# Trump's Tariff War Fallout of a Failed Misadventure

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October 2026 marks a year-and-a-half since President Donald Trump's declaration of April 2, 2025, as Liberation Day. Liberation, presumably, was from an unkept promise by the US that its openness to trade would signal a commitment to the principles of free trade.

Trump's justification for 'reneging' on that false promise was a claim that the main trading partners of the US had resorted to unfair means to invade America's market and protect their own, leading to the bilateral trade deficits that were, actually, the outcome of a loss of trade competitiveness.

The Liberation Day declaration was an announcement that the Trump administration would, as of that day, use tariffs, imposed using the International Emergency Economic Powers Act (IEEPA), as means of restoring the US' supremacy in global trade. The tariff war started with a baseline tax of 10 per cent on all imports (with some minor exceptions) into the US, and the threat of an additional country-specific reciprocal impost linked to US bilateral trade deficit with individual countries.

The magnitude of the additional impost was to be adjusted based on the willingness of individual countries to negotiate a deal to win lower-than-threatened, across-the-board imposts in return for trade and investment concessions.

**Tortuous History**

The tariff war has had a tortuous history over the last year-and-a-half, with volatile shifts in both the magnitude and duration of the tariffs imposed. When imposts under the IIEPA were struck down by the US Supreme Court in February 2026 for breaching limits of Presidential authority, they had to be substituted under clauses warranting imposts on account of threats to national security to unfair practices such as intellectual property theft, or use of forced labour to keep down costs. These have been combined with penalties on transshipment exports to the US from countries serving as hosts to foreign firms, evading imposts on exports from their own home countries (such as Chinese firms located in Vietnam) and secondary sanctions on countries importing crude from Russia, for example.

While strategic objectives (including that of ending the trade in Fentanyl) were often invoked, the principal justification for Trump's tariff aggression has been the need to drastically reduce the large trade deficits of a weakening US. But success in the realisation of that objective over the last year-and-a-half has been mixed. A cursory examination of the evidence suggests that Trump appears to have achieved some success. Compared with a $4.6 billion deficit in the trade in goods by the US in the first quarter of 2025 (which preceded Liberation Day), the figures stood well below $3 billion in all subsequent quarters till the second quarter of 2026.

But closer scrutiny suggests that this decline occurred because of a large increase in the deficit, driven by a spike in imports in quarter one of 2025, possibly explained by orders placed in the expectation of a tariff hike. Imports in that quarter rose by more than 25 per cent

relative to the corresponding quarter of the previous year, contributing to the surge in the deficit.

Discounting for that effect, the overall deficit decline does not appear to be as significant. What is intriguing is the distribution of the gains from the Trump tariff aggression across countries. There are only five countries that recorded significant increase in the bilateral US trade deficit between the first quarter of 2025 and the second quarter of 2026: Taiwan, Vietnam, Mexico, Malaysia and South Korea. Of these, two countries Taiwan and Vietnam dominate in terms of registering an increase in bilateral trade surplus vis-a-vis the US in the year-and-a-half since Liberation Day.

On the other hand, vis-à-vis most other significant trade partners, including China, the US has, in fact, registered either a decline in goods trade deficit, or a shift from bilateral deficits to surpluses, or an increase in pre-existing surpluses. All of these shifts contributed to the reduction in the overall trade deficit.

**Overall Gain**

However, despite this improvement in the bilateral trade balance with a majority of trading partners, the overall gain from the tariff war for the US has not been significant. A preliminary scrutiny of the drivers of the deficit with the two principal contributors in terms of a bilateral trade deficit increase (Taiwan and Vietnam) is telling. In both cases two sectors machinery and mechanical appliances and electrical machinery and equipment have dominated exports to the US and explained the deficit. In the second quarter of 2026, these two sectors accounted more than 90 per cent of US imports from Taiwan, and more than 70 per cent of US imports from Vietnam.

The composition of imports from Taiwan is understandable, given its historical record as an exporter of components and parts to the US, and especially its leading role as a producer of semiconductors. Given US' dependence on import of semiconductors and the ongoing surge in data centre investments driven by the hype over artificial intelligence, this is to be expected.

It is Vietnam, one of the special targets of US aggression, that springs a surprise. US imports from Vietnam have risen from $41.9 billion in the first quarter of 2025 to $66.5 billion in the second quarter of 2026. And that surge has not been driven by traditional labour-intensive exports such as garments, footwear and furniture, which accounted for just 11.5 per cent of US imports from Vietnam in the second quarter of 2026. Rather, the surge has been driven by machinery and equipment, including electrical equipment.

**An Export Platform**

These exports from Vietnam are largely the result of foreign firms, including those in China, Korea and Japan, using the country as an export platform for final stage production for US markets. The threat of exceptional transshipment tariffs declared by Trump is clearly proving more difficult to implement than the efforts at limiting imports from traditional trading partners. The magnitude of exports through this route from Vietnam has been large enough to widen the bilateral deficit in the trade in goods of the US with that country.

In sum, two factors seem to have contributed to the overall failure of Trump's tariff war, despite the restriction in imports and reduction in the trade deficit with most countries. One is

the dependence on the international semiconductor supply chain in a period characterised by an inexplicable AI-related investment boom.

The other is the reliance of the US and its transnational companies on offshore production of equipment, serving both investment and consumption. Vietnam is currently the leader among the last bastions of that trend of globalisation.

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