

Black Monday Bloodbath: Amid Market Crashes, What Could Be the Ultimate Fallout of Trump's Retaliatory Tariffs?

The warnings about the Black Monday crash are proving true, with a massive plunge in global stock markets following last week's recession in the Dow Jones and S&P futures due to US President Donald Trump's tariffs.

On Monday, the Nikkei 225 index in Tokyo plunged nearly 9% immediately after the market opened, while earlier in the day, trading in Japanese futures was halted due to circuit breakers. The Hang Seng index in Hong Kong was down 8% in early trading.



Impact on Indian Markets



Pressure on Friday

Indian stock markets maintained selling pressure on Friday



Decline on Monday

There was a 5% decline in early trading on Monday along with Asian stocks



Concerns increased

This decline came amid concerns about growth

Meanwhile, the US President defended his tariffs while going to a golf event over the weekend, claiming that many countries 'are dying to make a deal' and any adjustment in the stock market is temporary.

Potential Ultimate Outcome of Tariffs



Market Pressure

Volatility in the US stock market and pressure from his supporters could force Trump to scale back the tariff push



Securing Concessions

The US President could actually succeed in securing concessions from some countries like Vietnam or Cambodia



Congressional Intervention

The US Congress could intervene to claw back the power given to the White House on tariffs



Legal Challenges

There could also be legal challenges to the President's invocation of emergency powers

The analysts who said Trump was unlikely to follow through on his tariff talk have now been proven wrong, but there is a growing view that these tariffs may not stick.



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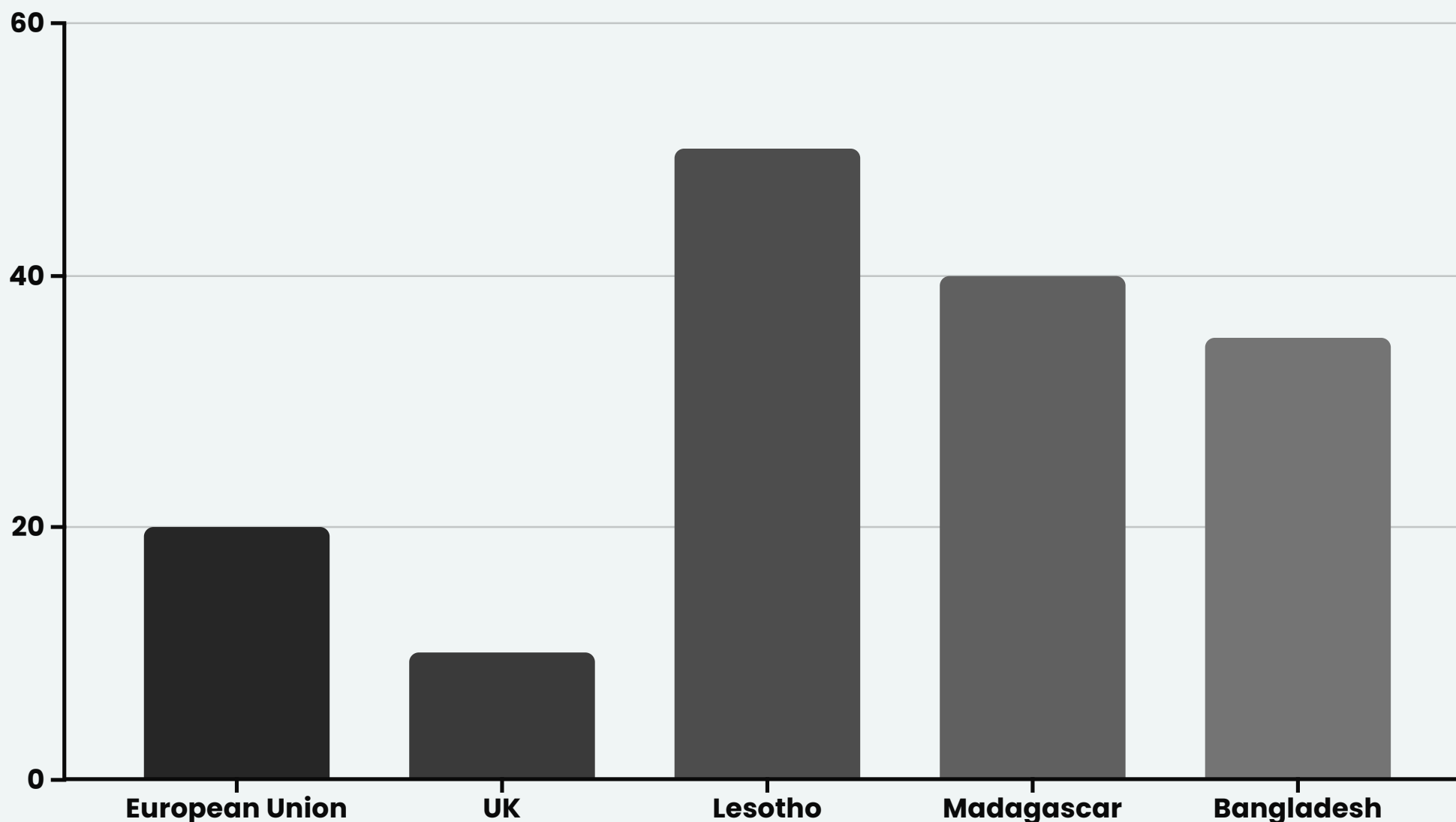
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Simplified Tariff Calculation, but Many Implementation Complexities



Market disruptions have increased due to Trump's tariff intentions, despite the fact that they were clearly calculated in an overly simplified manner and there were potential implementation issues.

For example, the tariff on the European Union is 20%, while across the English Channel, the UK is facing a 10% tariff. To avoid this, the US Department of Commerce will have to develop separate rules of origin for each country.

The Danger of Retaliatory Measures

China's Response

After some initial restraint, China has largely retaliated on tariffs

Impact on US Companies

It could impact companies like Meta, Alphabet and others at the center of the US innovation story



European Union's Move

The European Union may impose some retaliatory restrictions on US-based digital services

Digital Front

This could open up an entirely new front in this trade war

Trump's core premise behind the tariffs was that it would not elicit retaliatory responses from his major trading partners. While economists will validate this, arguing that resorting to retaliation makes little practical sense, there is an argument: that every country has its own political compulsions.

The Paradoxes of Tariffs

The Case of Lesotho

Lesotho, one of the poorest countries in Africa with an annual GDP of only \$2.4 billion, has been slapped with a 50 percent tariff rate, the highest among all countries on the list.

Madagascar and Bangladesh

Madagascar has also been impacted, as it exports vanilla to the US, along with Bangladesh, a relatively poor garment-producing nation.

Taiwan's Predicament

Taiwan, a traditional American ally struggling for its existence against Beijing, has been subjected to tariffs, although its biggest export, chips, may be exempted.

The Exemption List

The paradox is that countries like Russia and North Korea are included in the exemption list.

The objectives of these tariffs, as stated by Washington in less than a month, have been shifting: from national security concerns (fentanyl and immigrant flows) to the changing narrative of the need to balance the trade deficit.

Domestic Backlash Grows



Such a shift could be a potentially pivotal moment – perhaps on the scale of the decision to freeze Russian foreign assets in early 2022, which forced central banks around the world to buy physical gold.

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The Ineffectiveness of Tariffs



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Study Findings

Studies by economists at MIT, Harvard, University of Zurich, and the World Bank have concluded

No Impact on Employment

Tariffs implemented during the Trump administration did not increase or decrease US employment



Example of Steel Industry

Despite Trump's 2018 tariffs on imported steel, the number of jobs in US steel plants was barely affected



Negative Impact on Farmers

Retaliatory tariffs imposed by China and other countries on US goods had a "negative employment impact", especially on farmers

These retaliatory tariffs were partially offset by government assistance that Trump was forced to provide to farmers, which was partially financed by the additional revenue from the tariffs.

China and European Union's Response

China's Response

This time, after some initial restraint, China has responded almost entirely with tariffs. It can escalate the trade war by imposing retaliatory tariffs on American goods.

Potential EU Action

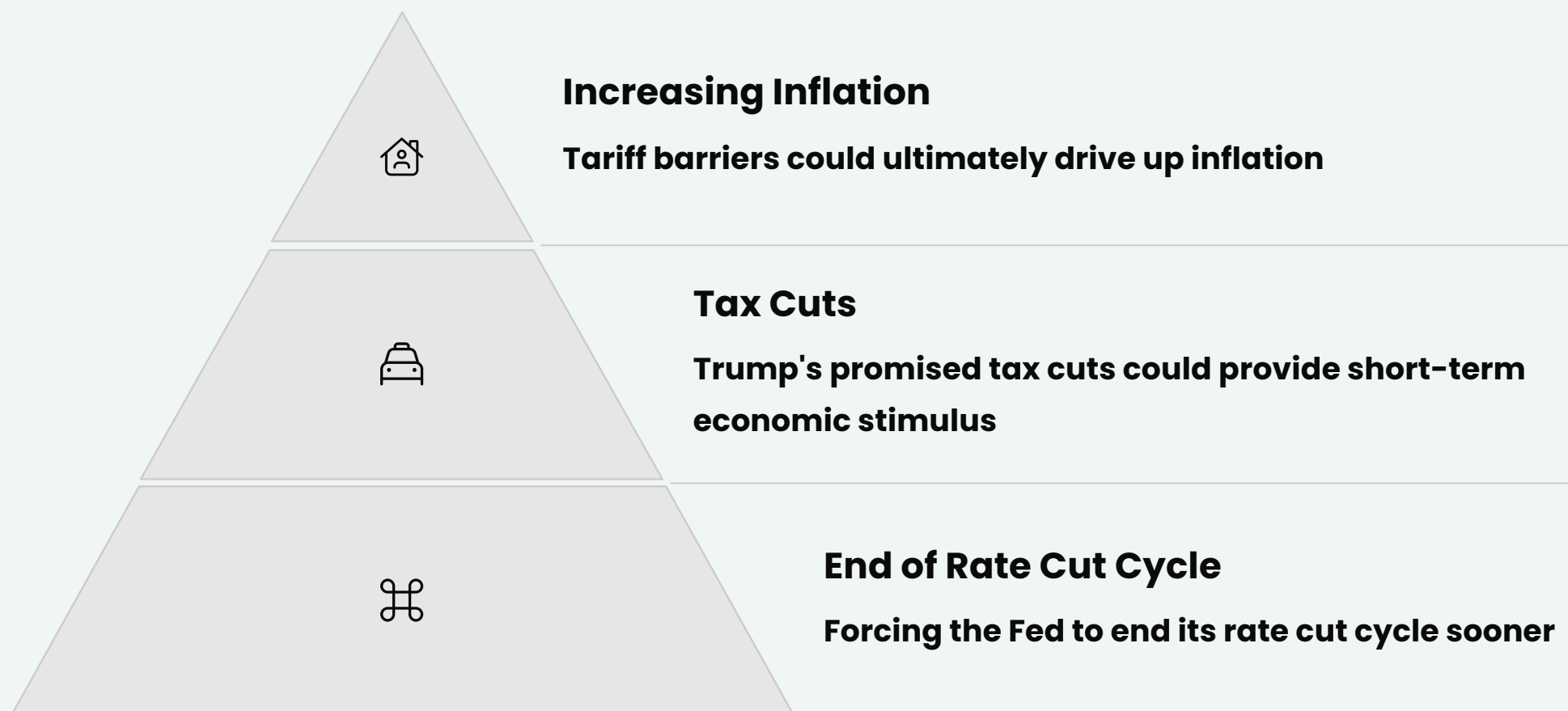
The European Union may impose some retaliatory restrictions on digital services coming from America, which could open up a whole new front in this trade war. European regulators are already investigating Apple and closely monitoring Meta's practices.

Impact on US Tech Companies

Attacks by Brussels on these services could be a source of trouble for Washington, D.C., as these companies are at the center of the American innovation story and have led the surge in US stocks over the past 12 months.

This could further exacerbate the bleeding for the US stock market, as some have predicted, and have a ripple effect on other markets.

Impact on the Federal Reserve's Rate Cut Cycle



The decision for the US Federal Reserve to continue its rate cut cycle was strongly dependent on the outcome of the presidential election – and experts believe the cycle may now be at risk across the full spectrum.

While Trump's promised tax cuts and tariff barriers could ultimately stimulate the US economy, at least in the short term, analysts predict they could ultimately drive up inflation – and potentially force the Fed to end its rate cut cycle sooner.

Long-Term Impact on Global Markets

9%

Decline in Nikkei

Tokyo's Nikkei 225 index fell nearly 9% immediately after market opening

8%

Decline in Hang Seng

Hong Kong's Hang Seng Index was down 8% in early trading

5%

Decline in Indian Markets

Indian stock markets fell 5% in early trading on Monday

Global markets have seen increased volatility due to Trump's tariffs. Experts believe that if the tariffs persist, it could have long-term impacts on the global economy, disrupting trade flows and affecting supply chains.

However, many analysts believe these tariffs will not last long, as market pressure, domestic opposition, and potential legal challenges could eventually force the Trump administration to reconsider its policy.

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