

# The US Trade War: Temporary Truce and Softening of Minds

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**A**pril 2025 has been the most chaotic month in recent global economic history, impacting countries of all sizes and economic strength. The situation can best be described as “confusion worse confounded,” borrowing from John Milton’s *Paradise Lost* (Book 2, line 995).

The seeds of this confusion were sown with the announcement of Donald Trump’s candidacy as the Republican nominee in mid-2024. Following his successful election, the confusion began from Inauguration Day—January 20, 2025. It culminated on April 2, when Trump he announced sweeping, the so-called reciprocal import tariffs, that shook the foundations of free trade, which was enjoyed by world since the late 1990s. A series of retaliatory actions followed, particularly from China and in mild from European Union. A temporary 90-day truce was declared on April 9, as the confusion was getting wors and confounded.

This article seeks to summarize recent developments and provide a preliminary analysis without venturing into any speculation.

## The MAGA Agenda and Trade Deficit

Trump’s campaign promises were: Make America Great Again (MAGA), by cutting corporate tax rates from 25% to 15% and by encouraging multinational companies, based overseas to return and relocate manufacturing operations in the US. The goal was to create more jobs, manufacture and export high-quality goods. Tariffs on imports, he believed, would reduce trade volumes and lower the U.S. trade deficit. However, what was not fully recognized that the trade deficits were being financed annually by the rest of the world from their export trade surpluses through their investments in U.S. long-term Treasury bonds, and short-term securities, and generally in the US capital markets. This continued inflow of capital into US from the rest of the world relies on global faith in America’s currency, financial institutions, and its stable, predictable legal system—qualities that make it a safe haven.

Trump accused trading partners of exploiting America’s openness by maintaining high tariffs, despite the U.S.’s low average import tariff of just 3%. Canada, Mexico, and China—America’s largest trade partners—were running significant trade surpluses. Their trade surpluses with the U.S. in 2024 were Canada (\$102 billion), Mexico (\$172 billion), and China (\$295 billion). India, though a small player, recorded a surplus

of \$46 billion. Trump’s primary target is China, which, since the 1990s, has leveraged capitalism-inspired reforms initiated in the 1970s by Deng Xiaoping, who famously stated: “It doesn’t matter whether a cat is re, black or yellow, as long as it catches mice.”

## April 2 Shock and Tariff Escalation

Trump, a known critic of globalization and free trade, warned that he would rather wage a tariff war than engage in shooting war. His policy actions rattled global capital, foreign exchange, and commodity markets—especially gold, which has always been a preferred asset. Soon after his Inauguration, he levied tariffs: 25% on imports from Canada and Mexico, 10% on goods from China, and a basic 10% tariff on imports from other countries, including India. Additional 25% tariffs were imposed on steel, aluminium, and automobiles. He ordered a study on reciprocal tariff regime. He would impose tariffs on imports from trading partners at the same rate as US exports are taxed by partners.

April 2—declared as dubbed “Liberation Day” by Trump—saw the announcement of reciprocal tariffs: China (34%), European Union (20%), South Korea (25%), Japan (24%), Taiwan (32%), Cambodia (49%), Vietnam (46%), Sri Lanka (44%), and India (26%). India was disappointed, as it was expecting the US reciprocal tariff on imports would not exceed India’s average tariff of 17% on US imports. However, India responded diplomatically by initiating bilateral talks, as it has already reduced tariffs on select U.S. imports like motorcycles and bourbon whiskey.

The accompanying Table lists the steps, sometimes, forwards and backwards, cancellations and clarifications and revisions! They included a 25% additional tariff on imports from, Canada and Mexico, and an additional 10% additional tariff on imports from China declared in the first week of Inauguration. Further, India and other countries were subject to a 10% base tariff, and a separate 25% tariff on all steel, aluminium, and automobile imports.

These developments triggered fears of a global recession. Stock markets around the world plunged on April 7—dubbed as “Black Monday” India’s Sensex and Nifty suffered their worst losses in three months, with investors losing Rs. 14 lakh crores in a single day. The stock market volatility index spiked by 66%, the highest one-day increase in a decade.

## Trump's Tariffs decisions since his inauguration on January 20, 2025 and changes

Date	Details of Decision and Changes/Clarifications	Reaction/Retaliation
Feb - 01	10% tariff on China and 25% on Mexico and Canada	
Feb - 03	Halted tariffs for Canada and Mexico for 30 days	
Feb - 04	10% tariff on China comes into effect	
Feb - 10	25% tariffs on steel and aluminium imports from all countries	
Feb - 13	Orders investigation on Reciprocal tariffs	
Mar - 04	Additional 10% tariff on China and 25% on Canada and Mexico	
Mar - 12	25% tariffs on steel and aluminium imports comes into effect from all countries	
Mar - 26	25% tariffs on automobiles and autoparts	
Apr - 02	10% tariff on importd from all countries plus reciprocal as per list	
Apr - 04		China announces 34% on all imports from US
Apr - 05	10% universal tariifs on all countries come into effect	China announces 84% on all imports from US
Apr - 09	Trump levies additional 84% on China and raises tariff to 125% on imports from China	
Apr - 10	Trump clarifies that 125% tariff is an addition to earlier 20% Fentanyl tariff effectivley making tariff rate on China to 145%	
Apr - 11	Trump exempts tariifs on smart phones, computers, and selected electronic devices	China raises tariff to 125% on US goods and says no more increasess. Wants to begin negotiations

### China's Retaliation and Escalation to 145%

With the new tariffs, China retaliated sharply. On April 9, Trump raised tariffs on Chinese imports to 125%, including a pre-existing 20% Fentanyl tariff—effectively making it 145%. China responded on April 11 with a matching 125% tariff on U.S. imports and deployed a potent non-tariff measure: halting exports of seven critical rare earth minerals, essential for the manufacture of semiconductors, smartphones, and electronic devices—affecting 30 U.S.-owned companies globally, including in India.

In response, the U.S. exempted smartphones, computers, and electronic goods from further tariffs. The same day, Trump announced a 90-day tariff suspension (until July 8) for all countries except China. As markets recovered, China declared it would not escalate tariffs further and was willing to return to the negotiating table. The tit-for-tat battle thus paused, with the world watching developments closely.

### Global Market Reactions

The U.S. Dollar Index, (a widely used measure, calculated

on a daily basis by the US Federal Reserve for evaluating the strength of the US dollar against a basket of six major currencies of the world, the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc), had declined by 5.6% from January through mid-April. Following the announcements of 90-day truce and likely trade negotiations between the U.S. and China, the dollar index recovered and climbed to 99.5 by April 25. The U.S. Treasury Secretary Scott Bessent, attending the Annual Spring Meetings of International Monetary Fund and World Bank in Washington in his remarks emphasized reducing tensions. Trump also reassured markets that Federal Reserve Chair Jerome Powell would not be dismissed. These reassurances significantly calmed investor nerves.

Gold, which had surged 30% year-to-date, peaked at \$3,491 per troy ounce on April 17 before easing to around \$3,290 by April 25. Trading Economics reported that China was considering exemptions for certain U.S. imports. Thus, a trade war that erupted fiercely on April 4 saw a surprising softening within just five days, leading to a temporary truce.

### Harsh Words, Sobering Thoughts

At the Semafor World Economy Summit in Washington on April 23, attended mostly by billionaires and supporters of Trump voiced concerns. Citadel CEO Ken Griffin who is the co-chair of Semafor World Economy, and the head of one of the world's largest hedge funds, remarked:

“Trade war is hurting America’s standing in the world and eroding the nation’s brand. The United States is more than just a nation—it’s a brand, an aspiration. Our culture, financial strength, and rule of law made us the world’s safe haven. Tariffs have undermined the belief that America will remain a trusted, rational actor in global markets.”

The International Monetary Fund and World Bank also held their annual Spring Meetings in Washington, D.C., around the same time. The deliberations were dominated by trade war. They breathed a collective sigh of relief that the U.S.-centric economic order that prevailed for the past 80 years was not collapsing just yet, despite Trump’s inward-looking approach, as they heard some de-escalatory statements

from Washington about its relations with China. There was relief at Trump’s scaling back of his remarks on the US Federal Reserve Chair Jerome Powell, the guardian of the dollar’s international status. It was clear that pulling out of IMF and the World Bank is not the US goa. The US Treasury Secretary Scott Bessent’s call is for re-shaping the IMF and World Bank according to US’s priorities.

### Just about finishing the article there is some welcome news :

U.S. Treasury Secretary Scott Bessent told the American CNBC on Tuesday, April 29 that many top trading partners had made ‘very good’ proposals to avert tariffs. He made specific reference to Vice President Vance’s April visit to India and lauded substantial progress in trade talks. He singled out India as one of the first trade deals likely to be signed soon, “this week or next”. ■



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