean seeking alternative sales markets outside the United States.

In the area of investment, the general tensions between the United States and the European Union may lead, on the one hand, to a decrease in the interest of American investors in investing capital in Europe and Poland. On the other hand, the intense rivalry between the US and China may lead to replacing riskier locations (China) with more predictable ones—Europe and Poland may benefit from this.

5. Conclusion

The return to power in the United States of Donald J. Trump, who will assume office on January 20, 2025, has sparked discussions and adjustments in many countries worldwide. The actions he has announced are often perceived as a threat to the current international order. Mindful of the experiences of the first Trump presidency (2016-2020), characterized by growing protectionism and a transactional approach to shaping the United States' relations with partners, individual countries are preparing for a period of power in which the priority will be to implement the "America First" approach.

The European Union and Poland are also facing such dilemmas. If implemented, the impact of the American administration's announced actions will be visible in international trade and foreign investments, influencing the macroeconomic indicators. In the case of Poland, which has relatively good relations with the United States, the main changes may concern the area of trade (including pressure from the US to reduce the deficit with Poland, a change in the structure of trade towards increased imports of energy resources from the US, increased imports of arms) and investments (increased interest in investments in Poland as a result of their transfer from less "friendly" countries, e.g. China or a decrease in the level of investments as a result of pressure exerted on American corporations to invest in the United States).

Finally, several issues need to be clearly articulated. First, the changes announced by Donald Trump will also bring costs for the United States. High product prices and increased inflation will affect American society because consumers will always pay for the introduction of protectionism. In the increasing isolation of the United States, achieving benefits will be difficult. Second, introducing the concept of "America First" is essentially a denial of the achievements of economics, whose representatives, starting with Adam Smith, claim that international cooperation based on the right foundations benefits all countries involved. Third, the possible consequences of the Trump 2.0 era indicated in this paper are only predictions. The effects will depend on specific decisions and their implementation during Donald Trump's presidency. These will certainly be interesting times.

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KIEP Visiting Scholars Program

The Advent of the Trump 2.0 Era and Countries' Responses: Focusing on the Global South

05

Russia

Structural Changes in Russian Crude Oil Exports

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Abstract

Recent analyses suggest that the sanctions imposed on Russia, particularly with respect to its oil exports, have yet to fulfill their intended goals. The implementation of the oil price cap and embargo has led to a decline in Russia's oil export revenues. However, the presence of existing loopholes has allowed the country to maintain its engagement with traditional markets. Russia has strategically compensated for lost revenue by redirecting oil sales to third-party nations, which in turn process and export refined petroleum products back to Western markets. The redirection of Russian oil exports towards Asian markets underscores the resilience of its oil production capabilities amid considerable international pressures. This strategic shift has profound implications for global trade, fostering an increasingly fragmented trade landscape organized along geopolitical alliances. In addition, the evolving landscape of U.S. oil exports is poised to play a pivotal role in shaping future energy dialogues.

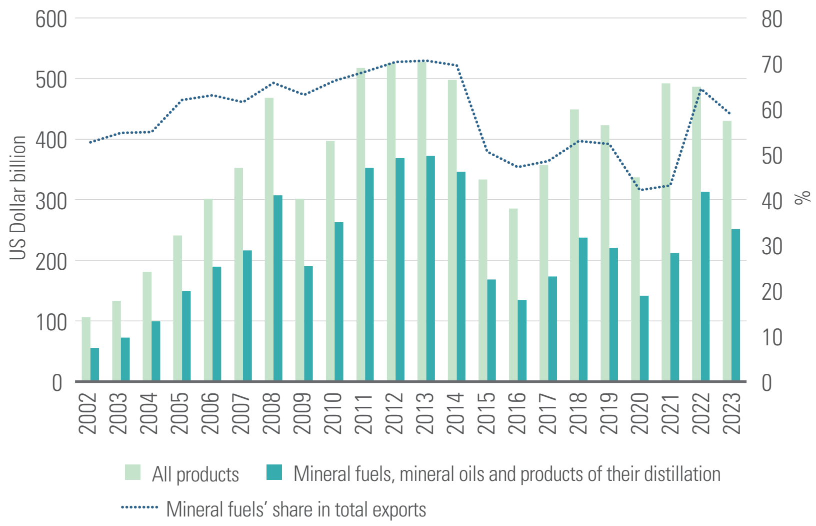
Key words: Russia, oil, exports, sanctions, the EU, the USA

1. Introduction

Russia is a nation that exhibits a pronounced dependence on hydrocarbon exports, which constitute a substantial portion of its overall export profile. Specifically, the category of commodity group 27, which includes mineral fuels, mineral oils, and products of their distillation, accounts for more than 60% of Russia's foreign deliveries (Figure 1). This reliance on hydrocarbon resources not only shapes the country's economic landscape but also has significant implications for its geopolitical strategies and international relations.

Figure 1.

Russia's exports of Chapter 27 "Mineral fuels, mineral oils and products of their distillation"



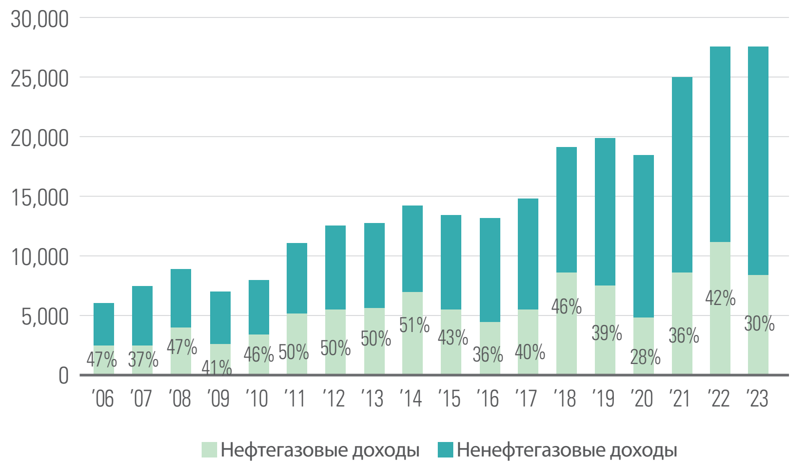
Source: ITC trade map, accessed on December 2024.

Revenues derived from oil and gas constitute a significant portion of Russia's national budget, though over the past several years, a downward trend has been observed in the proportion of these revenues. In 2014, oil and gas revenues accounted for more than 50% of the budget. This share subsequently declined to a range of 36% to 46.4% from 2015 to 2019, with a notable drop to 28% in 2020. However, there was a recovery in the subsequent years, reaching 35.8% in 2021 and 41.6% in 2022. In 2023, the proportion stabilized around the 30%, specifically totaling 30.3% (Figure 2).

This volatility highlights the dependence of the country's fiscal framework on the oil and gas sector, underscoring the need for economic diversification strategies.

Notably, the budgetary revenues derived from the oil and gas sector fail to encompass several financial contributions generated by companies operating within this industry. In particular, beyond the mineral extraction tax, tax on additional income from hydrocarbon production, and export duties, these revenues also stem from various taxes imposed on sector companies, as well as taxes collected from the suppliers and contractors associated with oil and gas enterprises. Furthermore, dividends from companies in the oil and gas sector represent a significant component of budgetary revenues; however, the Ministry of Finance does not classify these dividends as part of oil and gas revenues. Consequently, the actual contribution of the oil and gas industry to budgetary revenues is considerably greater than what is officially recognized.

Figure 2.
Structure of Russia's budget revenues



Source: Opendata, Ministry of Finance of the Russian Federation

Thus, Russia's economy is ensnared in a predicament characterized as a "staple trap," which denotes a nation's overreliance on a narrow range of primary commodities for its economic stability and growth (Faltsman 2019). The implications of such dependence are profound, leading to vulnerabilities in the face of fluctuating global market conditions and diminishing diversification in its economic framework. The phenomenon not only restricts growth potential but also poses significant challenges to sustainable development and risks to the nation's geopolitical standing.

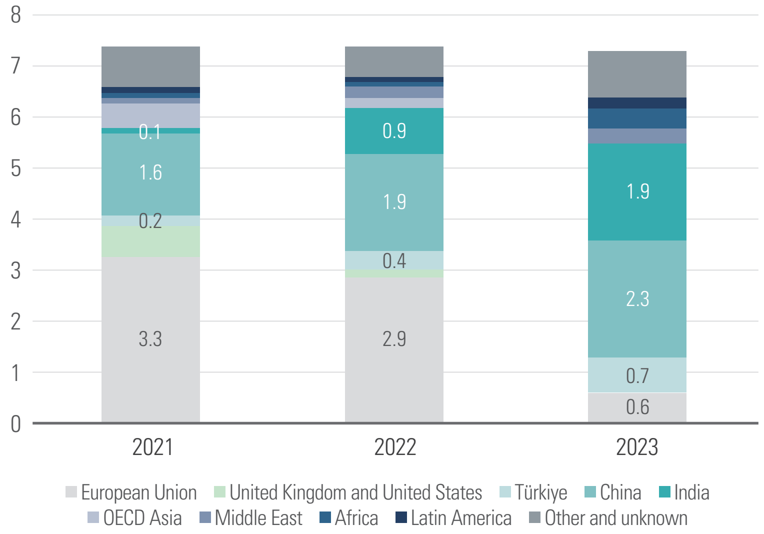
2. Structural transformations following 2022

In the aftermath of 2022, the Russian economy encountered a set of novel challenges. Following Russia's invasion of Ukraine, the EU and other G7 countries sanctioned Russia's energy sector, targeting to contract both the price and volume of Russian oil exports, and consequently Russian oil revenues. They banned seaborne crude oil imports from Russia. In December 2022, the "G7+ Coalition," comprising the G7, the European Union, and Australia introduced a price cap on Russian oil at $60 per barrel—which is above Russia's production cost but below market price—to reduce Russia's ability to profit while still allowing Russian oil to flow to global markets. Financial and insurance sanctions prohibited the Coalition's banks and insurance companies from providing services related to Russian oil exports to limit Russia's ability to ship oil internationally, as insurance and financial services are crucial for shipping and trade logistics. The sanctions also targeted Russian state-owned energy companies and financial institutions, further curtailing Russia's oil sector access to international financing. Western nations imposed restrictions on the exports of technology, machinery, and equipment critical for the extraction and refining of oil. This has impacted Russia's ability to develop new oil fields or maintain its existing oil production capacity.

In reply to the stringent sanctions, Russia managed to re-shape decades-old global oil trade patterns and redirect its oil to the buyers outside the Coalition, morphing around the new political geography. Russia has adapted its shipping methodologies, leading to the proliferation of what can be termed "ghost tankers." Estimates suggest that their number is more than 400. The utilization of "ghost tankers" for transporting of Russian oil, which are neither registered nor insured in countries that have enacted sanctions, effectively circumvents any pricing restrictions associated with such transactions. According to estimates, by the end of 2024, more than half of Russian crude oil was transported by "ghost tankers." Official records may indicate that the crude shipments were US$59 per barrel. In fact, Chinese purchases exceeded US$70 in 2023. Consequently, as Russia increases the volume of oil transported through these sanction-evading vessels, the efficacy of the oil price cap policy diminishes. This emerging pattern marks the challenges faced by sanctions regimes in the context of global oil market, highlighting the complexities of enforcing price limitations when alternative transport mechanisms are employed.

The European Union (EU), which had previously been the dominant importer of Russian oil, has been largely replaced by China, India, and Turkey. As Figure 3 shows, the sanctions failed to lead to significant contraction of Russian oil supplies. The physical volumes of oil exports differed only slightly from the volumes before the start of the sanctions period, while the exported value showed 12 percent increase in 2022 and in 2023 was higher than in 2021 (Figure 4).

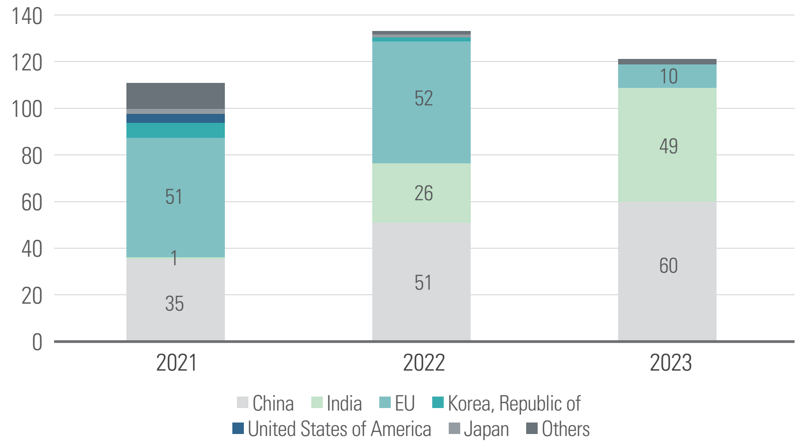
Figure 3.
Average Russian oil exports by country and region, 2021-2023, mb/d



Source: IEA, 2024

Figure 4.

Exported value of Commodity Group 2709 "Petroleum oils and oils obtained from bituminous minerals, crude," USD billion.



Source: ITC trade map, accessed on December 2024.

Countries such as China and India, the world's second and third largest consumers of petroleum, have emerged as major importers of Russian crude oil, capitalizing on discounted prices resulting from the sanctions. China has become the largest purchaser of Russian oil, significantly increasing its imports to secure energy supplies. India, too, has ramped up its imports. Refineries in India processing crude oil sourced from Russia for both domestic use and export to other markets. Russia has ascended to the position of the primary supplier of crude oil to both China and India, surpassing traditional exporters such as Saudi Arabia and Iraq. This development underscores a significant shift in the dynamics of global oil trade, highlighting Russia's increasing influence in the energy markets of these two populous nations. Remarkably, Turkey has risen to the third largest importer of Russian crude oil. Major Turkish refineries have used Russian crude to create oil products that are then imported by G7+ countries.

As a result, in 2023 both Russia's real and nominal GDP grew by 3.6% and 10.9% respectively, and stable export revenues led to increase in Russia's GNI per capita by 11.2%. It allowed Russia to move from the upper-middle-income to the high-income category in World Bank Group country classification by income level (Worldbank 2024).

The European Union also faced significant challenges concerning its oil supplies, shaped by geopolitical dynamics. The bloc had to rethink its dependency on Russian oil and to pursue diversification of its energy sources. EU member states began to seek oil supplies from different regions, including the Middle East, North Africa, and the Americas. Notably, countries like the United States and those in the Gulf Cooperation Council emerged as potential alternative suppliers, benefiting from expanded oil production and strategic partnerships. The shift also facilitated discussions regarding energy security and price stabilization, key concerns for many EU countries, especially those with limited energy resources.

Noteworthy, Russian oil and gas has continued to flow to the EU through pipelines that cross Ukraine, because they were deliberately excluded from sanction packages. While the broader energy landscape within the EU is characterized by an ongoing transition toward greater energy independence and diversification, some European countries such as Hungary, Slovakia, and the Czech Republic continue exemplifying significant reliance on Russian oil. Hungary remains the most notable case, with the country's energy infrastructure closely integrated with Russian supply chains, leading to substantial economic repercussions following sanctions and efforts to diversify energy sources. Slovakia and the Czech Republic display similar characteristics, with their energy markets heavily reliant on imports from Russia, despite ongoing initiatives aimed at reducing this dependency. One more country with a considerable dependency on Russian oil is Bulgaria, primarily due to its geographic proximity and historical ties. The Bulgarian energy landscape continues to reflect a substantial level of integration with Russian energy supplies, complicating efforts to seek alternatives. Russia's share in the listed above countries' imports exceeded 80% in 2023.

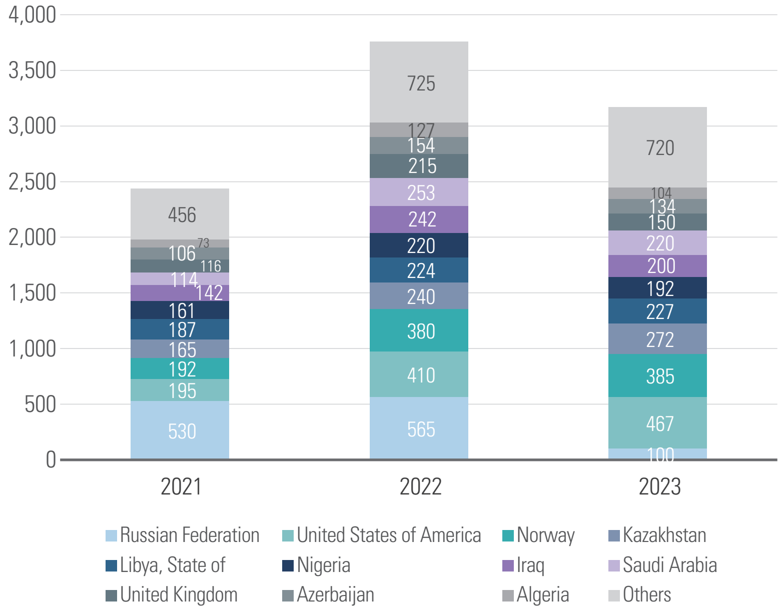
Increased energy prices, logistical complexities, and the need for substantial investments in alternative energy infrastructure have posed significant hurdles for the EU. The EU, not Russia, appears to be the one hit worst by the consequences of sanctions.

3. The role of the USA

No doubt the country which benefited most from the EU's reducing dependency on Russian oil is the USA. In 2023, the US oil supplies to the European market doubled compared to 2021 levels. It transformed to the largest exporter of crude oil to the EU in 2023 (Figure 5).

Figure 5.

The EU's imports of 2709 "Petroleum oils and oils obtained from bituminous minerals, crude"



Source: ITC trade map, accessed on December 2024.

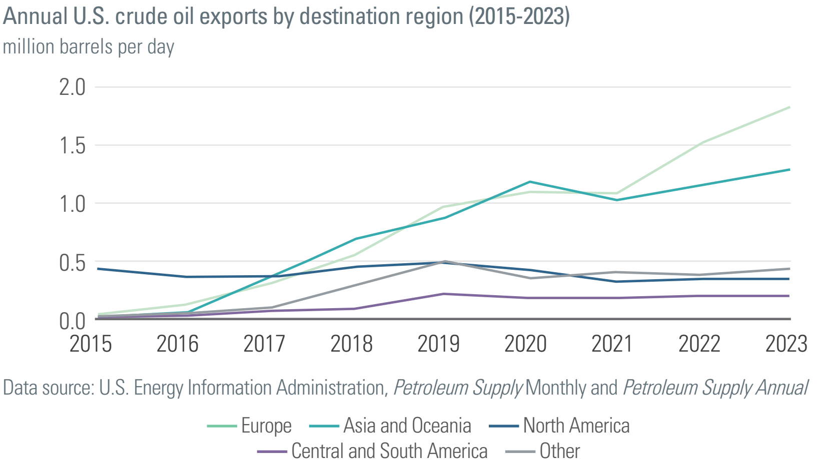
The synergistic developments in technology (the introduction of hydraulic fracturing combined with horizontal drilling) and the economic conditions of the early 21st century that culminated in the emergence of the U.S. shale revolution, fundamentally reshaped the nation's energy trajectory (Podoba Z.S., Lavrova A.V. 2021). The impacts of the shale revolution have been profound, contributing to the United States experiencing a dramatic increase in domestic oil production, ultimately positioning the nation as the world's leading oil producer and one of the largest producers of natural gas. This shift altered the dynamics of global energy markets.

The transformation was accompanied by a complex interplay of regulatory measures, including the repeal of oil exports ban in 2015. The initial ban on oil exports was instituted in 1975 largely as a response to the 1973 oil crisis, which underscored the United States' reliance on foreign oil and its vulnerability to geopolitical tensions. The repeal of the export ban in December 2015 marked a watershed moment in U.S. energy policy, enabling

American producers to tap into the global market for crude oil. This decision spurred investment and growth in the domestic oil sector. The U.S. has not only achieved a level of energy independence but has also positioned itself as a critical player in the global oil market. The removal of the restrictions has facilitated an increase in exports, allowing U.S. producers to access international markets and respond to global demand dynamics. Consequently, U.S. crude oil exports rose significantly, with volumes frequently reaching levels that rival those of traditional oil-exporting nations such as Saudi Arabia and Russia. This surge has significant ramifications for both the domestic economy and international relations. Economically, increased exports contribute to job creation, investment in infrastructure, and influence on global oil prices. Simultaneously, the U.S. has leveraged its position to exert geopolitical influence and foster closer ties with energy-dependent nations, thereby reshaping the contours of international energy diplomacy.

Gaining access to new markets, U.S. crude oil exports established a record in 2023, averaging 4.1 million barrels per day. The top regional destination for U.S. crude oil exports has been Europe, which increased imports significantly as subsequent EU sanctions banned imports of seaborne crude oil from Russia. The joint impact of sanctions on Russia and WTI being incorporated into Brent resulted in a remarkable 82% rise in U.S. exports to the Netherlands, reaching 293,000 barrels per day in 2023 compared to 2022, marking the highest volumetric increase for any nation (Figure 6).

Figure 6.
US crude oil exports by destination, million barrels per day



Source: EIA, 2024

Future developments in the global oil market will largely hinge on U.S. interests. In light of the projected trends in the global oil market, it is anticipated that while demand growth may experience a moderation, primarily due to the ongoing decline in Chinese consumption, the supply from key producing nations outside OPEC, including the United States, Canada, and Brazil, is expected to increase significantly in 2025. This augmentation in supply is poised to create a scenario where global oil supplies will outpace demand by more than 1 million barrels per day in 2025.

A noticeable drop in global oil prices would significantly impact the Russian economy. However, this scenario would not align with the interests of U.S. oil producers. D. Trump, set to assume the presidency on January 20, 2025, promised during his election campaign to increase the production of domestic oil and natural gas. As of 2023, estimates for the average breakeven production costs for U.S. shale oil ranged widely, often between \$30 to \$60 per barrel, depending on the region and the efficiency of the operations. Consequently, the minimum acceptable price for American exporters should be no less than \$70-75 per barrel. According to the forecasts of OPIS experts, oil prices could fall to \$40 a barrel in 2025. However, this price level does not correlate with the interests of OPEC+ producers and U.S. oil exporters.

4. Vulnerability of the Russian economy

Although Russia has managed to adapt to sanctions imposed on its oil sector to a considerable extent, it would be inaccurate to characterize the overall economic situation in the country as stable. Despite the fact that Russia currently faces no substantial financing challenges, owing to tax increases, heightened domestic borrowing, and the depletion of national savings, its economy remains vulnerable in the long run.

Foreign investment inflows into Russia have substantially diminished, and the capacity for foreign borrowing has become significantly constrained. Furthermore, the export price of Russian crude oil during 2023-2024 was lower than that of comparable grades, implying a loss in export revenues. According to the Russian Ministry of Finance, in 2023 there was a general decrease in oil and gas revenues by 23.9% in the structure of budget revenues (Figure 2). As a result, Russia has been experiencing budget deficit; however, given that the deficit stands at approximately 2 percent of GDP, it does not pose a significant threat.

As noted previously, the overall income per capita in the country increased, however the distribution of income remains uneven. In 2023, a rise in income concentration was observed, as evidenced by the Gini coefficient—a measure of income inequality—which increased to 0.403, up from 0.395 the previous year, according to Rosstat. This shift indicates a growing disparity in income distribution. The reduction of economic inequality in the Russian Federation named the main target of new national development goals until 2030, issued in 2024. By 2030, the Gini coefficient should decrease to 0.37, and by 2036 to 0.33. An increase in tax and budget redistribution should serve to achieve this goal.

5. Concluding remarks

Obviously, the sanctions are failing to achieve their political objectives yet.

Although the implementation of the oil price cap and embargo has resulted in a decline in Russia's oil export revenues, existing loopholes have permitted the country to sustain its ties with traditional markets. Russia has been able to offset lost revenue by increasing oil sales to third-party nations, which subsequently process and export refined petroleum products back to Western markets. This situation illustrates the complexities of international sanctions and their effectiveness in achieving their intended economic impact.

The redirection of exports towards Asia highlights the resilience of Russian oil production amidst considerable international pressure. It makes a significant contribution to global trade fragmentation, which nowadays increasingly evolves around geopolitical blocks—the BRICS grouping led by Russia and China, and the Group of Seven as a proxy for the Western bloc.

The BRICS nations emerged as critical importers of Russian energy resources and play a significant role in the global trade of fuel and energy commodities. Given the geopolitical landscape and the increasing volatility of energy markets, it is imperative for these nations to enhance their collaborative efforts to stabilize energy prices and optimize their resource management. This enhancement can be realized through the formulation and adoption of a comprehensive common energy strategy for the BRICS countries. Such a proposal has already been made by the Ministry of Energy (Minenergo) of the Russian Federation. The proactive engagement of member states in these efforts could not only bolster their individual energy sectors but also enhance their collective influence within the global energy market. The successful implementation of these strategies will ultimately position BRICS as a substantial force in shaping the future trajectory of energy production and consumption worldwide.

On the other hand, the ongoing evolution of U.S. oil exports will undoubtedly continue to shape energy dialogues for years to come. Historically, the United States and Russia have occupied contrasting positions in the global oil landscape. The United States, once a net importer of crude oil, has transformed into one of the world's leading oil producers, primarily due to the shale revolution. This shift not only bolstered U.S. energy independence but also altered the balance of power within the Organization of the Petroleum Exporting Countries, leading to a pronounced competitive dynamic that characterized the oil market throughout the last decade. The U.S. has strategically leveraged its energy production capabilities not only to assert political pressure on adversaries, including Russia, but also to enhance its own geopolitical influence. The U.S. has increasingly positioned itself as a key supplier of crude oil and liquefied natural gas to global markets, thereby diminishing the economic leverage that oil-rich nations, such as Russia, have traditionally wielded.

The long-term sustainability of new type trade relationships on global oil market will depend on the evolving geopolitical landscape and the global demand for energy resources.

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KIEP Visiting Scholars Program

The Advent of the Trump 2.0 Era and Countries' Responses: Focusing on the Global South

06

Vietnam

Vietnam's Response to the Trump 2.0 Era

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Abstract

During Donald Trump's initial presidency (2017-2020), Vietnam maintained a relatively positive relationship with the United States (US). Economically, Vietnam significantly increased its exports to the US, becoming one of the countries with the largest trade surpluses with this superpower. The US-China trade conflict under Trump's first term positioned Vietnam as a notable alternative for sourcing, and attracting foreign companies from the US and its allies, such as Japan and South Korea. Nevertheless, Vietnam faced accusations of currency manipulation from the Trump administration during this period. A second Trump term presents both opportunities and challenges for the Vietnamese economy. Vietnam has been implementing various measures to respond to the Trump 2.0 era, ongoing global supply chain restructuring, and the necessity for domestic economic reforms. The paper underscores that to address potential shifts in US trade policies, alongside current strategies, Vietnam should enhance its economic and financial transparency to establish itself as a reliable US trading partner.

Keywords: Vietnam, Trump 2.0 era, Trade, Investment, Response

1. Introduction

Vietnam was among a few countries that managed the first Trump presidency relatively well. Concerning the economic field, Vietnam has been considered one of the main beneficiaries of global trade since Donald Trump's first presidential term. However, his first administration labeled Vietnam as a "currency manipulator." They are off the list under Biden but remain under monitoring.[1]

The recent US Presidential election has resulted in a Republican sweep, with Donald Trump securing the presidency and the Republican Party gaining control of both congressional chambers. This political shift heralds a new era characterized by domestic tax reductions, heightened tariffs, and additional trade restrictions. Such changes could significantly affect export-driven economies like Vietnam, which maintained a robust two-way trade relationship with the US in 2024. After reviewing Vietnam's economic relations with the US in recent years, we thoroughly examined Trump's proposed policies and their potential effects on Vietnam's trade patterns and inward foreign direct investment (FDI). We argue that the Trump 2.0 era provides Vietnam with an opportunity to promote exports and FDI attraction. However, given Trump's protectionism, his second presidential term poses a significant risk for Vietnam, including the trade investigation, allegations of currency manipulation, heavier tax imposes, and the pressure of domestic currency depreciation. Next, the paper analyses Vietnam's response to the Trump 2.0 era, focusing on the economic field. The last section provides concluding remarks and policy implications.

2. Vietnam's Economic Relations with the US in recent years

The first Trump administration (2017–2020) saw three notable actions concerning Vietnam-US trade relations. First, in October 2017, the US launched Section 301 Trade Act investigations into Vietnam's imported timber, focusing on potential illegal transshipment from China to evade tariffs. This investigation continued into Biden's presidency, concluding in

1. Hoang, H.T., and W. Choong 2024. "Trump 2.0 Presidency: What Is in Store for Southeast Asia?", online article (accessed on Dec. 20, 2024).

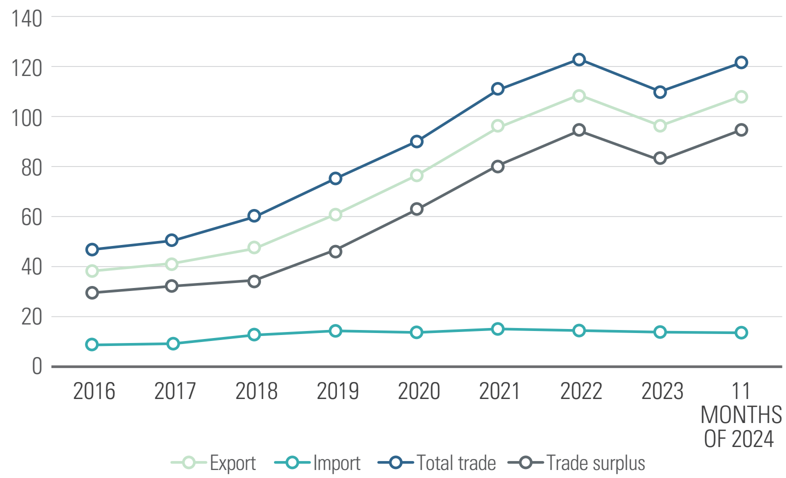
2021 with no violations found and no tariffs imposed, but it still underscores the sensitivity surrounding transshipment perceptions. Second, in March 2018, the US implemented tariffs on imports of steel (25%) and aluminum (10%) from various nations, including Vietnam. President Biden later extended these tariffs until 2025, demonstrating consistency in protecting US commodity producers across administrations. Third, in 2020, the US Treasury briefly labeled Vietnam a currency manipulator, though no tariffs were imposed and the designation was later removed.[2]

Despite the abovementioned challenges, it can be argued that Vietnam was among a few countries that managed the first Trump presidency relatively well. Trump came to Vietnam twice in 2017 and 2019, more than any other Southeast Asian country. While the US arms embargo on Vietnam was fully lifted under the Obama administration (2009–2017), it was during the Trump presidency (2016–2020) that Vietnam saw significant progress in military cooperation with the US, including military equipment contracts worth around US$100 million and the delivery of the first decommissioned US Coast Guard Hamilton-class cutter.[3] At the same time, Hanoi managed to mitigate damages from Trump's volatile and unpredictable policies.

In the economic field, Vietnam has been considered one of the main beneficiaries of global trade since Donald Trump's first presidential term. The US-China trade conflict since 2018 has benefited Vietnam to some extent as an alternative sourcing destination.[4] More specifically, as US retailers aim to mitigate the effects of tariffs on Chinese exports, products manufactured in Vietnam and other Southeast Asian nations have become attractive alternatives. Although questions persist about the true origin of these goods, potentially linked to temporarily relocated Chinese operations, a clear shift is evident. Vietnam has emerged as a prime beneficiary, attracting significant investments from multinational enterprises (MNEs) like Dell, Apple, Samsung, Nike, Adidas, Zara, and H&M,[5] which have relocated or are considering relocating portions of their manufacturing operations from China—to combat rising costs and address US market access risks.

2. Dragon Capital. 2024. "Flash Note: Key Takeaways of Trump 2.0 for Vietnamese Markets". (November 8), online article (accessed on Dec. 15, 2024).
3. Nguyen, G.K. 2024. "Can Vietnam Thrive under Trump 2.0?", online article (accessed on Dec. 15, 2024).
4. Do Kieu. 2024. "Trump 2.0: Liệu có là 'cú hích' cho dòng chảy FDI vào Việt Nam?" [Trump 2.0: Will it be a 'boost' for FDI flows into Vietnam?]. (November 19), online article (accessed on Dec. 16, 2024).
5. Cyrill, M. 2024. "Southeast Asia's Balancing Act in a Second Trump Presidency". (November 20), online article (accessed on Dec. 16, 2024).

Figure 1.
Vietnam's commodity trade with the US (US$ billion)



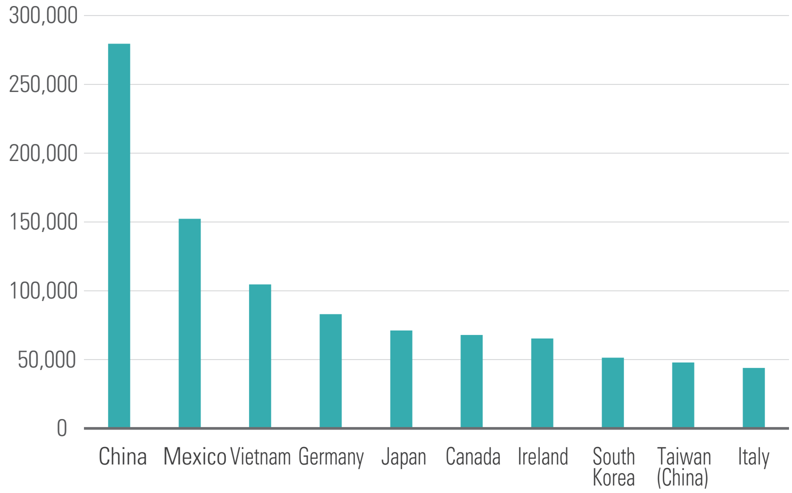
Source: Author's calculation based on Vietnam Custom.

Throughout Trump's first presidency, US investments in Vietnam saw consistent growth. This trend is particularly noticeable in sectors such as video game consoles, furniture, apparel, and footwear.[6] The FDI from the US into Vietnam increased from US$2.46 billion in 2017 to US$2.53 billion in 2020, peaking at US$2.9 billion in 2018. Concurrently, the total assets of majority-owned foreign affiliates of US MNEs in Vietnam expanded from US$13 billion in 2017 to US$18.9 billion in 2021, despite a temporary dip to US$12.8 billion in 2020 due to pandemic-related impacts. The workforce employed by US MNE affiliates in Vietnam also expanded, rising from 54,700 in 2017 to 75,700 in 2021.[7] Regarding trade exchange, under Trump's first term, Figure 1 shows that trade between Vietnam and the US significantly grew, from US$5.8 billion in 2017 to US$90.7 billion in 2020. Vietnam's exports to the US during that period grew from US$41.6 billion to US$77.0 billion. Notably, Vietnam's trade surplus with the US climbed from US$32.4 billion to US$63.2 billion between 2017 and 2020, making it among the largest trade surplus countries with this superpower.

6. Trinh, V. M. 2024. "US2024 Election Impact on Vietnam Economy". (November 5), online article (accessed on Dec. 15, 2024).
7. Huld, A. 2024. "How Will the 2024 US Presidential Election Outcome Shape US-Vietnam Relations?". (August 26), online article (accessed on Dec. 17, 2024).

Figure 2.

The US' largest goods and services trade deficit markets in 2023 (US$ billion)



Source: US Census Bureau.

The Biden administration has fostered a more positive relationship with Vietnam. While not pursuing US involvement in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), it launched the Indo-Pacific Economic Framework for Prosperity (IPEF) to strengthen trade ties with regional allies, including Vietnam. The US-Vietnam relationship was elevated to a Comprehensive Strategic Partnership following Biden's September 2023 state visit, with both nations pledging increased market access. However, as of August 2, 2024, the US Department of Commerce still categorizes Vietnam as one of twelve non-market economies, alongside China.[8] As a result, Vietnamese businesses will continue to face US discrimination in anti-dumping and anti-subsidy investigations.

Under the Biden administration, Vietnam's trade with the US continues expanding, reaching US$111.4 billion in 2021 and US$123.86 billion in 2022. After a decline in 2023, Vietnam's commodity trade with the US quickly recovered in the first 11 months of 2024, reaching $122.5 billion. In particular, Vietnam's exports to the US during that period reached US$108.9

8. Department of Commerce Final Decision in Review of the Non-Market Economy Status of Vietnam. online press release (Aug. 2, 2024, accessed on Dec. 17, 2024).

billion, much higher than exports to China (US$54.7 billion). Meanwhile, Vietnam's imports from the US reached US$13.5 billion, significantly lower than imports from China (US$130.5 billion).[9] In 2023, Vietnam was one of the trading partners with the largest trade surplus with the US (See Figure 2).

Table 1.
Vietnam's commodity trade with the US in the first 11 months of 2024 by main items

Vietnam's exports to the US			Vietnam's imports from the US		
Items	Value ($ billion)	Share (%)	Items	Value ($ billion)	Share (%)
Electronic goods, computers, and parts and components	20.98	19.25	Electronic goods, computers, and parts and components	4.03	29.70
Machinery and equipment	20.22	18.56	Machinery and equipment	0.99	7.30
Textiles and garments	14.62	13.41	Animal feed and raw materials	0.89	6.54
Phones and parts and components	9.35	8.58	Plastic products and	0.71	5.24
Wood and wooden products	8.17	7.50	Cotton	0.65	4.81
Footwear	7.57	6.95	Chemical products	0.61	4.47
Total exports	80.9	74.25	Total imports	7.8	58.06

Sources: Authors' data processing from Vietnam Custom.

Regarding trade structure, during the first 11 months of 2024, Table 1 shows that Vietnam's exports largely focused on manufacturing products, including electronic goods, computers, parts and components, and machinery and equipment, while Vietnam's imports from the US also concentrated on electronic goods, computers, and parts and components. Currently, Vietnamese products that have very low import tariffs in the US market are wood (0%), seafood (0%), and tires and tubes (4%). Meanwhile, textiles, steel, and galvanized steel are all subject to

9. Vietnam Custom. 2024. "Tình hình xuất khẩu, nhập khẩu hàng hóa của Việt Nam tháng 11 và 11 tháng năm 2024" [Vietnam's export and import situation in November and 11 months of 2024]. (December 18), online article (accessed on Dec. 22, 2024).

quite high tariffs, from 8-25%.[10] Most of these products are not subject to anti-dumping tax. Outward FDI from the US in Vietnam reached US$738.6 million in 2021, US$748.1 million in 2022, and US$ 626.3 million in 2023.[11] During his term, Biden has proactively sought to enhance business collaboration and investment with Vietnam and the broader Pacific region, focusing on sectors such as clean energy, cutting-edge technology (particularly semiconductors), and digital industries.

3. Potential Economic Policies under Trump 2.0 Era and Impacts on the Vietnamese Economy

During his 2024 campaign, Trump highlighted stringent trade policies to protect the American economy. His proposals include substantial tax reductions, such as lowering the corporate tax rate from 21% to 15%. Additionally, Trump has outlined various new spending initiatives to stimulate investment and economic expansion. He intends to implement import tariffs ranging from 10%-20% across the board, with rates potentially reaching 60% or higher for Chinese products.[12] Recently, the president-elect declared his plan to levy tariffs on Mexico, Canada, and China to compel them to tackle issues of migration and drug trafficking. Furthermore, Trump announced the possibility of imposing 100% tariffs on the BRICS nations—India, China, Russia, Brazil, and South Africa—and potentially other countries if they establish an alternative currency to the dollar for global trade.[13]

Upon assuming office on January 21, 2025, President Trump announced plans to impose additional tariffs on imports from Canada, Mexico, and China starting February 4, 2025. A 25% tariff was planned for Canadian and Mexican imports, with a reduced 10% rate for Canadian energy resources. Chinese imports faced a 10% tariff.[14] The proposed tariffs aimed to hold these nations accountable for their commitments to curb illegal im-

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10. Kha Moc and Thai Ha. 2024. "How Trump's presidency could affect Vietnam's economy, stock market". *The Investor* (November, 7), online article (accessed on Dec. 18, 2024).
11. Author's data collection from Foreign Investment Agency. "Số liệu FDI hàng tháng" [Monthly FDI Statistics] (online material. accessed on Dec. 20, 2024).
12. Nelson, D. 2024. "Trump Trade 2.0". (December 20), online article (accessed on Dec. 25, 2024).
13. Wearden, G. 2024. "Trump threat of 100% tariffs against BRICS nations raises trade war fears". (December 1), online article (accessed on Dec. 23, 2024).
14. The White House. 2025. "Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China". (February 2), online article (accessed on Feb. 4, 2025).

migration and prevent the influx of dangerous drugs like fentanyl into the US. Subsequently, Trump agreed to postpone the 25% tariffs on Canada and Mexico for 30 days, averting a potential trade conflict with these North American neighbors. However, the 10% tariff on Chinese imports took effect as scheduled on February 4, 2025.[15]

In the coming time, Trump's trade policy could positively and negatively impact exporting countries like Vietnam. The positive effects are as follows:

Firstly, the primary exports of FDI enterprises in Vietnam are likely to maintain their growth trajectory. Consumer electronics and high-tech equipment were not subject to tariffs during the 2018 trade war. A research by the Peterson Institute for International Economics indicates that these items have benefited from tax incentives during both the Trump (2018–2021) and Biden (2021–2024) administrations.[16] Given the importance of electronics and high-tech equipment in Vietnam's export basket, it is expected that FDI exports in Vietnam to the US market will maintain a positive outlook.

Secondly, key export sectors of Vietnamese businesses, particularly textiles and garments, may gain a competitive edge over Chinese goods in the US market. Even if the US imposes 10% to 20% tariffs on Vietnamese textiles, the impact would be less concerning compared to current tariffs (8%–25%). A 10%–20% tariff would still be significantly more favorable than the 60% tariff faced by China, a major competitor in the textile industry.[17] However, this advantage will be shared among several other countries with strong processing capabilities. This implies that Vietnam needs to take further steps to improve local manufacturing capacity to minimize the disadvantageous effect of tariffs imposed by Trump's second term on its export products.

Thirdly, in response to Trump's potential protectionism in his second term, FDI firms from South Korea, Taiwan, and Japan might relocate more of their production processes to Vietnam. These nations, which are strong US allies in the Asia-Pacific region, currently contribute over half of Viet-

15. Halpert, M., and J. Murphy. 2025. "Trump agrees to pause tariffs on Canada and Mexico but not on China". (February 4), online article (accessed on Feb. 4, 2025).

16. Quang Minh. 2024. "Vietnam may welcome more FDI from US allies in Trump 2.0: broker". (November 18), online article (accessed on Dec. 23, 2024).

17. Ngoc Anh. 2024. "How will Donald Trump 2.0's tariff policy impact Vietnam?". (November 22), online article (accessed on Dec. 23, 2024).

nam's exports to the US.[18] Noted that many large FDI firms from these countries still import significant components from China to Vietnam.[19] If Trump enforces stricter origin tracing, these companies may need to shift additional production stages to Vietnam.

Fourthly, MNEs may continue to transfer and diversify their manufacturing bases to other countries to mitigate risks from the ongoing trade tensions between the US and China. The US-China trade war is an opportunity for Vietnam to participate more deeply in GVCs, improving the quality of FDI inflows, particularly from other US allies, such as South Korea, Taiwan, and Japan. With China being the "culprit" in the eyes of Trump, those US ally countries may further consider shifting production or supply chain segments to Vietnam to mitigate risks associated with the US-China trade war, leading to a fresh wave of diversification of Vietnam's FDI sources in the medium term.[20] While this trend may not be as pronounced as from 2018 to 2022, when companies like Apple, Intel, Foxconn, Lego, and Sumitomo Wiring Systems made notable moves, it is expected to persist. This scenario is advocated thanks to Vietnam's advances, including a well-established manufacturing base, skilled workforce, and strategic geographic location.

Fifthly, other trends in the restructuring of GVCs, which is promoted by the US-China trade war, Trump's protectionism as well as the post-COVID-19 pandemic recovery, bring opportunities for Vietnam. Shorter value chains can bring increased investment in distributed manufacturing and final goods production, fostering broader industrial capacity building and clustering in countries,[21] including Vietnam. The development of digital infrastructure and platforms in Vietnam will enable new applications and services while improving its bottom-up access to GVC participation. Another positive impact includes the sustainability imperative will drive more green and blue investment and value chains in Vietnam.

18. Quang Minh. 2024. "Vietnam may welcome more FDI from US allies in Trump 2.0: broker.". The Investor (November 18), online article (accessed on Dec. 23, 2024).
19. Ngoc Anh. 2024. "How will Donald Trump 2.0's tariff policy impact Vietnam?". (November 22), online article (accessed on Dec. 23, 2024).
20. VNDIRECT. 2024. "Emerging risks from Trump 2.0 policies". (November 28), online article (accessed on Dec. 25, 2024).
21. Zhan eta al. 2020. "Global value chain transformation to 2030: Overall direction and policy implications". VoxEU & CEPR.

On the dark side, Trump's trade policies in his second term may pose significant challenges and risks to the Vietnamese economy in the following ways:

Firstly, Vietnam faces a trade investigation from the US. Vietnam's substantial trade surplus with the U.S., combined with increased Chinese FDI and imports, has raised concerns about potential transshipment investigations. Vietnam's Ministry of Industry and Trade (MoIT) has identified several exports at risk of trade defense measures, origin fraud, and illegal transshipment probes. Four products, including solar panels, accounted for US$10.6 billion and 11.5% of Vietnam's exports to the US in 2023,[22] making such concentrated export categories susceptible to scrutiny and potential sanctions. In addition, the US protectionist trade policies potentially sparked a trade war among major powers, negatively impacting global commerce and economic growth, especially between the US and China. This will reduce demand for Vietnam's exports and negatively affect the country's FDI inflows. A trade war can lead to a currency war. The sharp devaluation of the Chinese currency and a series of other Asian currencies makes it difficult for Vietnam to remain a competitive advantage (in terms of production costs and export prices) in attracting FDI and to maintain a stable exchange rate and macro-economy.

Secondly, Vietnam faces potential allegations of currency manipulation from the US. Vietnam has consistently maintained since 2019 that it does not employ exchange rate policies to gain an unfair advantage in international trade. The US Treasury's November 2024 report affirms that Vietnam is not a currency manipulator, however, this agency still includes Vietnam on its watchlist, along with China, Japan, South Korea, Taiwan (China), Singapore, and Germany.[23] As a result, Vietnam's monetary policy options become more limited than previously anticipated due to a strong USD and the risk of ongoing US investigations into currency manipulation allegations.

Thirdly, the scenario of the US applying broad-based tariffs of 10%–20% on all exporters can reduce the advantage of Vietnamese products. Implementing wide-ranging tariffs on all countries is less probable, given that the

22. Dragon Capital. 2024. "Flash Note: Key Takeaways of Trump 2.0 for Vietnamese Markets". (8 November), online article (accessed on Dec. 25, 2024).
23. Thuy Dung. 2024. "U.S. affirms Viet Nam not manipulating currency". (November 16), online article (accessed on Dec. 25, 2024).

US is a consumption-driven market with an annual trade deficit of approximately \$773.4 billion in 2023.[24] Such tariffs would substantially increase domestic prices of imported goods, affecting American consumer spending which will undermine Trump's campaign statements. However, with tariffs up to 20%, Vietnamese exports to the US will be more expensive, reducing its competitive advantage. In this regard, Vietnam can mitigate such negative impacts by capitalizing on its comparative strengths, such as geographical position, low labor costs, and extensive network of FTAs.

Fourthly, Heightened uncertainty during a potential second Trump administration may prompt US importers and retailers to prioritize domestic suppliers, elevate inflation expectations influencing consumption and investment decisions in the United States, and decelerate the Federal Reserve's policy easing trajectory. Such responses exert pressure on developing and emerging economies, including Vietnam, to maintain their domestic currency value and prevent capital outflows.

4. Vietnam's Economic Response to the Trump 2.0 Era

In response to the Trump 2.0 era, the ongoing restructuring of GVCs, the emerging trade protectionism and the urgent demand for economic domestic reforms, Vietnam has been tasked with implementing comprehensive measures to revitalize and establish new supply and value chains, diversify trade partners, and boost exports. The detailed measures are as follows:

Firstly, Vietnam is trying to navigate the US-China trade war and the potential protectionism in the Trump 2.0 era. The Vietnamese government has been cautious about the narrative that "Vietnam is the biggest winner of the trade war" to avoid unnecessary irritation or attention from both China and the US. Vietnam is particularly concerned about the risk of being "sanctioned" by the Trump administration. Particularly, Trump has labeled Vietnam as "almost the single worst abuser of everybody," while the US Treasury Department also added Vietnam to a currency and economic pol-

24. Bureau of Economic Analysis. 2024. "U.S. International Trade in Goods and Services, December and Annual 2023". (February 7), online article (accessed on Dec. 26, 2024).

icy watch list due to Vietnam's trade surplus with America. To mitigate such risks, Vietnam has worked closely with America to address its concerns. For example, Vietnam has struck various deals to buy more US goods to help reduce the trade surplus. Hanoi has also fully cooperated with Washington to prevent Chinese companies from using Vietnam as a transshipment conduit to export to the US. Meanwhile, the State Bank of Vietnam (SBV) regularly provides US authorities with relevant information to prove that Vietnam is not a currency manipulator. The State Bank of Vietnam has invested over $20 billion in reserves in 2022 to maintain the stability of the VND, demonstrating its dedication to currency steadiness.[25] Vietnam's current account balance is 5.8% of GDP in 2023, with its bilateral trade surplus (goods and services) with the US amounting to more than 100 billion.[26] This allows Vietnam to address concerns about currency manipulation by reducing the trade surplus—a point we will elaborate on in the subsequent section. In addition, to avoid too much backlash from across the Pacific, Vietnam's MoIT is actively working to establish stricter criteria for Vietnamese-origin products.[27] These guidelines may focus on goods genuinely produced in Vietnam from raw materials, or those trans-formed through substantial processing that genuinely alters their nature

Secondly, Vietnam is strengthening and reconfiguring industrial production supply chains to boost resilience and adaptability while fostering new networks. The MoIT of Vietnam focuses on enhancing supporting industries to reduce dependency on imported materials, ensuring long-term industrial sustainability. Policies are in place to expand downstream industries, nurturing domestic support industries and attracting investments, such as the Strategy for textile, garment, and footwear industry development until 2030, with a 2035 vision, and the 2021-2030 sustainable growth program.[28] Vietnam leverages new-generation FTAs like CPTPP and the Vietnam-EU FTA (EVFTA) to integrate local industries into GVCs. Local regions receive guidance on developing industries and promoting intra-regional, inter-regional, and international connections, forming interconnected supply and value chains.

25. Barnes, M. 2024. "Explained: Implications of the Latest Fed Rate Hike on the Vietnamese Dong". (November 4, 2022), online article (accessed on Dec. 25, 2024).
26. IMF. 2024. "IMF Executive Board Concludes 2024 Article IV Consultation with Vietnam". (September 27), online article (accessed on Dec. 25, 2024).
27. Förster. M. 2024. "Op-Ed: Trump 2.0 Will Benefit Vietnam – But Only if Trade Surpluses Avoid Populist Backlash". (November 15), online article (accessed on Dec. 25, 2024).
28. Tran, A.T. 2021. *Vietnam's recovery and development of new supply chains and value chains during and after COVID-19,* online article (accessed on Dec. 25, 2024).

Thirdly, Vietnam is striving to diversify its export products and markets to reduce reliance on a few international partners. MoIT engages with various associations to identify competitive products and support promising industries for GVC integration. For example, collaboration among government bodies ensures effective EVFTA implementation, incorporating commitments into domestic policies, disseminating information, and organizing conferences to help small and medium enterprises (SMEs) capitalize on EVFTA opportunities. Guidelines on EU market access for agriculture, forestry, and fishery sectors facilitate deeper integration into European supply chains. Market access initiatives include maintaining bilateral trade relationships through direct communication with key markets like Australia, China, the EU, Canada, and ASEAN, and exploring new regions like the Middle East and West Asia.[29] MoIT monitors supply and demand, connects international buyers with domestic enterprises, and uses online promotion methods and video conferences to link Vietnamese businesses with potential importers, expanding market access and fostering new supply chains. Vietnam's FTA network propels local and foreign companies to expand regionally and globally.

Fourthly, Vietnam is bolstering the creation and growth of local product supply networks. Ongoing efforts focus on building and nurturing these chains, with a particular emphasis on developing crucial food and agricultural product distribution systems within the country. These initiatives seek to foster supply chain connections, improve relationships between producers, distributors, and retailers, and strengthen links across the entire supply chain. Furthermore, strict adherence to regulations on quality, food safety, and product traceability has been maintained.[30] The country is improving domestic supply networks to meet global standards. Concurrently, Vietnam has encouraged supply-demand connections in the local market and boosted domestic consumption to facilitate the sale of locally-made products. This is achieved through both conventional and modern distribution channels, incorporating digital platforms in various stages of the process.

29. Tran, M.N., and T.N. Doan. 2024. "Vietnam can utilize Trump's policies to enhance position in global supply chains: experts". (November 16), online article (accessed on Dec. 24, 2024).

30. Tran, A.T. 2021. *Vietnam's recovery and development of new supply chains and value chains during and after COVID-19,* online article (accessed on Dec. 25, 2024).

5. Concluding Remarks and Policy Implications

During President Trump's initial term (2017–2020), Vietnam maintained a relatively favorable relationship with the US. In the economic domain, Vietnam significantly increased its trade surplus exports to the US. The US-China trade conflict during Trump's first term facilitated Vietnam's emergence as a notable alternative sourcing destination, attracting foreign firms from the US and its allies. However, during this period, Vietnam also faced allegations of currency manipulation from the Trump administration.

The Trump 2.0 era is anticipated to have substantial implications for the global economy, including Vietnam. Under his second term, the Vietnamese economy would encounter both opportunities and challenges. The exports of MNEs, particularly in electronic and high-tech equipment sectors in Vietnam, are expected to maintain a positive trajectory. Given Trump's protectionist policies and the current trend of MNEs' supply chain restructuring, Vietnam will likely remain a preferred alternative destination for MNEs' "China plus one strategy." However, Vietnam may face significant risks in the Trump 2.0 era, including trade investigations, allegations of currency manipulation, increased tax impositions, and pressure for domestic currency depreciation.

In response to the Trump 2.0 era and the necessity for domestic economic reforms, Vietnam is implementing various measures. These include navigating the US-China trade tensions and Trump's trade protectionism, reinforcing and reconfiguring industrial production supply chains to enhance resilience and adaptability while fostering new supply networks, diversifying export products, expanding into new foreign markets, and reducing dependence on a limited number of international trading partners. Another effort includes enhancing the establishment and development of domestic commodity supply chains.

Along with implementing the current strategies, to navigate potential changes in US trade policies, Vietnam needs to establish itself as a trustworthy trading partner. This can be accomplished by improving the clarity of its trade practices and financial operations, including decreasing its trade surplus with the US through higher imports and obtaining favorable trade deals, such as those involving liquefied natural gas and aircraft purchases from US manufacturers, to bolster bilateral trade ties.[31] Implementing more rigorous anti-dumping policies and imposing tariffs on specific products is essential for Vietnam to mitigate the risk of becoming a conduit for Chinese goods. Moreover, given the heightened geopolitical tensions and risks of polarization, Vietnam must maintain robust diplomatic relationships with both the US and China. Despite being categorized as a non-market economy, Vietnam's recognition for not manipulating its currency underscores its commitment to fair trade practices, which is advantageous. Vietnam is unlikely to face severe US sanctions if it can demonstrate its reliability as a trading partner and a responsible, collaborative nation. In light of the shifting global trade landscape and the US's withdrawal from climate action agreements, Vietnam can gain a competitive advantage by leveraging technology and promoting sustainable growth. By focusing on cutting-edge manufacturing techniques, digital transformation, and eco-friendly industries, Vietnam can establish itself as a frontrunner in emerging sectors. Furthermore, Vietnam can differentiate itself through its dedication to sustainability. Embracing renewable energy sources, environmentally friendly agricultural practices, and eco-conscious manufacturing processes can attract environmentally aware investors while ensuring long-term economic stability. By prioritizing sustainable development, Vietnam can tackle both economic and environmental challenges, paving the way for a more secure and prosperous future in the region.

31. During the previous Trump administration, Vietnam pledged to buy US$21 billion worth of Boeing aircraft to help decrease its trade imbalance with the US. See Lena Le. 2024. "Vietnam must manage its Trump-era expectations". (December 2), online article (accessed on Dec. 25, 2024).

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