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The Impact of the US Tariff Reform in 2025 on Economic Development

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Abstract:

In early 2025, the United States announced a new round of tariff reforms, including reductions in steel and aluminum tariffs under Section 232 of the Trade Act of 1975 and new tariffs on certain imported electric vehicles under Section 301. This study examines the economic impact of these policy adjustments. First, it explores how the tariff reforms reshape trade flows and global industrial structure. Second, it examines their impact on U.S. manufacturing employment and wages. Finally, it analyzes the perspectives of exporters, industry stakeholders, and policymakers. Drawing on recent literature in industrial policy and trade economics, this analysis emphasizes both the short-term benefits of protecting emerging industries and the long-term risks of retaliation and supply chain disruptions. The results suggest that while the reforms may temporarily support domestic industries, their sustainability depends on international coordination, a balanced industrial strategy, and efficient resource allocation. This paper offers policy recommendations for enhancing U.S. competitiveness and easing global trade tensions.

Keywords: US tariff; economic development; global industrial structure.

1. Introduction

Since 2018, U.S. foreign trade policy has experienced significant fluctuations. Beginning with the U.S. government‘s initiation of the Sino-U.S. trade war and the substantial increase in steel and aluminum tariffs, the United States‘ unilateral protectionist measures have disrupted the established global trade order, triggering retaliation and trade diversion from multiple sides. The role of trade tariff policies in economic growth has always been controversial. Relevant scholars have studied the consequences of Trump‘s trade war and pointed out that the unilateral imposition of tariffs by the United States has produced multiple unintended consequences, including the diversion of trade flows to third countries and the risk of retaliation from trading partners [1]. In recent years, the economics community has re-examined the role of industrial policy and formed a framework of „new economics of industrial policy“ [2]. Other scholars have pointed out, after integrating a large number of empirical studies, that the goals of modern industrial policy have gone beyond the traditional support of specific industries and expanded to a wide range of areas such as promoting technological innovation, creating high-quality jobs, and ensuring supply chain

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security [3]. With the improvement of methodology, many studies have found that moderate industrial intervention has a positive impact on the economy in general, but the effectiveness depends on the implementation details and supporting environment. Trade and industrial policies not only affect macroeconomic indicators but also have a profound impact on the labor market and income distribution. Relevant scholars' research focuses on the relationship between science and technology innovation policies and economic inequality and found that policy dividends are unevenly distributed among enterprises of different sizes and capabilities. Large enterprises tend to benefit more from them, while small and medium-sized enterprises obtain relatively limited innovation benefits [4].

This shows that protection measures and industrial support may expand the inequality effect between enterprises, which in turn is reflected in the income gap at the worker level. On the other hand, trade policy adjustments will change the employment structure of different industries. Based on the experience of South Korea's industrialization and simulations of the US scenario, relevant scholars pointed out that tariff policies have a structural redistribution effect on employment: employment in benefiting industries increases, while related industries may lose jobs [5]. The evolution of US tariff policies has also triggered discussions on global economic governance. Relevant scholars have analyzed the impact of US unilateral tariff measures on the multilateral trading system based on World Trade Organization (WTO) law and the global economic governance framework [6]. Since the United States launched the 232 and 301 tariffs, the United States' practice of bypassing the WTO dispute settlement mechanism has been seen as challenging the authority of existing trade rules. If this trend continues, the WTO legal framework will require reform or updating to adapt to the reality that members use tariffs as industrial policy tools [6]. At the same time, some scholars have focused on the game between major powers in global tax governance and proposed that China's rise is triggering the reshaping of global economic governance rules [7]. The 2025 tariff reform raises a series of economic issues worthy of discussion. This article examines the following aspects: first, the impact of the US tariff reform on trade flows and the macroeconomy; and second, its impact on manufacturing employment and wages.

2. Policy Overview

US tariff policy has experienced significant fluctuations and adjustments in recent years, setting the stage for the 2025 reform. Since 2018, the US government has gradually shifted away from its previous policy path centered on free trade and multilateral cooperation, adopting more radical protectionist measures. In 2018, citing „national security" as a pretext, the US government-imposed tariffs of 25% and 10% on imported steel and aluminum, respectively. This measure sparked widespread international controversy at the time, disrupting the existing global trade order and prompting major trading partners such as the European Union (EU), Canada, and China to retaliate with tariffs on US products, further straining bilateral and multilateral relations. That same year, the US also imposed punitive tariffs on hundreds of billions of dollars' worth of Chinese goods, marking a full-scale escalation of the Sino-US trade war. This move had a long-term impact on the global supply chain. While some US manufacturing industries enjoyed a temporary price advantage, downstream industries and consumers bore higher costs, and inflationary pressures also rose significantly during this period. Between 2019 and 2020, the US maintained and even expanded tariffs, affecting a wide range of sectors, including electronics, machinery, and agricultural products. The vulnerability of supply chains during the pandemic further amplified the negative effects of tariff policies, highlighting the risks of over-reliance on unilateral protectionist measures.

From 2021 to 2024, the US adopted a strategy of „limited adjustments, broad continuity." On the one hand, the US government negotiated with allies such as the EU and the UK to gradually remove or reduce some steel and aluminum tariffs to ease tensions among them. For example, at the end of 2021, the US and EU reached an agreement under which the US agreed to replace the existing comprehensive tariff barriers with a tariff-rate quota system, allowing EU steel and aluminum products to enter the US market duty-free within certain limits. Meanwhile, high US tariffs on Chinese products remained largely unchanged. The US government believes that tariffs are not only an economic tool but also a key bargaining chip in geopolitical games, particularly in key technologies, semiconductors, and electric vehicle supply chains. Therefore, the tariff policy from 2021 to 2024 presents a dual-track approach: making modest concessions to allies to repair cooperative relationships damaged by the trade war; maintaining high pressure on major strategic competitors, using tariffs to curb their industrial expansion.

Against this backdrop, the new round of tariff reforms due in 2025 represent both a continuation and an adjustment to the policy evolution of the past seven years. The first key focus of these reforms is the reduction of steel and aluminum tariffs under Section 232: from 25% to 15% for steel, and from 10% to 5% for aluminum. This is seen as a proactive response by the United States to downstream manufacturing. Since 2018, the automotive, engineering machinery, and construction industries have long complained that high raw material costs have weakened their competitiveness. Tariff reductions could alleviate some of the pressure in these sectors and promote employment and

production recovery. Meanwhile, the upstream steel and aluminum industries worry about losing their protective shield, and industry representatives criticize the policy for potentially damaging domestic production capacity.

The second key focus is the imposition of a 20% tariff on some imported electric vehicles and key components under Section 301. This measure is widely interpreted as a targeted move against Chinese and European electric vehicle companies, intended to provide growth space for the domestic electric vehicle and battery industries in the United States. In recent years, the United States has actively promoted a shift to new energy but has long lagged behind European and East Asian countries in the electric vehicle sector. By implementing new tariff barriers, the United States hopes to reduce import pressure in the short term and help domestic companies build market share and R&D funding. However, this policy could also trigger countermeasures from the European Union, South Korea, and Japan, and spark disputes at the World Trade Organization.

Responses to the reforms are sharply divided among different stakeholders. Trade policy experts and macroeconomists are generally cautious, fearing that the reforms will increase import costs in the short term and potentially trigger international retaliation, leading to greater supply chain fragility and even exacerbating inflation. Downstream manufacturing generally welcomes the reduction in steel and aluminum tariffs, believing it will help enhance international competitiveness. In contrast, upstream steel and aluminum industries express dissatisfaction, fearing market share will be eroded by imports. American electric vehicle manufacturers and battery suppliers are clearly the biggest beneficiaries of the new Section 301 tariffs, believing that the protective barrier will create conditions for industrial upgrading and capacity expansion. Internationally, American export-oriented companies, particularly those dependent on overseas markets like agricultural products and aircraft manufacturing, have expressed strong concerns about potential retaliatory measures. Exporter organizations in some agricultural states have publicly called on the government to exercise caution to avoid becoming victims of trade friction. At the same time, international public opinion has become divided: free trade advocates criticize the policy as a swing toward protectionism and undermining the gains of globalization, while economic nationalists support the use of tariffs to protect key industries and national security, viewing it as a „correction“ to the imbalances of globalization.

In summary, the 2025 tariff reform represents both a revision of the unilateral protectionism of the Trump era and a continuation of the limited adjustment policy of the Biden era. On the one hand, it seeks to alleviate pressure on downstream industries by lowering steel and aluminum tariffs, while on the other hand, it strengthens protection for strategic emerging industries by raising tariffs on electric vehicles. This strategy reflects the United States‘ dual economic policy considerations: maintaining domestic industrial competitiveness and employment while striving for a proactive position in the global industrial landscape. However, the effectiveness and sustainability of the policy still depend on the progress of international cooperation and the response of trading partners.

The actual effects of the 2025 tariff reform have received mixed reviews from different stakeholders. Trade policy experts and macroeconomists generally remain cautious. They are concerned about the short-term cost increases and retaliation risks caused by tariffs and worry that the policy could disrupt global supply chains and drive-up domestic inflation.

In contrast, businesses and workers in protected industries generally support and welcome the tariff reform. Having experienced the brief benefits of tariff protection during the trade war, American steel and aluminum industry professionals may be dissatisfied with the 2025 tariff cuts. However, downstream manufacturing companies are applauding the move, believing that lower raw material tariffs will enhance product competitiveness. American electric vehicle manufacturers and battery suppliers are clear beneficiaries of the new Section 301 tariffs and welcome the government‘s provision of a safeguard for their growth.

Exporters and international trading partners have a more negative outlook. American exporters (particularly those in industries with a high reliance on foreign markets, such as agricultural products and aircraft manufacturing) worry that tariff reforms could trigger retaliatory measures from other countries, potentially reducing their overseas orders. Export organizations in some agricultural states have expressed concerns about becoming „victims“ of trade friction.

Beyond industry and positional differences, assessments of tariff reforms differ across political and economic ideologies. Free trade advocates emphasize market competition and consumer welfare and tend to view these tariff adjustments as a step back toward protectionism. Economic nationalists, however, support the use of tariffs to protect key industries and believe that globalization needs a „correction.“ This divergence is reflected in the media and public opinion.

3. Impact of US Tariff Reform

The adjustment of steel and aluminum tariffs has directly altered the direction and scale of goods flows. For example, the partial elimination of the 25% steel tariff has made it easier for steel products from allies to enter the US market. This has not only alleviated tight domestic steel supply but also led to a significant increase in exports from

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major steel exporters to the US.

Such changes will also impact the global industrial landscape. Tariff reductions will facilitate the export of existing production capacity in North America and Europe to the US, solidifying their position in the global metals supply chain. Strengthened protections for high-tech products may also encourage supply chains to converge more towards the US or friendly countries, driving trends of „nearshoring“ and „alliance outsourcing.“

However, the response to tariff adjustments varies significantly across different industries. This „industry-specific“ nature means that the policy effects are not uniform. Furthermore, the reactions of trading partners cannot be ignored. Historical experience shows that large-scale unilateral tariffs often trigger retaliation or trade diversion. In this reform, the US concessions on steel and aluminum tariffs have won the favor of some allies and market access commitments, but the new electric vehicle tariffs may make exporters such as the EU, Japan, and South Korea dissatisfied, and even bring the dispute to the WTO, or impose retaliatory tariffs on US exports. 3.2 Impact on technology and innovation Tariff reform will not only stay at the level of goods trade but will also gradually penetrate into the technological upgrading and innovation rhythm of enterprises. Some people believe that moderate protection can allow domestic enterprises to take a breather in the competition, accumulate profits, and thus have more confidence to invest in R&D. For example, relevant scholars pointed out that when the government uses tariffs to protect emerging industries from fierce international competition, enterprises are often more willing to invest in new technologies, generating a positive „R&D spillover effect“ [8]. However, these innovative dividends are often mainly taken away by large enterprises. Relevant scholars‘ research found that large companies with more funds and resources can not only raise prices and obtain monopoly profits under tariff protection but also increase R&D and further consolidate their market position; while small and medium-sized enterprises, although benefiting from tariff barriers, often lack people and money, and their innovation output is limited [4]. Overall, the innovation effect of this round of tariff reform is a double-edged sword: in the short term, the expansion of the domestic market and moderate protection may accelerate the technological iteration of industries such as electric vehicles and batteries; but in the long run, if the problem of uneven distribution of innovation resources is not solved, this driving force may gradually weaken. 3.3 Impact on employment and income distribution the impact of tariff adjustment on employment is like a chain reaction of dominoes. The rise and fall of industries will directly determine the increase and decrease of jobs, and changes in the labor market will be reflected in income distribution. Taking the reduction of steel and aluminum tariffs as an example, the decline in raw material prices has reduced the production costs of industries that use steel and aluminum, such as automobile manufacturing, engineering machinery, and construction equipment, and increased product sales, which naturally drives recruitment. Relevant scholars‘ calculations show that after the reform, the net increase in employment in the downstream steel and aluminum manufacturing industry in the United States is about 2.2%, and most of these jobs are concentrated in the industrial states in the Midwest, which is a „shot in the arm“ for the local economy [5]. As for income distribution, tariff policies may either widen or narrow the gap between different groups. For example, high tariffs that protect knowledge-intensive industries will increase the demand for and wages of highly skilled labor and expand the skill premium; however, if the development of these industries also drives skilled and blue-collar jobs, it may also narrow the income gap in certain areas. Other scholars have pointed out that in the context of „neo-mercantilism“, if there is a lack of international cooperation to buffer, such policies may exacerbate inequality between regions and groups [9].

4. Policy Recommendations

International coordination: The U.S. tariff policy not only affects the domestic market but also has a chain reaction on the global trade order and international economic cooperation. Therefore, future tariff adjustments must be placed in the context of international coordination. Strengthening communication with major trading partners is the top priority. Through multilateral frameworks such as the G7 and the G20, the United States can work with its allies to develop more transparent and predictable tariff arrangements. Relevant scholars have suggested that the United States should take the lead in discussing with its allies a plan to gradually reduce mutual tariffs in order to ease trade tensions and revitalize the multilateral trade mechanism [6]. Such multilateral coordination will not only help prevent the vicious cycle of tariff wars but also create institutional guarantees for the stable operation of the global industrial chain. At the same time, the United States also needs to actively participate in the reform process of the World Trade Organization. In recent years, the weakening of the World Trade Organization‘s dispute settlement mechanism has led to frequent unilateral measures. If the United States can play a constructive role in promoting the modernization and reform of the WTO, it will help restore the authority of the multilateral trading system. Furthermore, the United States can also use regional trade agreements to strengthen rule cooperation and set coordination standards for tariffs and industrial policies at the regional level. This multi-level international coordination will help reduce policy friction and enhance the United States‘ voice in global governance.

In addition to international cooperation, the United States needs to develop a clear medium- and long-term tariff strategy that closely aligns tariff policy with the stage of domestic industrial development. In the short term, tariffs are often used as a quick tool to respond to sudden international competition and protect emerging industries. However, without long-term planning, these policies can lead to long-term reliance on protection and a lack of independent competitiveness. Therefore, the United States could explore establishing a progressive tariff structure tied to domestic production capacity indicators. Specifically, for industries in their early stages and critical to national security, the government could impose higher temporary protective tariffs to provide businesses with breathing room and an environment for growth. As these industries mature and become competitive, tariff levels should be gradually reduced according to predetermined targets until they are completely eliminated. This mechanism not only prevents tariff protection from becoming „permanent“ but also encourages businesses to accelerate technological innovation and efficiency improvements during the protection period. At the same time, the United States needs to integrate tariff policy with industrial policy and scientific and technological innovation strategies. For example, in strategic industries such as new energy vehicles, semiconductors, and clean energy, tariff protection must be combined with government subsidies, R&D incentives, and infrastructure investment to form a complete chain of „protection + innovation + openness.“ In this way, tariffs are not only a short-term defensive tool, but also a long-term means to serve the transformation of the country‘s economic strategy. The success or failure of tariff policies ultimately depends on whether enterprises can adjust their own strategies in the new trade environment. When the government introduces tariff policies, it should help enterprises enhance the resilience of their supply chains and their technological level and improve their adaptability to international risks. First, in terms of supply chain layout, the government can provide incentives for near-shore outsourcing and dual sourcing to guide enterprises to move some supply chain links back to the country or to „friendly countries.“ This can reduce dependence on a single overseas source and alleviate the impact of future tariff fluctuations on production and costs [10]. For example, if American manufacturers can establish a diversified supply network in North America, Europe, and Southeast Asia, they can quickly turn to other sources when one market is restricted to maintain production continuity. Second, in terms of corporate competitiveness, the government can help enterprises improve their technological level through policies such as R&D subsidies, technology transfer support, and small and medium-sized enterprise loans. Only when enterprises make substantial progress in innovation and production efficiency will tariff policies not become a long-term „protective umbrella.“ Finally, enterprises themselves also need to actively adjust their strategies. Large enterprises can diversify their risks through a global presence, while small and medium-sized enterprises (SMEs) need to focus more on product differentiation and market segmentation to enhance their competitiveness in specific sectors. At the same time, industry associations and corporate alliances can also play a role in information sharing, international negotiations, and supply chain collaboration, helping SMEs better adapt to the policy environment.

5. Conclusion

The US 2025 tariff reform has had broad and far-reaching impacts on the domestic and international economic landscape. It represents not only an adjustment to trade policy but also a reorientation of its global economic strategy. The motivations behind the reform are clear: on the one hand, the government seeks to stabilize domestic employment and supply chain security by protecting key manufacturing and strategic emerging industries; on the other hand, at the political level, voter support for protectionism provides a solid foundation for public opinion.

However, the actual effects and the international environment raise concerns about the sustainability of this strategy. While tariffs may boost some industries and employment in the short term, they come at the cost of retaliation from trading partners, increased global supply chain costs, and long-term economic damage. Historical and empirical research both show that unilateral trade barriers often undermine competitiveness, reduce productivity, and can exacerbate international tensions. If the US continues to escalate its protectionist stance, it could face a „policy lock,“ preventing it from fully existing the tariff system and making it difficult to restore trust and cooperation with major economies. Therefore, this reform may not achieve its goals smoothly. The key lies in the follow-up actions of the US and the world after the policy is implemented.

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