مركز البيدر للدراسات والتخطيط

Al-Baidar Center For Studies And Planning

Research Paper

The New American Customs Policies: Backgrounds, Objectives, and Potential Outcomes

Dr. Basim Abdulhadi Hassan

Introduction

In April 2025, the American President announced the policy of "Liberation Day," through which he imposed customs duties on imports from around 184 countries and territories, including Iraq, except the 27 countries of the European Union. This means that most countries in the world have been included under the tariffs, which have been imposed at a rate of no less than 10%, with additional duties on some countries. He described this day as a "declaration of economic independence" for the United States. The new customs policy of President Trump is considered an attempt to reshape international trade relations in a manner that serves American interests, aiming to reduce the trade deficit, enhance domestic industry, and confront what the American administration terms "unfair" trade practices.

However, these measures may lead to increased trade tensions and economic challenges on both the domestic and international levels, as the final form of this policy has not yet become entirely clear. For instance, the policy has led to a temporary rise in oil prices due to concerns about supply disruptions. However, continued trade tensions may result in a slowdown in global economic growth, ultimately exerting downward pressure on prices in the long term. These policies have also negatively impacted the movement of worldwide trade and the Chinese economy, prompting China, among other things, to reorient its exports and implement stimulus measures to support its economy, in addition to retaliatory customs measures against the United States.

The American customs policies adopted by President Donald Trump in 2025 have had a significant impact on the global economy, particularly in terms of international trade, oil prices, and the Chinese economy. However, the effect on the European economy has been "less pronounced." As for Iraq, despite its main exports being oil, which are exempt from these duties, Iraq has still felt the effects. The direct impacts are expected to be much greater than the indirect ones (those not directly related to oil exports).

This paper aims to analyze the impacts of these policies, drawing on news articles and published reports available to date.

Historical Backgrounds: The American Economy and Customs Policy

1. Historical Introduction to the Problems of the American Economy

A. The Problem of the Balance of Payments

The American balance of payments has experienced a continuous deficit since the 1970s, reaching about one trillion dollars in 2024, driven by multiple factors, including:

- **Trade Deficit:** Resulting from the United States' increased reliance on imports to meet domestic demand, especially from China and Asian countries.

- **Financial Deficit:** Due to increased military spending and social programs that contributed to its growth, which led to its financing through external borrowing.

- **Expansionary Monetary Policies:** Which led to an increase in the money supply and higher levels of public debt.

Despite these factors, the United States has been able to finance its deficit thanks to global demand for the dollar as a reserve currency, which granted it what is known as the "exorbitant privilege." The inability of other leading currencies to displace the US dollar's dominance, despite its decline in role over the past three decades.

B. The Decline of the Dominance of the American Dollar

The United States has benefited from the global status of the dollar, which has allowed it to finance its trade and financial deficits through the issuance of bonds and stocks. In 1978, American commercial banks owned assets equivalent to 53% of the American gross domestic product (GDP), rising to 84% by 2007.

According to International Monetary Fund data, the US dollar remains the primary currency for settling most international trade transactions, particularly in oil and basic commodities. However, its share among central banks' global reserves has declined from 71% in 1999 to 24% in 2024.

This power faces increasing competition from other currencies, as the share of the euro has risen to about 16%, making it the second most held currency in global reserves. Additionally, there is growing interest in the Chinese yuan, which constitutes only about 2.2% of reserves. Nevertheless, China seeks to enhance its role through trade agreements in yuan. Alongside this, the monetary system has seen the emergence of non-traditional currencies such as the Australian and Canadian dollars, whose holdings have increased due to their relative stability and attractive returns. The emergence of digital currencies, which have firmly entered the competition due to the world's current financial digital developments, threatens one of the most essential tools of American economic power.

C. The Escalation of American Public Debt

The United States has witnessed a significant increase in its public debt over the past decades. In 1960, public debt constituted 54% of the gross domestic product, but by 2025, this ratio had exceeded 126%, reaching approximately $ 36 trillion (comprising $ 30 trillion in external debt and $ 6 trillion in domestic debt). The increase in American public debt has led to a decline in the value of the dollar, which constitutes a significant proportion of most countries' reserves, thus reflecting negatively on the wealth of countries around the world. Moreover, excessive borrowing has allowed the American economy to easily cover its needs for foreign goods, which in turn has been reflected in the size of the debt.

D. The Retreat from Traditional Industries

Over the past five decades, the share of manufacturing in the United States' gross domestic product has fallen by more than half to 12%. At the beginning of the current millennium, cheap Chinese imports began to flood into the United States, resulting in the loss of six million American jobs, as well as a decline in the competitiveness of many American industries due to their higher costs compared to Chinese goods. Despite the United States' focus on high-tech industries, it has begun to face competition in these sectors in recent years, posing a real threat to the country's position on the global economic map.

2. Historical Introduction to Customs Duties Policy in the United States

A. The Tariff Act of 1930 (Smoot-Hawley Tariff Act)

The law was issued in the aftermath of the 1929 stock market crash and the onset of the Great Depression, when customs duties were raised on more than 20,000 imported goods to protect the American industrial and agricultural sectors from collapse. However, the law provoked retaliatory reactions from several countries, leading to a sharp decline in global trade and contributing to deepening the depression that struck the global economy at the time.

B. Tariffs on Steel and Aluminum – George W. Bush Administration (2002)

Tariffs of up to 30% were imposed on steel imports to protect the American steel industry and enhance its competitiveness with foreign industries. However, these tariffs provoked complaints from the World Trade Organization and retaliatory reactions from countries, so they were abolished after less than two years.

C. Trade Tariffs with China – First Trump Administration (2018)

Tariffs were imposed on many Chinese imports, with rates ranging from 10% to 25%, aimed at reducing the trade deficit with China, responding to intellectual property theft and "unfair" trade practices, and attempting to force China to open its markets and change its trade behavior. For its part, China responded by imposing counter-tariffs, which affected American sectors such as agriculture and technology, increasing tensions in the global economy. Despite the change in administration, tariffs have continued to be partially implemented during President Joe Biden's term.

A study conducted by the U.S. Department of Agriculture in February 2022 estimated the direct export losses resulting from retaliatory tariffs at about $27 billion for the period from 2018 until the end of 2019.

D. Biden Administration Decisions (2021–2024)

The American administration maintained some of Trump's tariffs, with new selective strategies represented by imposing additional tariffs in 2024 on Chinese products such as electric batteries and vehicles, with rates reaching up to 100%. The focus, however, was on protecting biotech industries and confronting what the United States believes are Chinese dumping policies.

Second: Motives for the New Tariffs and Their Potential Outcomes on the American Economy

In April 2025, the American president announced the "Liberation Day" policy, through which he imposed customs duties on imports from around 184 countries and territories, including Iraq, except the 27 countries of the European Union. This means that most countries in the world have been included under the tariffs, which have been imposed at a rate of no less than 10%, with additional duties on some countries, describing this day as a "declaration of economic independence" for the United States. The new customs policy of President Trump is considered an attempt to reshape international trade relations and confront what the American administration terms "unfair" trade practices.

1. The New Tariffs for 2025

A. Basic Customs Duties: Basic customs duties are imposed at a rate of 10%, applicable to all imports from any country worldwide, representing the minimum level of customs duties levied.

B. Reciprocal Customs Duties: In addition to the basic customs duties imposed by the Trump administration on all countries, there is a set of reciprocal customs duties that have been imposed on about 57 countries at different rates from one country to another (the maximum is 79%, rising with previous tariffs to 54% on China and up to 79%).

C. A Set of Customs Exemptions: The latest decisions of the American president included several customs exemptions, including some goods such as aluminum, steel, cars, and their spare parts, which are already subject to new customs duties announced earlier in the year 2025, in addition to exemptions related to specific vital sectors for the United States, such as semiconductors, medicines, gold, and copper.

D. Closing the "Minimum Threshold" Loophole: Trump's decisions issued on April 2, 2025, included signing an executive order related to closing the "minimum threshold" loophole, which allowed the import of goods worth less than $800 to be exempt from customs duties. More than 90% of the total parcels entering the United States were subject to this system, and 60% of these parcels originated from China, so they will now be subject to customs duties.

2. Economic Motives for Tariffs

The economic objectives are as follows:

A. Reducing the Trade Deficit: The new policy aims to reduce the American trade deficit, which reached $1.2 trillion in the previous year, as well as confront what the United States calls unfair trade practices, by imposing duties on imports and achieving annual revenues estimated at $600 billion.

B. Enhancing Domestic Industry and Encouraging Local Production: By increasing the cost of imported goods, the American administration aims to stimulate domestic industries and enhance their competitiveness, thereby increasing job opportunities within the United States as some foreign companies relocate their operations to the American economy.

C. Enhancing National and Economic Security: These measures are part of a broader strategy to enhance economic sovereignty and protect national security by reducing reliance on foreign supply chains.

D. Using Tariffs as a Negotiation Tool: The American administration aims to use customs duties as a means of pressuring trade partners to reach more balanced trade agreements, as seen in the recent deal with the United Kingdom.

E. The primary goal of this policy is to balance the next four years without a deficit, while the long-term goal of protectionism is to end $20 trillion of debt within the next ten years.

F. Attracting More Foreign Investments into the American Market: To enable those companies to maintain their share of the American market and avoid new tariffs.

3. Potential Outcomes on the American Economy

A. The Impact of This Policy on the Value of the Dollar: The customs policy has led to fluctuations in the value of the American dollar. Initially, the dollar index declined by 1.8% following the announcement of the tariffs, as investors sought refuge in safe-haven currencies, including the Japanese yen and the Swiss franc, as well as gold.

However, expectations of rising interest rates in the United States due to inflationary pressures have supported the dollar later. However, the rise in the value of the dollar will make it more challenging for exporters to sell their goods in the global market, resulting in a decline in their revenues. This will also lead to a decrease in output and income in the United States for both labor and capital owners, reducing incentives for work and investment.

B. Internal Economic Impacts: The new customs duties have increased production costs for some American companies, which may push some of them to reduce production or move operations abroad.

It is also expected that consumer goods prices will rise, which will negatively affect citizens' purchasing power (as the housing sector is one of the sectors affecting the American economy). Some reports have indicated that these policies may lead to a slowdown in economic growth and an increase in inflation rates.

C. As is the case with any tax, these tariffs have consequences, as they are expected to lead to a 9.5% price increase in the United States and a 1% decline in American gross domestic product.

D. An analysis conducted by economic experts at the Federal Reserve Bank of New York in August 2018 warned that the Trump administration's intention to use tariffs to reduce the trade deficit would reduce American imports and exports, leading to a slight or negligible change in the trade deficit.

E. A report issued by the United States International Trade Commission in May 2023, prepared by Burt Hyman and others, provided evidence of the almost complete transfer of tariffs on steel and aluminum and Chinese duties to American prices. The report also found that an increase in production, estimated at $2.8 billion in industries protected by steel and aluminum tariffs, was offset by a decline in production, estimated at $3.4 billion, in manufacturing industries affected by rising input prices.

Third: Expected Impacts on the Global Economy

1. Impact on International Trade

A. Customs duties have greatly affected the movement of global trade. For example, Chinese exports to the United States decreased by 21% in April 2025 compared to the previous year, due to American tariffs that reached up to 145% on certain Chinese goods. China responded by imposing retaliatory tariffs of up to 125% on American imports. Despite this decline, China has been able to compensate for part of its losses by increasing its exports to other countries, such as Vietnam and Thailand, where exports rose by 18% and 20%, respectively.

B. Additionally, global shipping companies such as Maersk have been impacted by trade tensions, which have reduced their expectations for global container volume growth due to economic and geopolitical uncertainty associated with the trade war between the United States and China.

C. Impact on the Chinese Economy. The Chinese economy has faced significant challenges due to American customs policies. The decline in exports to the United States has negatively impacted China's economic growth, as exports constitute a substantial portion of China's gross domestic product. Economists expect annual export growth to decline by 5%, which could threaten China's goal of achieving 5% economic growth in 2025.

To mitigate these impacts, the Chinese government has implemented stimulus measures, including reducing interest rates and injecting liquidity into the market. Chinese companies have also begun to move their production lines to Southeast Asian countries to avoid American tariffs, indicating a long-term shift in global supply chains.

D. In April 2019, a study by the International Monetary Fund employed general equilibrium models to estimate the effects of a 25% increase in customs duties on total trade between China and the United States. Each model estimated that higher tariffs would result in significant economic losses for both countries.

2. Other Economic Impacts

A. Impact on Oil Prices. Tariffs have led to a temporary rise in oil prices. Concerns about supply chain disruptions have driven this rise. However, analysts expect this rise in prices to be temporary, as continued trade tensions may lead to a slowdown in global economic growth, reducing demand for oil and putting downward pressure on prices in the long term. This is expected to continue until trade agreements are reached.

B. Negative Impacts on Consumers and Companies. Customs duties have increased production costs, which may be reflected in the prices of goods for consumers in many parts of the world. Technology companies have also expressed concern about the impact of tariffs on operating costs and competitiveness, which will ultimately lead to a decline in global economic growth.

Fourth: The Impact of Customs Policy on the Iraqi Economy

1. Indirect Impacts

Although oil has not been directly affected by tariffs (as it is a primary commodity) and is the backbone of the Iraqi economy and its main driver, the Iraqi economy has been indirectly affected through:

A. Decline in Oil Prices: The slowdown in the global economy as a result of the new tariffs has led to a decline in oil prices by almost 30%, which has negatively affected Iraq's oil revenues, as every dollar decrease in the price of oil costs the Iraqi treasury about one billion dollars annually.

B. Increased Costs of International Trade: As a result of these policies, the increased costs of international trade will inevitably lead to a decline in demand for oil, which poses a risk to the Iraqi economy, which relies heavily on oil revenues to finance its budget.

C. Decline in Investment and Trade: Tariffs have impacted global supply chains, which are expected to lead to a decline in investment and trade in the Middle East region, including Iraq, in the short term. This decline is anticipated to persist in the absence of a trade agreement.

2. Direct Impacts

A. The volume of trade exchange between Iraq and America reached about $7.4 billion in 2023. The trade balance is still in favor of Iraq due to Iraqi exports, most of which (90%) are crude oil, and since oil is not currently included in American customs duties because it is a primary commodity. The

remaining exports are of very low value and do not significantly impact the volume of trade exchange between the two countries.

B. A large part of Iraq's foreign reserves is linked to American treasury bonds. Thus, fluctuations in American monetary policy, particularly regarding the raising of interest rates or the decline in the value of the dollar against other currencies, will be directly reflected in the real value of those reserves, resulting in an economic loss for Iraq.

Fifth: Potential Scenarios

1. Potential Scenario for the American Economy

A. Medium-Term Economic Recession: Increasing customs duties may lead to higher costs of industrial inputs, reducing the competitiveness of American companies in global markets, and rising prices can lead to a decline in domestic consumption.

Potential Outcomes:

- **A slowdown in the growth of the gross domestic product by up to 1.5% over two years.**
- **Decline in direct foreign investment as a result of trade instability.**
- **Rise in inflation rates to about 4.5% by the end of 2025.**

B. Limited Industrial Growth in the Short Term: Some industrial sectors, especially steel, aluminum, and manufactured goods, may benefit from customs protection provided by the policy, but only to a limited extent.

Potential Outcomes:

- **Slight improvement in the number of industrial jobs, with the expectation of creating 150,000 jobs within 12 months.**
- **Return of some production lines to the United States in labor-intensive industries.**

C. Loss of Stable Trade Partnerships: Increased tensions with trade partners, such as the European Union, Canada, and Japan, may prompt them to form alternative economic alliances outside the American framework.

Potential Outcomes:

- **Decline in American agricultural exports by up to 12% in May 2025.**
- **Decline in the value of some technology exports due to the loss of European and Asian markets.**
- **Pressure on supply chains and rising prices of intermediate goods.**

2. Potential Scenario for the World Trade Organization (WTO)

A. Weakening and Marginalization of the Organization: The United States' refusal to comply with World Trade Organization decisions and its escalation of protectionist measures puts the organization in a real crisis, especially since the United States is considered the sponsor of global trade openness and a principal founder of the organization.

Potential Outcomes:

- **Decline in the number of disputes referred to the organization by 40% in 2023 compared to the previous year.**

- **Withdrawal or suspension of membership of some countries or the freezing of their effective participation.**

- **Increase in bilateral and regional agreements as an alternative to the multilateral framework.**

B. Reforming the Organization Under Crisis Pressure: The crisis may prompt member states to undertake substantive reforms, including amendments to the dispute settlement system and limitations on the powers of major countries to impose protectionist measures.

Potential Outcomes:

- **Restructuring the appellate body within the organization.**

- **Reducing the use of tariffs as a political tool.**

- **Enhancing the participation of developing countries in decision-making mechanisms.**

3. Potential Scenario for the Global Economy

A. Global Growth Slowdown: Introducing new trade barriers between the world's largest economies (the United States, China, and the European Union) leads to a reduction in the movement of goods and capital.

Potential Outcomes:

- **Decline in the global growth rate to 2.1% in 2025 compared to 3% in 2024, according to International Monetary Fund estimates.**

- **Sharp economic slowdown in export-dependent emerging countries such as Mexico, Vietnam, Indonesia, and others.**

B. Acceleration of Alternative Economic Blocs: The withdrawal of the United States from the rules of the global trade system pushes other powers (such as China and the European Union) to expand their influence through regional agreements.

Potential Outcomes:

- **Expansion of the Regional Comprehensive Economic Partnership Agreement.**
- **Strengthening the role of other international currencies besides the dollar in international trade, such as the yuan.**
- **Major shifts in the global trade and investment map.**

C. Sustainability of Local Economies at the Expense of Globalization: Major companies may reconsider their total reliance on global supply chains, which enhances local manufacturing in several countries.

Potential Outcomes:

- **Revival of small and medium local sectors in countries with protectionist policies.**
- **Rising consumer prices in the medium term due to the loss of open market efficiency.**
- **Repatriation of industrial technology domestically instead of reliance on external sources.**

Conclusion

Over the past fifty years, the United States has played a pivotal role in shaping the global financial and trade system, benefiting from the dominance of the dollar as a reserve currency and a tool for settling payments. However, the increasing challenges, whether economic or geopolitical, require the adoption of balanced policies to maintain this position. Diversifying reserves by other countries does not necessarily mean the end of the dollar's dominance, but it indicates a more diverse and multipolar global monetary system.

Customs duties have been a significant tool in American economic policy, particularly during times of crisis, geopolitical tensions, or financial challenges. However, excessive use can lead to negative results for both the domestic economy and the global trade system. In light of current challenges, the United States is likely to continue using tariffs selectively and strategically to serve its industrial and security interests.

The "Liberation Day" policy launched by President Trump aims to strengthen the American economy and reduce the trade deficit. Still, it faces significant challenges related to international reactions, impacts on consumers and companies, and potential economic risks. Therefore, the success of this policy will depend on the American administration's ability to balance between achieving financial goals and dealing with emerging challenges, especially the reactions of the leading trade partner (China).

At the same time, the direct American customs duties do not affect the Iraqi economy, since oil exports are not included among the goods subject to customs. Still, Iraq is indirectly affected by the decline in oil prices resulting from the slowdown in global trade and investment, which may pose a significant threat to

Iraq's overall financial revenues.

The critical question is: Will the United States succeed in achieving the objectives of these policies? The answer to this question depends on several factors, most notably the reaction of trade partners, the dollar's ability to maintain its position, the ability to secure supply chains, market reactions, and indicators of the American economy. These factors cannot be interpreted with absolute accuracy at present due to the complexity of the situation and the difficulty of analysis; however, in the coming days, the answer to the above question will become clearer.

The most significant outcome is that this policy has caused a profound rupture in international trade relations and a considerable shock to confidence in the global system, which, for decades, has emphasized that globalization and openness are the solutions to economic challenges.

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Research Identity

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Al-Baydar Center for Studies and Planning is a non-governmental and non-profit organization established in 2015 and registered with the NGO directorate in the general secretariat of the council of ministers in Baghdad.

The center seeks to contribute to developing the state and its institutions, by proposing ideas and practical solutions to the main problems and challenges facing the state, including improving public sector management, policies, and strategic planning, using reliable data and best practices. The center engages the relevant authorities in the state with regular meetings to support this objective and utilizes the support of international organizations dedicated to assisting Iraq's development. The center also seeks to support economic reforms, and sustainable development and provide technical assistance to the public and private sectors. The center also seeks to support the development of the private sector to provide job opportunities for citizens through training and upskilling, in a way that reduces dependence on government institutions and contributes to supporting and diversifying the country's economy.

The center aims to utilize the vast amount of potential in Iraq's human resources by organizing programs to prepare and develop promising young people, including leaders capable of proposing, adopting and implementing visions and future plans that advance society and preserve its value-system based on the commitment to a high moral standard and rejection of all types of corruption.

www.baidarcenter.org

info@baidarcenter.org