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# REASSESSING TARIFF POLICIES:

# IMPLICATIONS OF U.S. RECIPROCAL TARIFFS FOR GLOBAL TRADE AND GEORGIA'S ECONOMY

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# THE STRATEGIC THINKING BEHIND U.S. TARIFF POLICY

In 2025, President Donald Trump reintroduced a sweeping tariff policy as a central element of his economic agenda. Framed as a "universal baseline tariff," the new measures impose a 10% duty on all imports and introduce even higher reciprocal tariffs on countries with large trade surpluses with the United States. These policies mark a continuation and an escalation of Trump's earlier protectionist approach during his first term. The reintroduction of tariffs under the Trump administration reflects a broader shift in the strategic orientation of U.S. trade policy. Rather than viewing tariffs solely as short-term tools for addressing specific trade imbalances, the administration has positioned them as part of a longer-term effort to reshape the U.S. economic structure and redefine the country's role in the global trading system. The approach combines economic, ideological, and political elements, with a strong emphasis on promoting domestic industry, asserting trade reciprocity, and recalibrating the principles that have guided U.S. trade policy in recent decades[1].

**A key component of this strategy is the emphasis on re-industrialization and economic rebalancing.** According to the administration, the liberalization of trade over the past several decades has contributed to the decline of U.S. manufacturing, the offshoring of production, and the erosion of the industrial base in many regions. The imposition of tariffs is framed as a corrective measure intended to reduce the country's dependence on foreign manufacturing and encourage investment in domestic production. In this context, tariffs are viewed not only as a deterrent to imports but as a mechanism to shift incentives, with the aim of strengthening the competitiveness of U.S.-based industries and enhancing economic resilience.

**Another central idea is that of reciprocal tariffs the notion that the U.S. should respond in kind to the trade barriers imposed by its major partners.** Proponents argue that many U.S. trade relationships have been characterized by asymmetry, "with American exporters facing significantly higher tariffs and regulatory barriers

[1] It should be noted that this description is based on the administration's stated objectives, and no claim is made here regarding the effectiveness of tariffs in achieving these goals.

abroad than those encountered by foreign companies operating in the U.S.". The Trump administration's approach seeks to "level the playing field" by using tariffs to pressure countries into reducing their own barriers and providing greater access to their markets. In this sense, tariffs are deployed as a form of economic leverage aimed at securing what the administration considers to be fairer and more balanced trade arrangements.

**The administration's strategy is also informed by a broader ideological perspective that departs from the principles of neoliberalism, which have shaped U.S. economic policy since the late 20th century.** Rather than prioritizing market efficiency and multilateral cooperation, the current approach emphasizes economic sovereignty, strategic autonomy, and national interest. This shift reflects a growing skepticism toward global economic integration and a belief that domestic economic security should take precedence over international commitments. While this perspective has been met with criticism from economists and international partners, it has found support among segments of the U.S. population that have experienced job losses and economic dislocation linked to trade liberalization.

Political considerations also play a role in shaping tariff policy. **The emphasis on reindustrialization and economic nationalism resonates with voters in key regions affected by industrial decline, particularly in the Midwest and Rust Belt.** The administration's messaging around tariffs has often framed them as a means of protecting American workers and restoring economic dignity to communities left behind by globalization. This political dimension has reinforced the administration's commitment to a more assertive trade stance, even in the face of domestic and international pushback.

In sum, the strategic thinking behind the Trump administration's tariff policy represents a multifaceted effort to reassert control over the direction of the U.S. economy. Tariffs are positioned as tools not only for correcting trade imbalances, but for pursuing broader economic and political objectives, including revitalizing domestic industry, reshaping trade relationships, and redefining the principles of U.S. engagement in the global economy.

# MEASURING THE TARIFFS

**President Trump's administration in 2025 unveiled a far-reaching tariff policy that fundamentally reshaped the U.S. approach to international trade.** At its core was a 10% baseline tariff on virtually all imported goods, with the exception of imports from Canada and Mexico, which were exempt under existing trade agreements. In addition, **higher reciprocal tariffs targeted countries maintaining significant trade surpluses with the United States.** These were applied across a wide spectrum of sectors, most notably steel, aluminum, automobiles, electronics, and pharmaceuticals.

**Rather than applying uniform rates, the administration opted for a highly sector-specific structure.** Steel, aluminum, and automotive imports were all taxed at a standardized 25% rate, reflecting their strategic and symbolic importance. Electronics faced a more complex treatment, with duties varying significantly by country of origin and supply chain dependencies. Meanwhile, pharmaceutical imports, particularly from select EU countries, received preferential treatment in the form of reduced tariff rates, likely due to their medical relevance and limited domestic substitutability.

The rollout of this new framework began on April 5, 2025, with the implementation of the 10% base tariff. On April 9, the reciprocal tariffs came into force. These country-specific tariffs were calculated using a formula that linked each nation's trade imbalance with the U.S. to its share of exports, producing final rates that, in some cases like China reached up to 54%. Further, a 20% duty was introduced on targeted Chinese imports, and previously suspended tariffs on steel and aluminum were reinstated earlier in March.

Officials framed the policy as a response to what they described as a "national emergency," arguing that foreign trade practices had systematically undermined U.S. industry, economic sovereignty, and even national security. The rhetoric emphasized the political and economic symbolism of reindustrialization, with key cabinet members presenting the architects of the plan as "patriotic" and "pro-business," despite broader concerns about market volatility.

**This marks a significant departure from the traditional U.S. trade posture.** Whereas prior decades favored multilateralism and the Most-Favored-Nation principle under the World Trade Organization, the 2025 approach embraced a transactional,

bilateral model grounded in perceived reciprocity and national interest. Though reminiscent of historical protectionist episodes, such as the Smoot-Hawley Tariff Act, the complexity and scope of the current measures represent a uniquely modern transformation in trade strategy, one aimed as much at diplomatic leverage as at economic protection.

The reciprocal tariff calculation employed by the Trump administration in 2025 was central to its effort to realign trade relationships. The method was straightforward. For each country with a trade surplus against the United States, officials calculated the reciprocal tariff by dividing the trade deficit by the country's total exports to the U.S., then halving the result to yield the final rate. For example, using this formula, the U.S. imposed country-specific tariffs on China that combined with the baseline 10% totaled as much as 54%[2].

**This numerical approach, as presented in the April 2, 2025, White House Fact Sheet, was not merely arithmetic.** According to the White House, behind this formula lay broader qualitative judgments about trade practices and market dynamics. As it is underlined in White House statement, the administration explicitly factored in non-tariff barriers, product-level price sensitivity, and perceived distortions such as state subsidies, intellectual property violations, and currency manipulation. However, the final version of the formula (tariff rate = trade deficit / total exports, divided by two) was a simplification derived after parameter values such as price elasticity and tariff pass-through effectively canceled each other out. These adjustments significantly influenced final outcomes: trading partners like Germany, Japan, and China faced much higher effective tariff rates, especially when the new reciprocal tariffs were layered on top of preexisting duties.

Importantly, the tariff policy moved beyond traditional economic rationale and into the realm of geopolitical signaling. The administration deployed tariffs not just to equalize trade balances but to penalize what it regarded as unfair or exploitative practices. In doing so, it effectively abandoned the multilateral norms that had governed global trade for decades in favor of a highly individualized, interest-driven model. The result was not only a reconfiguration of trade incentives but also a fundamental shift in how the U.S. defined fairness, reciprocity, and economic sovereignty on the world stage.

[2] Executive Office of the President of the United States

# EVALUATING THE FIRST WAVE: TRUMP'S FIRST PRESIDENTIAL TERM (2017–2020)

One of the central claims underpinning the Trump administration's trade policy during 2017–2020 was that tariffs would reduce trade imbalances, revitalize U.S. manufacturing, and ultimately benefit American workers. However, **evidence from multiple evaluations indicates that the results were, at best, uneven and often counterproductive.**

**Trump's tariffs did little to narrow the U.S. trade deficit.** Although they reduced imports from China, they failed to address the macroeconomic fundamentals behind trade imbalances—namely, the U.S. savings and investment gap. According to Pettis (2021), tariffs may shift the bilateral trade deficit with China but do not reduce the overall U.S. current account deficit. Trade simply reroutes through other countries, resulting in increased deficits with the rest of the world while the fundamental imbalance persists. Gertz (2020) likewise points out that despite the administration's focus on bilateral trade deficits, the overall U.S. trade balance remained elevated during Trump's presidency.

**Regarding employment, the administration argued that tariffs would restore jobs in manufacturing sectors threatened by foreign competition. There is some evidence that this was partially true in a narrow set of industries.** For instance, the steel and washing machine sectors saw job creation following the implementation of protective tariffs. Gertz (2020) notes approximately 1,800 new jobs were created in the washing machine industry alone, while steel tariffs supported several thousand positions.

**However, these gains were eclipsed by losses elsewhere.** Many American industries rely on imported intermediate inputs, and tariffs raised production costs in these sectors, leading to reduced output and job losses. In addition, trading partners retaliated with tariffs targeting U.S. exports, harming farmers and exporters. According to Tankersley (2019), U.S. consumers paid over $800,000 in higher prices for every job created by the washing machine tariffs. In total, an estimated 245,000 jobs were lost due to the trade war, according to a U.S (Oxford Economics, 2021).

This distributive dynamic, where some narrowly defined industries gain at the expense of broader economic sectors, highlights the inherent trade-offs in Trump's approach. Workers in protected sectors may have seen short-term gains, but these came at the cost of increased consumer prices, reduced export access, and lower competitiveness across much of the economy. As Pettis (2021) emphasizes, any gains in employment need to be balanced against losses through indirect macroeconomic channels, such as suppressed wages and increased household debt.

Beyond employment and trade balances, **Trump's trade policies also had macroeconomic consequences that undermined some of the administration's stated goals.** While GDP growth during the early Trump years was buoyed by fiscal stimulus, tariffs themselves contributed to a modest drag on growth. The imposition of tariffs led to increased costs for consumers and businesses, with limited offsetting benefits in terms of domestic investment or productivity growth.

Gertz (2020) highlights that American households bore the burden of tariffs, not foreign exporters as the administration often claimed. Cerutti et al. (2019) and Amiti et al. (2019) showed that **price increases due to tariffs were passed through almost entirely to consumers, undermining household purchasing power and feeding into inflationary pressures.** JP Morgan estimated the tariffs would cost U.S. households roughly $1,000 per year in increased costs by 2019. The effects were uneven across sectors. Import-competing sectors, such as steel and certain electronics, benefitted temporarily from reduced foreign competition. However, export-oriented sectors and those integrated into global supply chains such as automotive manufacturing, agriculture, and aerospace suffered significant losses. The Peterson Institute's detailed trade war timeline documents retaliation from major partners like China, Canada, and the EU, which targeted politically sensitive exports like soybeans, whiskey, and motorcycles (Bown & Kolb, 2025).

In addition, firms affected by retaliatory tariffs faced declining sales and investment uncertainty. In response, the U.S. government implemented subsidies for farmers, a partial acknowledgment that the tariffs had unintended negative consequences on domestic producers. These subsidies, however, were costly and unsustainable, effectively replacing lost trade revenues with taxpayer-funded support (Bown & Kolb, 2025).

**One of the more damaging aspects of Trump's trade policy was the erosion of predictability in international economic relations.** As noted by Gertz (2020), Trump's erratic and unilateral use of tariffs, even against allies, undermined the U.S.'s reputation as a reliable trade partner. This unpredictability discouraged long-term investment and damaged multilateral efforts to address systemic issues like Chinese industrial subsidies or digital trade standards.

In conclusion, while the Trump administration's trade policies achieved some limited sectoral gains, they imposed broader economic costs that ultimately undermined U.S. economic performance. Tariffs failed to reduce the overall trade deficit, produced minimal net employment gains, and increased costs for consumers and businesses alike. The benefits to workers in protected industries were real but came at a disproportionate cost, both economically and strategically.

# THE NEW ROUND OF TARIFFS: IMMEDIATE GLOBAL IMPACTS

The announcement and implementation of the latest round of U.S. tariffs have triggered swift and uneven responses across global markets, underscoring the interconnected nature of the global economy and the high sensitivity of markets to trade policy shocks. From equity markets in New York and Frankfurt to commodity exchanges in Asia, investors, businesses, and consumers have responded to rising protectionism with a mix of alarm and strategic realignment.

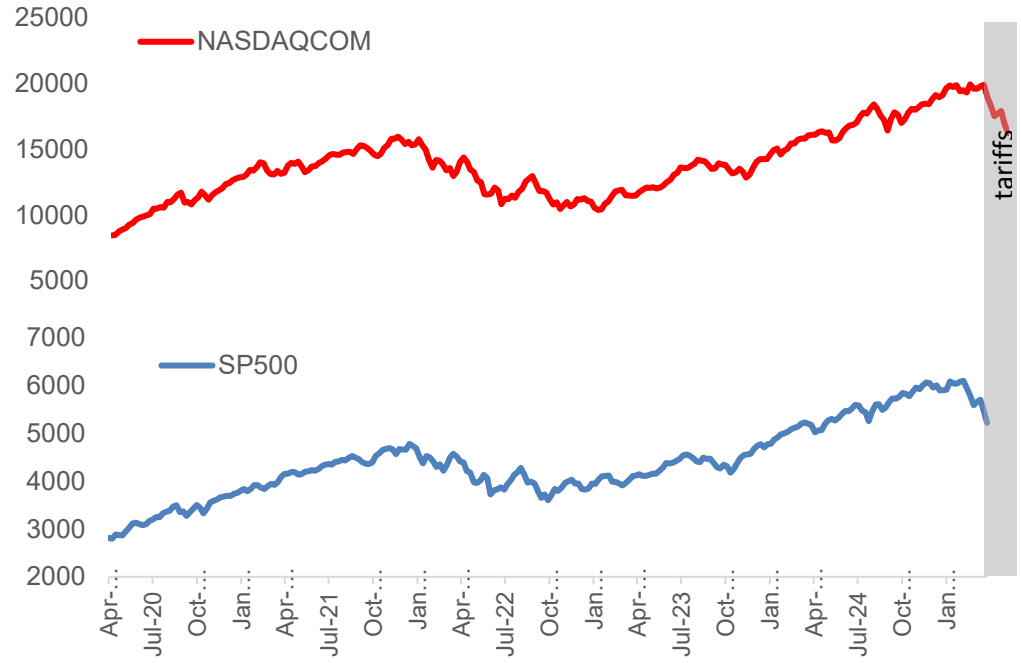
**The most immediate impact of the new tariff measures was felt in global stock markets**, where uncertainty and shifting expectations around profitability, supply chains, and geopolitical stability fueled volatility. In the United States, the S&P 500 and NASDAQ declined, as investors reacted to anticipated margin compression in globally integrated sectors like manufacturing and technology (Figure 1). Firms reliant on imported inputs, especially steel, aluminum, and electronic components, saw share prices fall due to rising production costs and the growing risk of retaliatory tariffs from major trade partners.

Meanwhile, in Europe, the Stoxx 600 index rose by 12%, bolstered by a weaker dollar and a sharp rise in defense-sector equities. European investors interpreted the tariffs as a potential boon for regional manufacturers and defense contractors,

particularly as EU governments signal higher defense spending and reduced reliance on American imports. This positive regional divergence reveals how trade tensions can have asymmetrical effects across markets, depending on sectoral exposure and monetary trends.

**In Asia, markets responded with caution.** Export-heavy economies like South Korea, Japan, and China saw tech and industrial stocks dip amid fears of a broader trade decoupling. China's exchanges experienced modest but notable declines, especially among agricultural importers and technology assemblers, which are directly exposed to U.S. tariffs and face additional regulatory uncertainty. However, some Asian firms with diversified sourcing networks or local manufacturing capacity showed resilience, buffering the regional impact.

**Figure 1.** Stock market reaction to the tariffs




*Source: FRED*

**The tariff announcements have also sparked significant volatility in commodity and consumer prices.** Key agricultural commodities—especially soybeans, pork, and corn—experienced rapid price swings as China and other trading partners signaled retaliatory measures targeting U.S. exports. American farmers faced immediate challenges: exports plummeted, prices fell, and uncertainty spread across the agricultural value chain, including seed suppliers and equipment



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manufacturers. Some firms reported canceled orders and deferred investments due to the abrupt shift in market conditions.

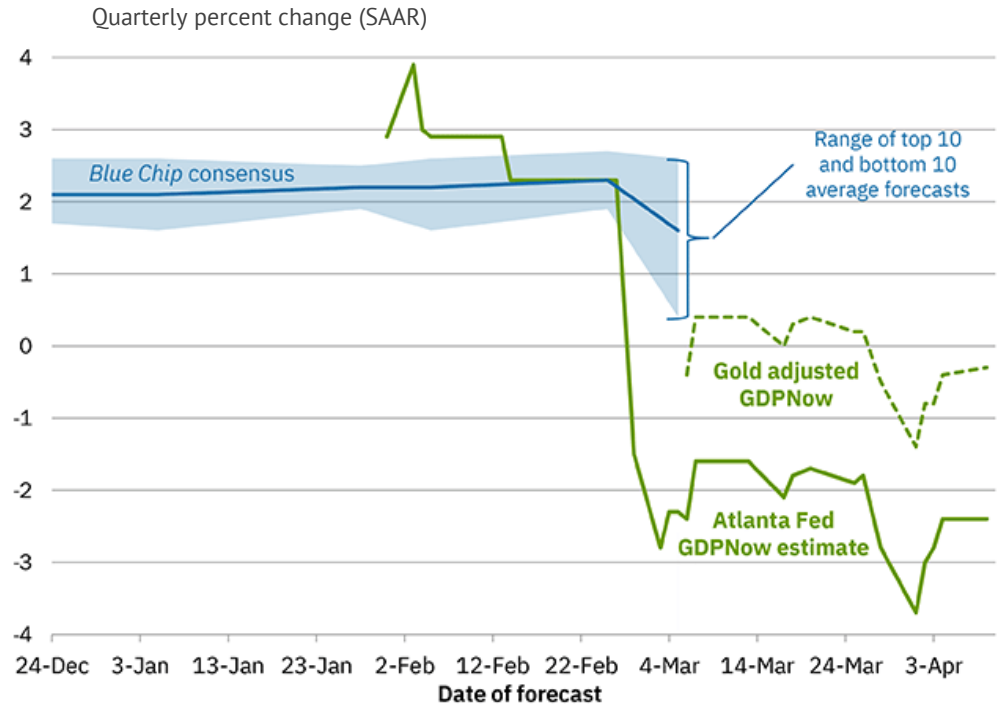
**Consumer prices have also shown early signs of inflationary pressure.** Tariffs on finished goods such as appliances, electronics, and certain food products have begun filtering through to retail shelves. According to both Warren and Kirsch, much of the tariff burden is passed on to consumers, especially in sectors with limited domestic alternatives. The result has been noticeable price increases in affected categories, compounding existing inflation dynamics and shifting household purchasing behavior—particularly among lower-income consumers already squeezed by rising housing costs.

The inflationary effects are not confined to directly taxed items. As tariffs raise the cost of imports, domestic producers often respond by increasing their prices in kind, creating an "umbrella effect" that drives up costs even in sectors not directly targeted by tariffs. These developments have contributed to broader price instability and may accelerate further depending on the persistence of trade tensions.

**The new tariff regime has cast a long shadow over U.S. economic growth prospects.** GDP forecasts for the first quarter of 2025 suggest potential negative growth, a sharp reversal from previous expectations (Figure 2). This pessimism stems from reduced capital investment, delayed hiring, and broader uncertainty that discourages long-term strategic planning among firms.

**Business confidence has deteriorated**, especially in manufacturing and export-oriented industries. Companies report difficulties in pricing, procurement, and regulatory planning, with many reallocating resources toward supply chain mitigation, trade compliance, and alternative sourcing strategies. These indirect costs, while less visible on earnings reports, represent a significant drag on corporate efficiency and profitability. According to Kirsch, even firms that successfully adapt by shifting supply chains often incur substantial expenses that offset any short-term gains.

**Figure 2.** Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1




*Source: Atlanta Fed*

Alongside lower growth expectations, inflation risks are rising. The short-term inflation outlook has increased to 4.9%, with clear evidence that tariffs are feeding into consumer price indices. These inflationary pressures complicate monetary policy: the Federal Reserve may be forced to consider interest rate hikes even as economic momentum slows, raising the spectre of stagflation.

**Consumer confidence metrics reinforce the fragility of the current economic moment.** The University of Michigan's Consumer Sentiment Index has dropped to 57.9, marking a two-year low. Households are growing increasingly concerned about purchasing power, job stability, and the direction of government policy. While higher-income groups have maintained spending patterns, lower-income households are tightening budgets, particularly for discretionary goods such as travel, vehicles, and electronics.

Moreover, **structural indicators such as the yield curve suggest longer-term concerns.** The curve remains flat, with periodic inversions (historically reliable predictors of recession) raising alarms among economists and investors alike. These signals, when combined with rising costs and weakening demand, point

toward an elevated risk of economic downturn if policy clarity and global coordination are not swiftly restored.

# GLOBAL TRADE RECONFIGURATIONS AND SUBSTITUTION EFFECTS

## CHANGING TRADE PATTERNS

The introduction of broad U.S. tariffs in 2025 triggered rapid adjustments in global trade flows, as exporters sought to mitigate the impact of rising costs and reduced access to the American market. One of the most significant shifts occurred in China, where manufacturers began diverting exports, especially in industrial goods such as solar panels and electric vehicle components, from the U.S. to alternative destinations, primarily in the European Union. This reorientation has already strained EU markets, prompting concerns over price dumping and overcapacity in strategic sectors. The European Commission has acknowledged that a surge in diverted Chinese exports risks destabilizing its internal market, particularly as demand remains stagnant in key industries[3].

Simultaneously, the European Union has responded to the U.S. tariffs with countermeasures, approving phased retaliatory tariffs covering €22 billion worth of American exports. These include key sectors such as agricultural goods, industrial machinery, and processed food products[4]. EU leaders have emphasized the need to uphold multilateral trade norms while preparing safeguards against redirected exports from third countries, especially China.

In Southeast Asia, the Association of Southeast Asian Nations (ASEAN) has begun coordinating a regional response. Member states, particularly Vietnam, Malaysia, and Indonesia, are reassessing trade portfolios to reduce exposure to U.S. tariffs. ASEAN's 2025 economic ministers' communiqué emphasized diversification into South-South trade partnerships, with growing interest in expanding ties with Latin America, Africa, and the Middle East[5]. Some ASEAN-based manufacturers have also

[3] Business Insider

[4] Boston Consulting Group

[5] ASEAN Briefing

accelerated efforts to reposition supply chains for goods now considered sensitive under the new U.S. tariff regime.

This pattern is reinforced by a broader recalibration of global trade networks. Multinational corporations and exporters, especially in Asia, are actively pursuing alternative markets and reducing their dependence on the U.S. economy. According to a 2025 World Economic Forum report, the tariff shock has intensified the pivot toward a multipolar trade order, in which economic alignment is increasingly dictated by regional resilience and strategic autonomy rather than access to U.S. markets[6].

## SUBSTITUTION IN PRACTICE

The concept of trade substitution (replacing one trading partner, supply source, or market with another) has deep historical roots and has played a key role in shaping global trade flows. Governments and firms alike have long relied on substitution strategies in response to changing tariff regimes, geopolitical shifts, and market disruptions.

Historically, Import Substitution Industrialization (ISI) was a dominant approach in the Global South during the mid-20th century. Countries like India, Brazil, and Argentina introduced high tariffs, quotas, and subsidies to reduce reliance on imported manufactured goods and develop domestic industries. This strategy emerged partly in response to unfavorable trade terms and dependence on industrialized nations. While ISI led to significant industrial development in the short term, over time, it revealed structural inefficiencies, such as lack of competition, low productivity, and limited export diversification. Consequently, by the 1980s and 1990s, many of these economies shifted towards more open trade regimes and export-oriented growth models (Rodrik, 2001; NBER, 2020).

Another classic example is the Smoot-Hawley Tariff Act of 1930, which significantly raised U.S. tariffs on hundreds of imports in an attempt to protect domestic industries during the Great Depression. In retaliation, trading partners including Canada and several European countries imposed their own tariffs, prompting a dramatic decline in international trade estimated to have fallen by nearly 65% by 1933 (Irwin D. A., 2017).

[6] World Economic Forum

In contrast, export-led substitution became a hallmark of East Asian economies in the post-WWII period. Countries like South Korea, Taiwan, and later China prioritized integration into global value chains, with state-led investment in strategic sectors like electronics and automotive manufacturing. These strategies relied on shifting from import reliance to export dominance by identifying competitive niches in global markets a reversal of ISI logic, but still a form of economic substitution (Robert, 2003).

Fast forward to the 21st century, the principles of trade substitution remain highly relevant. The U.S.-China trade war (2018–2020) provides a contemporary example of rapid substitution in response to tariff escalation. As tariffs rose on hundreds of billions of dollars in bilateral trade, Chinese exporters diverted their goods to alternative markets such as Southeast Asia, the EU, and Africa. Simultaneously, U.S. firms began sourcing electronics, apparel, and machinery from Vietnam, Mexico, and India instead of China. According to UNCTAD (2019), U.S. imports from China fell by $35 billion in 2019, while Vietnam's exports to the U.S. rose by over 36% in the same year.

ASEAN countries have increasingly emerged as substitutes in global supply chains, particularly in electronics, semiconductors, and textiles. As tariffs and political tensions between the U.S. and China escalated, manufacturers such as Samsung, Apple, and Nike reallocated parts of their production to countries like Vietnam, Indonesia, and Thailand. This trend reflects not only tariff avoidance but also risk diversification and labor cost. Latin America has also sought to reposition itself as an alternative supplier to both U.S. and Chinese markets. Mexico, under the USMCA framework, has strengthened its role in automotive and electronics production for the U.S. market, while Brazil and Argentina have pursued bilateral trade agreements with China and the EU to reduce exposure to U.S. protectionism (ECLAC, 2020).

In 2025, the logic of trade substitution was once again thrust to the forefront of global commerce following the re-election of President Donald Trump and the immediate imposition of sweeping new tariffs. The administration's announcement of a 25 percent tariff on most goods imported from Canada and Mexico—excluding Canadian energy, which faces a 10 percent tariff—and a simultaneous 10 percent increase on Chinese imports marked the most significant tax increase in the United States in over three decades. These measures are expected to cost the median U.S. household over $1,200 annually, primarily

through higher consumer prices and constrained product availability. The new tariff regime reignited substitution strategies on both sides of the border. U.S. firms began accelerating their search for alternative suppliers beyond North America and China, increasingly turning to partners in Southeast Asia, Eastern Europe, and South America. Early data suggest a surge in U.S. import orders from countries like Vietnam, India, Poland, and Colombia, with notable shifts in sectors like apparel, electronics, and auto parts. Meanwhile, Mexican and Canadian exporters have also redirected shipments toward the EU and Asian markets in response to diminished competitiveness in the U.S.[7].

As in previous episodes, retaliation followed swiftly. Canada and Mexico introduced countermeasures targeting U.S. agricultural products, machinery, and consumer goods, while the European Union unveiled a phased response aimed at approximately €21 billion in U.S. exports. In contrast to China's direct tariff mirroring, the EU adopted a strategic escalation approach, focusing on sectors with high substitution potential and political leverage. Initial EU measures targeted lower-sensitivity goods like fruit juice and textiles, but the next waves are set to impact steel, automobiles, and white goods—raising the stakes for transatlantic supply chains[8].

These shifts signal a broader trend: trade substitution is no longer simply a reactive strategy—it has become a structural feature of modern globalization. The rise of new trade barriers, coupled with increased use of retaliatory tools such as the EU's anti coercion instrument, has made agility and redundancy essential in supply chain design. Unlike previous decades where the goal was efficiency and scale, the post-2025 trade landscape is defined by resilience, flexibility, and political hedging. The result is a more fragmented and politicized trading system, where substitution is not only driven by economics but by strategic calculus. As the cycle of tariffs and counter-tariffs continues to unfold, trade flows are increasingly shaped not just by comparative advantage, but by access, alignment, and adaptability in a world of rising geopolitical risk.

[7] Peterson Institute for International Economics

[8] Boston Consulting Group

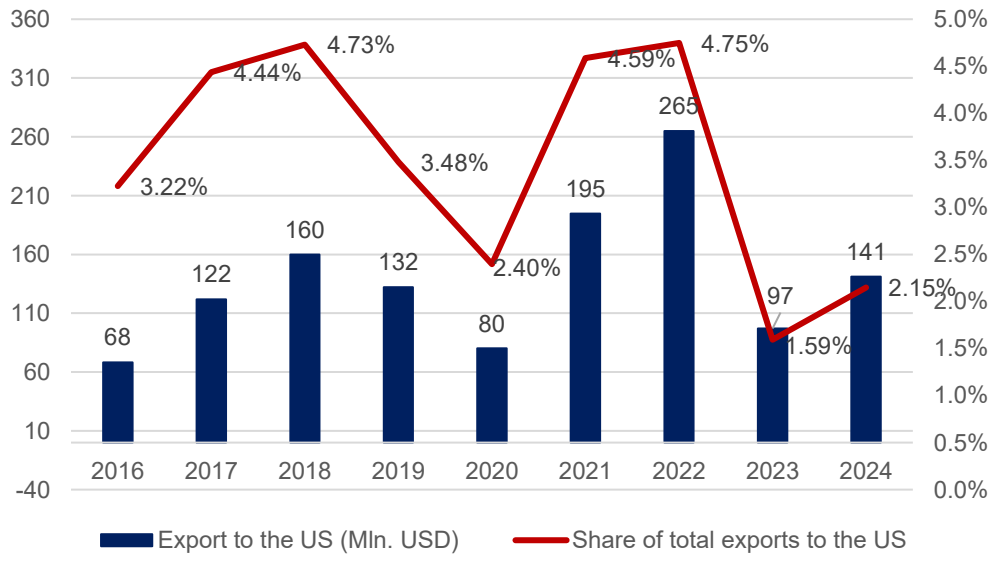
# COUNTRY CASE STUDY: GEORGIA

## DIRECT EFFECTS OF TARIFFS ON GEORGIA

**Although Georgia's overall exposure to U.S. tariffs is relatively limited, certain product categories demonstrate a high concentration of exports to the U.S. market and may be vulnerable to trade disruptions under the new tariff regime.** In 2024, Georgia exported $141 million worth of goods to the United States, accounting for 2.1 percent of total exports (Figure 3). However, within this modest share, a small number of high-value products make up the majority of trade volume, exposing select sectors to potentially significant tariff-related risks.

**The largest export category by value was ferro-alloys**, totaling $90.3 million in exports to the U.S., which made up 28 percent of Georgia's global ferro-alloy exports. This concentration underscores the importance of the U.S. as a market for Georgia's metallurgical sector. Given that ferro-alloys are widely used in steel production, even moderate tariffs could disrupt sales channels and prompt U.S. buyers to seek alternative suppliers from countries with more favorable trade terms.

**Figure 3.** Georgia's exports to the US




*Source: Geostat*

**Next in value are Tubes, pipes and hollow profiles, seamless, of iron or steel**, with $8.4 million exported to the U.S., accounting for 28.6 percent of Georgia's total exports of these products, which are typically used in construction, energy infrastructure, and industrial machinery. Tariffs on steel-related goods were already in place under earlier Section 232 measures and renewed or increased duties under Trump's 2025 policy could further reduce competitiveness for Georgian producers in the U.S. market.

**Exports of aircraft parts** reached 7.2 million USD, with a striking 82.5 percent directed to the U.S. market. This level of concentration makes the aerospace component industry especially vulnerable to even modest tariff increases or tightening of procurement requirements. Given the often long-term and highly regulated nature of aerospace contracts, changes in trade policy may lead to renegotiation or reallocation of supply contracts, particularly if tariffs raise compliance costs or delivery risks.

Although **wine of fresh grapes** is a central part of Georgia's export identity, its exposure to the U.S. market remains limited in relative terms. In 2024, the United States accounted for 7.1 million USD in exports to the United States in 2024, comprising 2.6 percent of Georgia's global wine exports. However, this modest share conceals the wine's positioning: the average export price of Georgian wine to the U.S. was $6.0 per liter, more than double the global average export price of $2.9. This price premium suggests that Georgian wine occupies a high-end market segment in the United States, particularly in premium and organic niches[9]. Unlike products such as ferroalloys, which are likely to remain exempt, wine could fall under the scope of new U.S. import tariffs. Such duties may threaten the continuation of Georgia's recent export growth to the American market and could disrupt the emerging momentum of Georgian wine abroad. In markets like the U.S., tariffs are often fully passed on to retail prices, meaning that the cost burden typically shifts to the consumer. On the other hand, since Georgian wine in the U.S. is already positioned in the premium price range, American consumers may be less sensitive to moderate price increases, potentially softening the impact of tariffs on demand.

A small but notable category is **hydrogen, rare gases, and other non-metals**, for which 5.4 million USD worth of exports were directed to the U.S., comprising a

[9] TBC Capital

remarkable 91.3 percent of Georgia's global trade in this category. This product group is highly specialized and often involves industrial or scientific applications. Tariff changes here could have immediate consequences for exporters due to the lack of alternative markets and the specificity of end-use applications.

Lastly, **fruit and vegetable juices** reached 4.7 million USD in exports to the United States, representing 21.6 percent of Georgia's total juice exports. These products often compete on both price and quality and are sensitive to tariff changes that can tip the balance in favor of lower-cost suppliers from Latin America or Asia.

Taken together, these six products accounted for a significant share of Georgia's exports to the U.S. and illustrate how even modest tariff increases can disproportionately affect a narrow set of high-value or high-dependence goods. Beyond these headline figures, many of the listed products pass through Georgia's free industrial zones, where goods may be assembled, labeled, or repackaged before re-export. If U.S. trade authorities question the origin or value-added status of these goods, or tighten rules-of-origin enforcement, the viability of re-export operations may come under pressure.

In short, **while Georgia's exposure to the U.S. market is small in aggregate terms, the concentration in a few key products, the high export shares in sensitive sectors**, and the function of Georgia as a re-export platform mean that the country is not insulated from the risks posed by the new U.S. tariff framework. Even small frictions introduced at the U.S. border could reverberate through high-dependence sectors, especially where limited alternative markets exist.

In addition to export vulnerabilities, **Georgia may also experience direct effects through its import structure and transit volumes.** In the short term, the new U.S. tariff policy is likely to negatively affect Georgia's foreign trade and the volume of goods transiting through its territory. One of the most critical areas of potential disruption is the automobile sector. The United States is Georgia's leading supplier of used motor vehicles. In 2024, Georgia imported approximately 1.92 billion USD worth of cars from the United States, which accounted for 54 percent of the country's total motor vehicle imports. As the new tariffs constrain automobile supply chains and raise costs for U.S.-manufactured vehicles, prices are expected to rise domestically within the United States. These price increases are also likely to affect used car prices, which form the backbone of Georgia's car import market. In the short term, this will likely increase the cost of imported vehicles in Georgia

and may slow down trade in re-exported cars via Georgia's free industrial zones. The resulting price adjustments and supply uncertainties could reverberate across local auto markets and the logistics sector, both of which are highly sensitive to shifts in vehicle availability and cost structure.

## INDIRECT TRANSMISSION CHANNELS

While the direct effects of the new U.S. tariff regime on Georgia are limited to select sectors, broader economic impacts may emerge through a range of indirect channels. These second-order effects, though harder to quantify in the short term, could influence Georgia's economy through shifts in global demand, remittance flows, investment patterns, and regional supply chain integration.

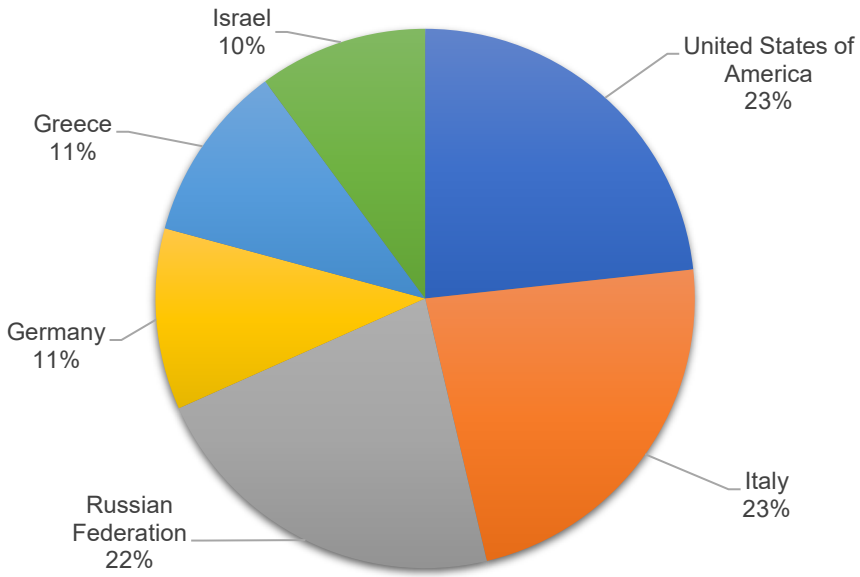
**One of the primary channels is tourism and hospitality**, a sector highly sensitive to global economic trends. A global slowdown triggered by escalating trade tensions, particularly between major economies like the United States, China, and the European Union, could dampen international travel and reduce consumer spending on tourism-related services. Although U.S. citizens make up only a modest share of Georgia's tourist arrivals (0.8% of these visitors were from the U.S.), broader regional effects could spill over, especially if European visitors (88% of these visitors were from Europe) are affected by weakened growth or higher uncertainty[10].

Another critical vector is **remittances**, which play a non-negligible role in Georgia's balance of payments and household income stability. The United States is the largest single source of remittance inflows to Georgia, accounting for 17 percent of the total in 2024[11] (Figure 4 and 5). Although remittances have historically proven relatively resilient, they can still be affected by economic disruptions in host countries. If U.S. labor markets slow due to reduced global trade volumes or sector-specific downturns in industries such as manufacturing, construction, or logistics, where many Georgian emigrants are employed, remittance volumes could decline. Even marginal reductions in remittance income can have amplified effects at the household level, particularly in rural regions where such transfers support daily consumption, debt servicing, and small-scale investment in agriculture or services.

[10] Georgian National Tourism Administration

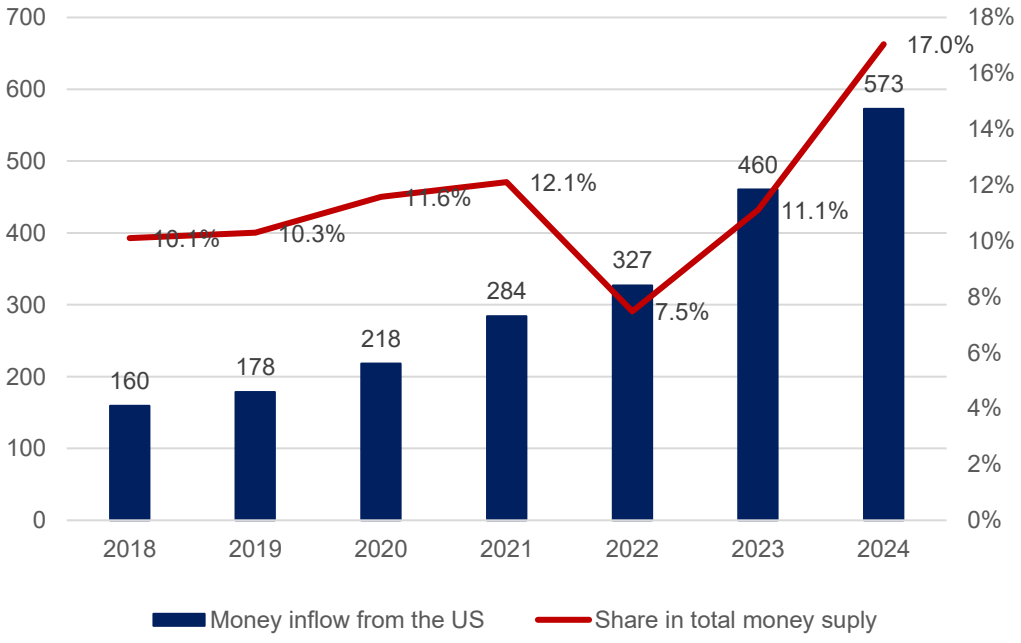
[11] National Bank of Georgia

**Figure 4.** Share of Total Money Inflow by Country in 2024




*Source: National Bank of Georgia*

**Figure 5.** Remittances from the U.S. (Mln. USD)




*Source: National bank of Georgia*

In terms of **capital flows**, the investment climate could also shift. An extended period of tariff-driven uncertainty may weigh on investor sentiment in the broader region, particularly if firms start reassessing the stability of existing supply chains. Georgia, positioned at the crossroads of Europe and Asia, has in recent years marketed itself as a logistics and manufacturing hub for companies seeking to diversify their supply chains. A prolonged global trade conflict could disrupt this strategy in two directions. On one hand, nearshoring trends might favor Georgia as a low-cost, stable location for light manufacturing and warehousing. Furthermore, increased uncertainty and cost volatility may delay or redirect foreign direct investment (FDI) flows, especially in export-oriented sectors like logistics, automotive assembly, or electronics.

Lastly, **supply chain integration** may be affected indirectly. Georgia's economy is increasingly linked to regional production networks, particularly in sectors like automotive parts, textiles, and processed food. Disruptions to global trade, especially if they affect key partners such as Turkey, Germany, or China, could interrupt input supply, increase lead times, or reduce the competitiveness of Georgian exports that depend on imported intermediate goods. In addition, logistics delays and increased global demand for alternative shipping routes could reduce Georgia's price advantage as a transit corridor, especially if port, rail, or customs capacity is not rapidly upgraded in response.

# CONCLUSION AND POLICY RECOMMENDATIONS

The 2025 reintroduction of reciprocal tariffs by the United States has reshaped the global trade landscape and triggered a wave of re-evaluation among trading partners. While the full economic consequences will take time to materialize, early indications suggest that tariff measures are being deployed not only as short-term corrective tools, but as elements of a broader strategy to realign global supply chains, protect domestic industries, and assert economic sovereignty. However, these same policies carry risks of unintended consequences, particularly for small, open economies such as Georgia, which are embedded in international trade through both direct exports and regional transit functions.

For the United States and other large economies, there is a need to reassess the long-term utility of reciprocal tariffs as a foundation of trade policy. While such measures may yield short-term political gains or sector-specific protections, they risk accelerating global trade fragmentation and undermining multilateral institutions. In a world increasingly reliant on cross-border supply chains and synchronized investment flows, unilateral tariff strategies may prove to be counterproductive over time, leading to inefficiencies, retaliatory measures, and systemic uncertainty.

For smaller economies like Georgia, the policy implications are more immediate. The current tariff regime exposes Georgia's reliance on a narrow set of export goods and markets, as well as its vulnerability to supply chain disruptions beyond its control. To enhance resilience, a strategic pivot is required. This includes the diversification of export markets and products, with particular attention to goods that are less price-sensitive and more value-added. Georgia should also invest in strengthening its position within regional trade frameworks, including deepening economic ties with the European Union, the Black Sea region, and neighboring South Caucasus countries. Leveraging regional infrastructure projects and positioning the country as a reliable logistics hub can partially offset the risks associated with declining access to distant markets like the United States.

Finally, global institutions and mid-sized economies alike should prioritize international coordination to avoid further trade fragmentation. Reviving dialogue

within the World Trade Organization, expanding regional trade agreements, and enhancing cooperation on supply chain security and digital trade can contribute to a more stable and equitable global trading environment. In the absence of such coordination, smaller economies will remain disproportionately exposed to the volatility and asymmetries of great power trade conflicts. In this evolving context, countries like Georgia must strike a careful balance between seizing new opportunities created by shifting trade flows and insulating themselves from external shocks. This will require a pragmatic and forward-looking trade strategy, backed by diplomatic engagement, institutional reform, and private sector adaptation.

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