Special Bulletin

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# Trump 2.0 Rattling World with Tariffs and Maximum Pressure on Iran

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Two weeks after the inauguration of the second Donald Trump administration in the United States, the world continues to be shaken by various Trump 2.0 policies. As noted in my essay "A Japanese Perspective on the International Energy Landscape (725)," the basic Trump 2.0 stance is expected to feature: (1) an emphasis on "Make America Great Again (MAGA) and "America First" slogans, (2) original initiatives that are not bound by "conventional wisdom of Washington establishment", (3) strong criticism against and reversal from the policies of the former Biden administration, and (4) the transactional style to exert pressure and cut deals. These features were seemingly reflected in executive actions announced on Day One of Trump 2.0. Their trends and momentum show no signs of stopping.

The world was shaken first by a series of executive orders announced by President Trump on February 1 to impose 25% tariffs on Mexico and Canada and an additional 10% tariff on China from February 4. The three are important trading partners for the United States. In particular, Mexico and Canada are U.S. neighbors that have built close relations with the United States over a long time. Furthermore, Canada is an important partner for the United States as a member of the Group of Seven club and a U.S. ally in the North Atlantic Treaty Organization. However, President Trump decided to impose the 25% tariffs under the International Emergency Economic Powers Act. The tariffs were designed to block a massive influx of illegal immigrants and drugs from Mexico and Canada that have caused enormous damage to the United States.

Mexico and Canada strongly objected to the move, threatening to impose equivalent retaliatory tariffs on the United States if 25% tariffs are introduced. As tensions between the United States and the two countries escalated, financial markets were shaken. If the United States and its two neighbors imposed 25% tariffs on each other and exchanged retaliatory measures to escalate their trade war, international trade in North America would shrink significantly. Their repercussions, including the impact of the additional 10% tariffs on China, would affect the global economy, exerting negative impacts on international trade and global economic growth. New York stock prices fell on January 31 in anticipation of the 25% tariff imposition and declined further on February 3 after the weekend. Uncertainties during this period caused global stock market turmoil including a drop in Japan's 225-issue Nikkei stock average.

Amid strong concerns about the possibility of retaliatory tariffs, both Mexico and Canada announced on February 3 that they would strengthen border security. Mexican President Claudia Sheinbaum said she would dispatch 10,000 troops to guard the border. Based on talks with the Mexican and Canadian leaders, President Trump announced that he would suspend the imposition of the tariffs and pause them for one month. Although the imposition of tariffs and the introduction of retaliatory tariffs were avoided at the last minute, the avoidance is temporary, leaving uncertainties about future actions and talks. In response to this news, U.S. stock prices rebounded from a plunge and closed only slightly lower. Regarding Canada, Washington had planned to impose a lower tariff rate of 10% for energy imports from Canada in light of the importance of energy exports from Canada to the United States. In particular, Canada exports more than 4 million barrels per day of crude oil to the United States, indicating that any high tariff on crude oil imports from Canada could boost gasoline prices in the United States.

While the tariffs on Mexico and Canada were postponed, President Trump left unchanged a plan to impose additional 10% tariffs on China from February 4. In response, Beijing raised a strong objection against the additional tariffs and immediately announced the introduction of retaliatory tariffs on selected U.S. products. Specifically, Beijing plans to impose 15% tariffs on U.S. coal and LNG and 10% tariffs on crude oil, agricultural machinery, and some others from February 10. The Chinese side has also revealed that it has filed a complaint with the World Trade Organization, claiming that the U.S. tariffs violate WTO rules. However, concerns about a rapid escalation of a trade war between China and the United States seem to have calmed down as market participants interpreted the Chinese response as restrained.

However, it is still important that the imposition of U.S. tariffs that had attracted global attention towards the start of Trump 2.0 has become real. President Trump has demonstrated that even U.S. allies could be subject to new tariffs, leading other countries around the world to gird themselves. If the U.S. tariff and trade war with China were to expand or escalate, it could lead to extremely serious problems for the global economy. In this sense, Trump 2.0 will continue to exert a great influence on the global economy and the international energy situation.

Regarding the international energy situation, President Trump issued another important executive order on February 4. It calls for restoring “maximum pressure” on Iran. Within the Trump 2.0 administration, the presence of hardliners against Iran is conspicuous. They may differ from anti-Iran hawks who gave priority to overthrowing the Iranian regime through military attacks under the first Trump administration. However, the current anti-Iran hardliners and the past hawks seem to share a tough stance in that they will not allow Iran to develop nuclear weapons. Naturally, the “maximum pressure” will include the strengthening of sanctions on oil exports as the main artery of Iran's economy.

Under the first Trump administration, Iran's oil exports fell sharply due to the maximum U.S. pressure. Although the sanctions on oil exports have not been lifted since then, Iran's oil exports have expanded and returned to normal through various loopholes. If maximum pressure is restored under Trump 2.0, however, oil exports will once again become the target for the pressure. The abovementioned loopholes include effective exports to China. Its response to the expected tightening of U.S. sanctions on Iranian oil exports will be an important point. While China's relevant move is attracting attention, some oil market participants speculate that in order to avoid an intensification or deepening of the confrontation with the United States and manage the situation, China may gradually reduce crude oil imports from Iran to demonstrate a conciliatory stance. If this speculation is correct, Iran's oil exports may decline towards the second half of the year.

If Iranian oil exports decline without any other major change, crude oil prices may naturally come under upward pressure. Given that this is not desirable for the U.S. economy and politics, there is no way that President Trump would like it. So, President Trump may request the OPEC-plus group of oil-producing countries, including Saudi Arabia, which is known as a key U.S. partner in the Middle East, to increase oil production. Then, it will be interesting to see how Saudi Arabia and other OPEC-plus countries will respond. In addition, attention will be paid to how Iran, in the face of its oil export fall, will respond to other Middle Eastern countries’ oil production expansion to make up for the

Iranian oil export decline and exert downward pressure on oil prices. Depending on Iran’s response, geopolitical risks may increase in the Middle East. President Trump may be willing to take advantage of the maximum pressure to win some kind of agreement with Iran. The weakening of Hamas and Hezbollah through Israeli military attacks and the collapse of the Assad regime in Syria have made the situation severe for Iran, shaking the Iran-led axis of resistance. That is why President Trump believes that it is important to exert “maximum pressure” on Iran now. If the maximum pressure is designed to prevent Iran's nuclear development, however, we cannot rule out a contingency scenario in which Iran's nuclear facilities would become the target of attacks by Israel. At the same time, President Trump's proposal to own and develop Gaza and relocate Palestinians in Gaza to other regions has provoked a backlash from Saudi Arabia and others in the Middle East, leading the situation to become full of uncertainties. The fate of President Trump’s policy on the Middle East will continue to be an important factor for the stability of the Middle East and the international energy situation.

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