SECTION 1.
ECONOMIC THEORY, MACRO- AND REGIONAL ECONOMY

Kostiantyn Chumachenko
Bachelor Student of Engineering and Information Technologies Faculty
Kyiv National University of Technologies and Design, Ukraine

Kseniia Kugai
Asociate Professor of the Department of Philology and Translation
Kyiv National University of Technologies and Design, Ukraine

FROM DEFICIT TO CRISIS? RETHINKING TRUMP'S TARIFF TACTICS

Abstract. *The research examines the valid reasons behind the tariffs imposed by the Trump administration, which, contrary to official statements, aim not to protect domestic production but to reduce the U.S. trade deficit. The work analyzes the deeper economic mechanisms of this policy, emphasizing that public justification does not always reflect the actual motives. Particular attention is given to the potential global consequences, including the risk of an economic crisis, as well as to alternative approaches to assessing the situation, particularly the position of Stephen Miran.*

Under Trump, trade policy has caused tariffs to become a significant global economic issue. Although the stated purpose of these measures is to watch over the domestic industry, further study shows that they are mainly aimed at reducing the U.S. trade deficit. Over the past five decades, the U.S. has regularly had a trade deficit because the dollar is the most widely used currency for international reserves. Let us examine what supports the U.S. trade deficit, the global monetary structure, and how protectionist measures influence the situation.

What is the U.S. Trade Deficit?

The U.S. trade deficit occurs when the country imports more goods and services than it exports. It means that more money flows from the U.S. to foreign producers than from U.S. exports. The U.S. has run persistent trade deficits since the 1970s. However, how does this persist without collapsing the economy? After WWII, the Bretton Woods system established the U.S. dollar as the primary global reserve currency backed by gold. Even after the gold standard ended in 1971, the dollar retained its dominance in global trade and finance and was a reserve in central banks.

Today:

• Most global trade (especially oil) is invoiced in U.S. dollars.

• Central banks worldwide hold USD as reserves.

• Foreign governments and investors eagerly buy U.S. Treasury bonds as a “safe asset”.

How This Connects to the Trade Deficit

This setup creates a global demand for U.S. dollars – and here is where things get interesting:

1. Global Dollar Demand → U.S. Can Run Deficits.

Other countries need dollars for trade and reserves, so they are willing to sell goods and services to the U.S. in exchange for those dollars. The U.S., in turn, pays for these imports not by sending back equivalent exports but by sending U.S. dollars – which it can either print (through the Federal Reserve) or borrow (by issuing Treasury debt). So, in essence, the U.S. gets authentic goods and services from the world and gives back paper or digital dollars in return.

2. The Triffin Dilemma.

The economist Robert Triffin [4] pointed out a fundamental issue with this global system:

The U.S. must run current account (trade) deficits for the world to have access to dollars. Nevertheless, here is the catch – persistent deficits gradually undermine confidence in the dollar’s long-term value. So, there is a paradox: the U.S. must provide global liquidity (dollars), which weakens its trade position and builds up external debt.

3. Foreign Recycling of Dollars → Demand for U.S. Assets.

Countries that trade surpluses with the U.S. – like China, Japan, and Germany – reinvest their dollar earnings back into the United States, particularly in:

• U.S. Treasuries (government debt);

• U.S. stocks, real estate, and corporate bonds.

This recycling:

• keeps U.S. interest rates low;

• supports American financial markets;

• enables continued deficit spending and high consumption levels.

Is This a Privilege?

From a purely economic perspective, the answer is yes.

The Privilege:

• The U.S. consumes more than it produces – and pays with its currency.

• It enjoys exceptionally low borrowing costs.

• Global demand for the dollar gives the U.S. monetary power no other nation possesses.

The Problem:

• The U.S. is de-industrializing – increasingly relying on services and reducing exports.

• It is accumulating a mountain of foreign debt liabilities.

• This economic model, dependent on consumption and debt, may eventually undermine.

America’s long-term competitiveness

The U.S. is de-industrializing – relying more on services and less on exports [3]. It continues to build up significant foreign debt liabilities. Over time, this dependency on consumption and debt could severely undermine America’s long-term competitiveness.

As we said earlier, the U.S. trade deficit is not a flaw – it is a feature and privilege of the current global monetary system where the dollar remains supreme. The U.S. can continue importing more than it exports because the world wants and needs U.S. dollars. This global demand enables the U.S. to “buy” authentic goods and services from other nations using the fiat currency it can create. Let us dive deeper to understand why what unfolds in front of our eyes does not entirely reflect reality.

The U.S. Trade Deficit in Goods vs. Surplus in Services

While the U.S. consistently runs a trade deficit in goods (importing more physical products like electronics, vehicles, and machinery than it exports), it also maintains a significant surplus in services. Goods Deficit: the U.S. imports inexpensive goods from countries like China, Mexico, and Vietnam, where labor and production costs are much lower. This trend has continued for decades and is tied to globalization and offshoring.

Services Surplus: conversely, the U.S. is a major exporter of financial services, intellectual property, software, education, entertainment, and consulting. Companies like Google, Microsoft, Netflix, JPMorgan, and Hollywood generate billions of dollars in overseas revenue.

Bottom Line: while the trade deficit in goods is often politicized, it does not show the whole picture. The U.S. is a net exporter of high-value services, which helps balance the deficit and reinforces the dollar's global dominance.

Why “Bringing Back Manufacturing” is not so simple Trump’s rhetoric about reviving American manufacturing sounds politically appealing – but in reality, the situation is far more complex.

• Lost Infrastructure: much of America's manufacturing base has been dismantled or outsourced over the last 40 years. Rebuilding it is not as easy as flipping a switch and restarting factories.

• Skilled Labor Gap: today's manufacturing depends heavily on advanced technology like robotics, automation, and precision engineering. The U.S. faces a severe shortage of skilled workers in these fields. Retraining the workforce would take many years – possibly even a decade.

• Cost Imbalance: producing goods in the U.S. is far more expensive due to higher wages, regulations, and energy costs. Competing with countries like China or Vietnam on low-margin products is economically unfeasible without significant government subsidies or protectionist measures.

Genuine Concern: national security, not just economics

The primary issue is no longer just economic – it is strategic. In a conflict with China, the U.S. risks severe disruptions in essential supply chains – not only for consumer goods but also critical components like pharmaceuticals, rare earth minerals, semiconductors, and military-grade technology. The COVID-19 pandemic exposed just how dependent the U.S. has become on foreign-made essentials (like PPE and even basic medications), turning this into a national security concern.

In essence: "reshoring" is not just about bringing back jobs – it is about reducing reliance on geopolitical rivals in vital areas.

Tariffs Without a Domestic Base Hurt the U.S. More [2]

Imposing tariffs without a robust domestic production base ends up backfiring:

• U.S. businesses that rely on imported components face rising costs.

• Consumers see increased prices as those tariffs get passed down.

• Exporters face retaliatory tariffs and disrupted supply chains.

Example: tariffs on steel and aluminum might have benefited a few domestic producers, but they simultaneously harmed manufacturers in industries like auto and construction, which depend on those materials.

The net effect? More economic pain than gain.

Tariffs as a "Dollar Privilege Fee"

Here is a deeper geopolitical perspective:

These tariffs operate less like conventional trade policy and more like a tax on countries participating in the U.S.-dominated financial system.

The U.S. dollar is the world's reserve currency. Nations are required to use dollars to settle international trade, especially for energy and key commodities. It gives the U.S. extraordinary leverage. So when the U.S. imposes tariffs, it essentially declares: “If you want access to our consumer market and the benefits of the dollar system, you will have to pay a premium”. Tariffs become a mechanism to extract value from participants in the dollar-dominated world – an assertion of financial supremacy rather than straightforward economic protectionism.

Pay Attention to Stephen Miran’s Speech [1]

White House Chief Economic Advisor Stephen Miran outlined five steps other countries could take to share the burden with the United States: Stephen Miran’s Five-Point Doctrine. In his speech, White House Economic Advisor Stephen Miran laid out five steps that other countries should take to “share the burden” with the United States:

1. Accept tariffs on their exports to the U.S. without retaliation, providing revenue to the U.S. Treasury to finance public goods. Retaliation, he argued, would worsen the burden distribution and hinder the funding of global public goods.

2. Cease unfair and harmful trading practices by opening up their markets and increasing purchases from America.

3. Increase defense spending and buy more from the U.S., purchasing American-made goods, easing the strain on U.S. servicemembers, and creating domestic jobs.

4. Invest in and establish factories in America since products manufactured on U.S. soil would not be subject to tariffs.

5. Provide direct financial contributions to the U.S. Treasury to support the financing of global public goods [1].

As we all know, not many goods are manufactured or produced on U.S. soil that are suitable for large-scale export to the rest of the world.

So, what Miran is essentially saying is this:

Even if one does not need them, buy our salmonella-contaminated chicken or hormone-jacked beef, and like it. Buy our cars that are not built for other roads and drive them. If that is not one’s preference, purchase our defense industry products – like fighter jets, which our president has openly admitted will be “toned down about 10%” when sold to allies. Buy our arms and close the trade deficit that way. Alternatively, write direct checks to the U.S. Treasury and pay us upfront [1]. In short, please pay us a premium for our privilege.

There is another side of the story which is more concerning. That is the second time that we have witnessed a highly troubling pattern:

• The Trump administration announces tariffs, causing the markets to tank.

• Shortly afterward, Trump used his social media platform to promote his cryptocurrency, his company stock, and the idea of “buying the dip”.

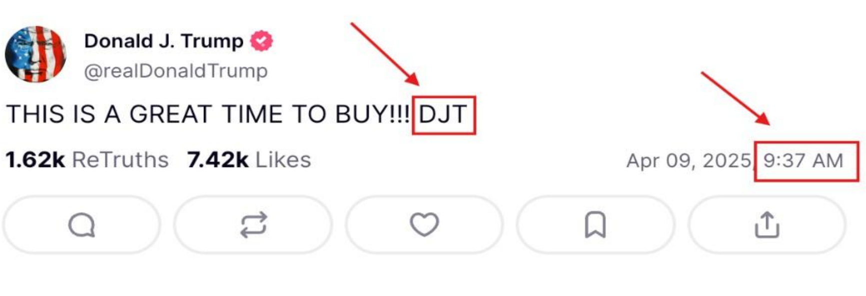
• Then, in a calculated move, the administration announces a pause on tariffs, triggering a rapid rebound in the markets.

This entire scheme bears all the signs of market manipulation and tends to funnel wealth from the poor to the rich. Over time, this manipulation and wealth extraction cycle could become a major contributor to a new global economic crisis.

A Timeline of What Just Happened:

Step One: Market Tanks. Shortly after the markets opened and began plunging, Trump posted the following on his Truth Social account:

“This is a great time to buy”, and he tagged the ticker of his company, Trump Media & Technology Group Corp. – DJT (pic. 1).



Pic. 1. **Donald Trump’s Twitter**

Step Two: Insider Moves Begin

Just 10-15 minutes before the official announcement of the 90-day Tariffs Pause, there were massive spikes in call options for the NASDAQ 100 and S&P 500. A substantial influx of money began flowing into the markets, clearly anticipating the announcement.

Pic. 2. **The result of Donald Trump’s tweet.**

Step Three: Tariffs Paused – Market Soars

Then came the official announcement of the 90-day pause on tariffs. The effect was immediate:

• the Dow Jones surged over 2,000 points;

• almost every stock jumped between 10% to 20%;

• and notably, Trump Media & Technology Group Corp., DJT was among the top gainers.

Conclusions. The ongoing gap in U.S. trade overseas is strongly affected by the dollar being the primary global reserve currency. Economic goals are often used to justify tariffs, but tariffs are more often designed to further political and financial causes. Some methods include using global demand for the dollar and affecting how markets behave. Since trade and monetary policies are now highly politicized and due to market shocks and interventions by the media, people are worried about the stability of the global financial system. If these trends are not managed, they may increase the risk to the entire global economy. So, authorities and influential individuals worldwide should carefully watch these trends and focus on making the international trade system more balanced and understandable.

References:

1. A User’s Guide to Restructuring the Global Trading System. (2024). *Hudson Bay Capital*. URL: https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf
2. Qian N. (2025). Trump’s Tariffs Are Not About Dolls. *Project Syndicate*. URL: https://www.project-syndicate.org/commentary/trump-tariffs-inflation-consumer-price-hikes-looming-by-nancy-qian-2025-05
3. Raghuram G. Rajan. (2025). Trumponomics’ Exorbitant Burden. *Project Syndicate*. URL: https://www.project-syndicate.org/commentary/stephen-miran-trump-adviser-bad-argument-for-restructuring-global-trade-by-raghuram-g-rajan-2025-03
4. Triffin dilemma. *Wikipedia*. URL: https://en.wikipedia.org/wiki/Triffin_dilemma