



Ripple Effect: Trump Tariffs and the World's Economic Quake

Core Findings

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In April 2025, the Trump administration stunned global markets by announcing a sweeping tariff expansion under the International Emergency Economic Powers Act (IEEPA), introducing a flat 10% universal tariff on all imports. This move, framed as a national economic emergency response, immediately triggered global trade uncertainty and diplomatic friction.

The policy marked a significant escalation of Trump's protectionist agenda, signaling a break with multilateralism and targeting long-standing trade imbalances with strategic rivals and allies alike.

We found that the United States (U.S.) trade structure is deeply imbalanced, with persistent deficits concentrated in sectors essential to industrial production, such as machinery, electronics, and vehicles. These deficits have exposed the U.S. to retaliatory measures from key trade partners—particularly China, Canada, and the EU—who have calibrated their responses to hit politically and economically sensitive export categories.

Tariffs have initiated a multi-channel inflationary shock: direct consumer price increases, rising intermediate input costs, and cascading pressures on logistics and wages. The compounded effect has resulted in a net consumer price index (CPI) increase of approximately 1.2%, with higher spikes in key durable goods.

Global supply chains are beginning to reconfigure. The automotive sector, in particular, has seen disruption in bilateral flows with traditional partners, creating openings for new logistical nodes. The UAE stands out as a beneficiary, attracting redirected FDI and becoming a strategic re-export and final assembly hub.

Collectively, these findings underscore a paradox: while the policy aims to reduce dependency and correct trade imbalances, it simultaneously accelerates external retaliation, domestic cost pressures, and global fragmentation in trade infrastructure.

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The Tariff Doctrine: Rationale and Legal Backbone

At the heart of the Trump-era economic strategy lies a confrontational trade doctrine that favors unilateral tariffs over negotiated frameworks. The policy is rooted in three core legal instruments:

- **Section 232** of the Trade Expansion Act (1962), which allowed tariffs of 25% on steel and 10% on aluminum, justified under national security grounds.

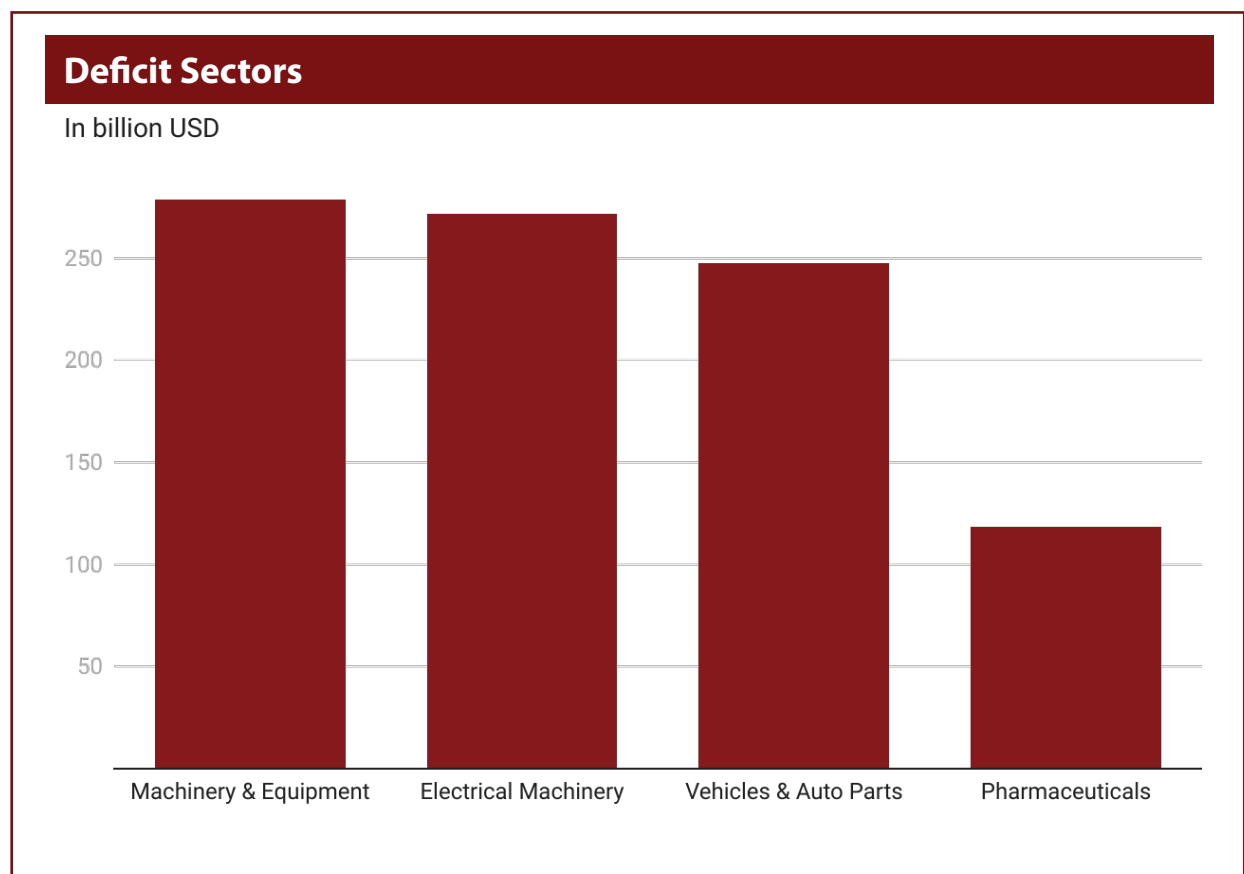
- **Section 301** of the Trade Act (1974), enabling retaliatory tariffs on over \$350 billion of Chinese imports targeting intellectual property violations and unfair subsidies.
- **IEEPA Executive Order (2025)**, which introduced a sweeping 10% universal tariff effective April 5, followed by targeted escalation against countries with high bilateral trade surpluses.

These tools were framed as mechanisms for reshoring U.S. industry, correcting trade imbalances, and containing China's rise. However, they also generated global backlash, reigniting retaliatory cycles and weakening multilateral trade norms.

Structural Trade Deficits and Strategic Exposure

The U.S. economy's underlying trade imbalance has long made it vulnerable to both protectionist policy backfire and retaliatory measures. From 2020 to 2024, the United States maintained an average import share of 13.2% of global goods, while its export share hovered at only 8.2%—a structural asymmetry reflected in a persistent annual trade deficit exceeding \$1.2 trillion.

Core deficit sectors include:



These deficits are not superficial. Over 60% of imports in these sectors are intermediate goods sourced from **China, Mexico, Germany, Vietnam, Japan, and Ireland**, all critical suppliers in the U.S. value chain.

By contrast, U.S. export surpluses—concentrated in aerospace (+\$98.3B), energy (+\$69.0B), and certain chemicals—are thin and geopolitically exposed. These are also sectors most vulnerable to precise foreign retaliation.

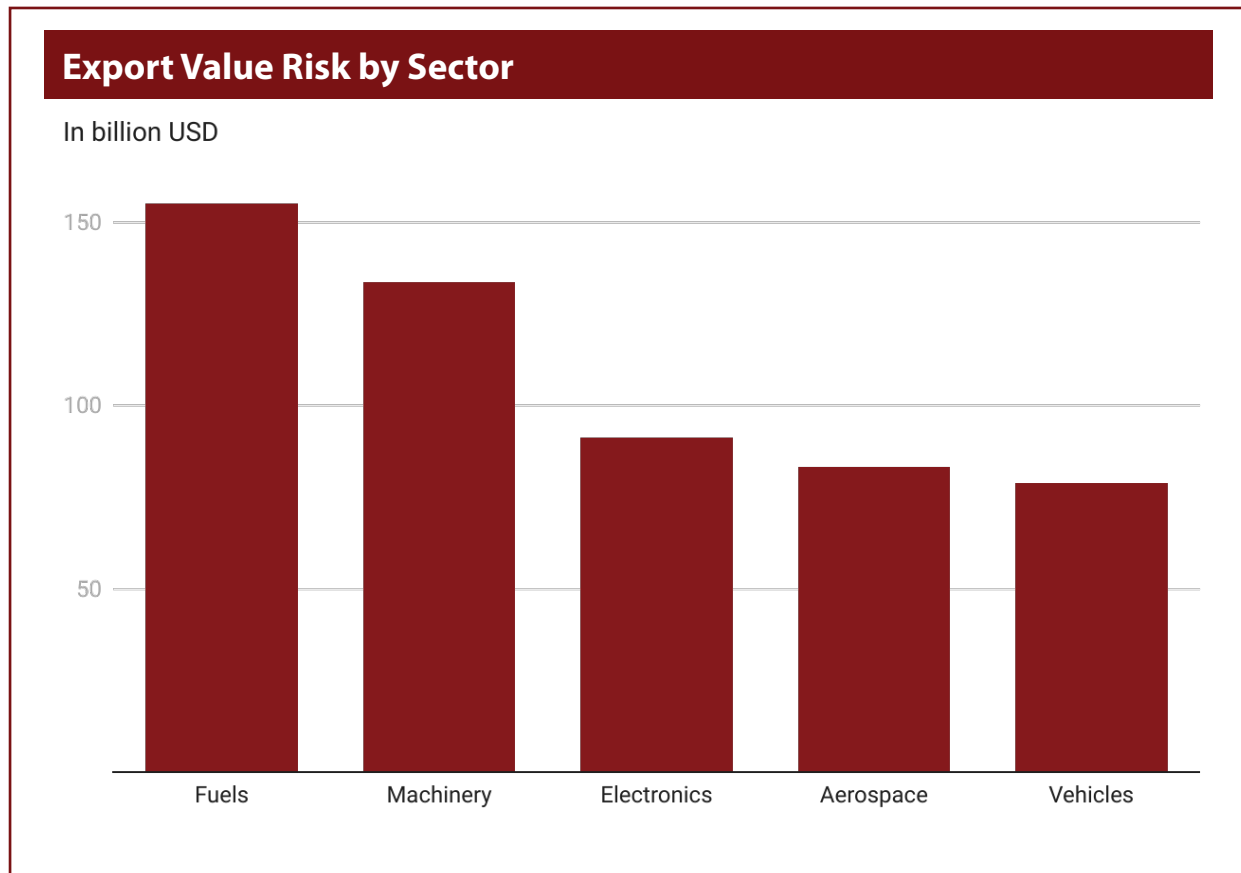
Mapping the Risk: Retaliation and Inflation Effects

To assess retaliatory vulnerability, the report applies a Tariff Impact Index (TII), combining the effective foreign tariff rate with the export value of exposed sectors. This model reveals the following high-risk trade partners:

- **China** emerges as the primary retaliator both in scope and precision. Its countermeasures are designed to inflict maximum pressure on politically sensitive U.S. exports such as aircraft (notably Boeing), soybeans (targeting U.S. Midwest states), and high-tech components including semiconductors and telecommunications equipment. These sectors represent both symbolic and structural vulnerabilities for the U.S.
- **Canada and Mexico**, despite being longstanding trade partners under the USMCA framework, represent a unique form of embedded exposure. The deeply integrated North American supply chains—especially in automotive and agriculture—mean that even modest retaliatory measures can reverberate through multiple U.S. states and sectors. Canada's focus has included steel derivatives and machinery, while Mexico has hinted at targeting grain and manufactured goods.
- **Germany, Japan, and India** have concentrated their retaliatory posture on pharmaceuticals, industrial machinery, and vehicles. These countries tend to use surgical tariffs—targeted on high-margin, U.S.-dominated niches—to apply asymmetric pressure without triggering immediate trade collapse.

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The result is a sectoral concentration of vulnerability. The table below summarizes the U.S. sectors most exposed by tariff-adjusted export value:



These figures illustrate the depth of exposure not only to volume-based losses, but also to long-term erosion of export competitiveness in high-value-added sectors.

The domestic inflationary effect of these policies is equally pronounced:

- **Import-side inflation: +1.4%**, driven by cost-push from key inputs.
- **Export contraction effect: -0.2%**, due to demand destruction abroad.
- **Net CPI increase: +1.2%** projected across consumer goods.

The Price Effects: How Tariffs Hit Consumers and Producers

Tariffs rarely remain confined to the port of entry—they cascade across the economy. The report disaggregates price impacts across three transmission channels:

1. Direct consumer price inflation:

- Electronics and appliances: **+2.3% to +4.1%**
- Vehicles (all classes): **+5.5% average**, with luxury imports exceeding **+8%**
- Processed food and essential goods: **+1.1% to +1.9%**

2. Intermediate input cost increases:

- Machinery and construction inputs (steel/aluminum-intensive): **+6.2% to +9.4%**
- Pharmaceuticals (due to imported APIs): **+3.7%**, especially affecting generics

3. Indirect inflation mechanisms:

- Higher freight costs and shipping insurance premiums
- Margin compression among SMEs and downstream manufacturers
- Potential wage inflation in low-margin service sectors as cost shocks mount

Long-term, the restructuring of supply chains could further increase capital expenditure and raise operating costs across the board, especially in import-dependent manufacturing nodes.

Forward-Looking Scenarios: Paths of Divergence

Three plausible trajectories emerge in 2025:

• Scenario A: Political Backlash and Reversal

- Tariffs rolled back under business pressure and court injunctions.
- Short-term deflation; market recovery; loss of Trump economic credibility.

• Scenario B: Managed Tariffs with Diplomatic Containment

- 10% universal tariffs maintained; retaliation minimized through G7 diplomacy.
- Moderate CPI impact (**+0.8%**); geopolitical friction subdued but persistent.

• Scenario C: Escalatory Trade War

- Full retaliation from EU, China, and Mexico.
- CPI spike to **+2.5%**, GDP drag of **-0.8% to -1.3%**, export contraction, capital flight.

"In 2025, the future hinges on tariffs: either they will be rolled back under pressure, managed with diplomacy, or ignite a full-blown trade war. Each path leads to distinct economic and geopolitical consequences."

Global Automotive Realignment: The UAE's Strategic Opportunity

The automotive industry emerges as one of the most heavily disrupted sectors under renewed tariff implementation. In 2024 alone, the U.S. imported \$391.5B in vehicles, accounting for over 24.2% of the global market. Tariffs ranging from 20–46% on key suppliers have set in motion a realignment of manufacturing and distribution hubs.

Export losses for selected countries:

- **Mexico:** –\$51.5B
- **Canada:** –\$19.0B
- **Japan:** –\$18.5B
- **South Korea:** –\$17.0B
- **Germany:** –\$10.5B

This vacuum opens an avenue for the **UAE**, which—owing to its neutrality, infrastructure, and geographic position—can serve as a re-export hub and final-assembly destination.

Projected outcomes for the UAE:

- FDI inflows of **\$3–5B over 3–5 years**
- Establishment of EV and hybrid component assembly clusters
- Domestic vehicle price increases of **4–8%**, offset by enhanced regional re-export capacity

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