



# Tariffs and Global Trade

On 1st February, 2025, President Donald Trump of the United States began a global “tariff war” by raising import taxes for other countries. A tariff is a tax put on items coming into a country. It makes them more expensive. Countries use tariffs to encourage people to buy things produced in their own countries instead.

**A tariff amount is usually calculated as either:**

1. **A percentage of the item’s cost:** For example, if a T-shirt costs \$10 with a 10% tariff, it now costs \$11.  $\$10 + \$1 = \$11$ ; or
2. **A set tariff amount per item:** For example, \$2 for all footballs that come into the country.

Recently, Donald Trump has made significant changes to tariffs. For most countries, this meant a 10% tariff charge on the majority of goods coming into America. Other countries have higher rates. Some are now calling the situation a “tariff war”.

The rationale is that if tariffs are put on items from other countries, it will encourage Americans to buy American products. This will help American factories grow and create jobs. This will bring in more money for the government and cause more businesses to invest in the US. President Trump also believes that other countries have treated the United States unfairly in the past by imposing tariffs - now, he intends to make the situation fairer. Australia has a Free Trade Agreement with the United States under which the United States pays no tariffs for exports to Australia.

## Impact

- **Volatility:** The impact of US tariffs will be felt most in advanced manufacturing industries. Due to disruptions to global supply networks from having to quickly adapt to the tariffs, the supply of imports may be volatile.
- **Diversions:** Exports blocked from the US market by new tariffs are redirected to other markets. This creates an excess of supply as compared to demand, forcing down prices and potentially leading to an influx of imports into third countries. Industries become less competitive.

## Questions

1. How should governments decide when to **protect their own industries** and when to allow **open trade** — and is open trade always the right choice?
2. When do measures fail? Explore diverse perspectives.

## Sources

1. Tariff Wars: What's the impact? Topical Talk, The Economist Foundation.  
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2. Research Note: The impact of US tariffs on Australian industry:  
<https://www.australianindustrygroup.com.au/resourcecentre/research-economics/economics-intelligence/2025/the-impact-of-us-tariffs-on-australian-industry/#:~:text=These%20exports%20will%20now%20all,2025%20and%200.2%25%20in%202026.>