

The reshoring to the United States: tariffs, tax incentives, and global impact

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Abstract

The reindustrialization of the United States in recent years has been driven by a strategic combination of tariffs and targeted tax incentives. Tariff measures, particularly on steel, aluminum, and selected imported goods, aimed to protect domestic manufacturing from foreign competition and reduce trade deficits. Simultaneously, federal and state-level tax credits and subsidies—such as the Advanced Manufacturing Investment Credit, production-based incentives, and R&D tax benefits—have stimulated investment in high-tech and clean energy manufacturing. This dual approach seeks to revitalize domestic production, enhance technological innovation, and secure supply chains, while also presenting challenges such as potential trade tensions and increased production costs. Overall, these policies reflect a deliberate effort to strengthen the U.S. industrial base and foster long-term economic competitiveness.

Keywords: customs, tax, subsidies, reshoring, international trade

1. Introduction

Over the past several decades, industrial production in the United States has undergone profound transformation, driven by globalization, the relocation of manufacturing capacity to countries with lower labor costs, and growing competition from Asian economies. These changes have weakened the domestic manufacturing base, reduced employment in the industrial sector, and increased reliance on imports in strategically important areas.

In response to these challenges, U.S. economic policy in recent years has increasingly relied on fiscal instruments—primarily tax incentives and subsidies—as key mechanisms for revitalizing domestic production. Against the backdrop of rising geopolitical tensions and strategic rivalries, the return of industrial production to the United States has become a central issue of contemporary U.S. economic policy. Initiatives such as the CHIPS Act and the Inflation Reduction Act, combined with a more aggressive tariff policy toward China, aim to strengthen domestic manufacturing, reduce dependence on global supply chains, and revive critical sectors (U.S. Department of Agriculture, 2020).

Reindustrialization is also being supported through other measures. Massive federal investments are directed toward revitalizing the industrial sector, including optimization of workforce investment to align skills with the demands of reindustrialization. Industry redesign is being carried out in collaboration with key stakeholders, with a strong emphasis on technological progress. Digital transformation and digital sustainability are considered critical for shaping the next phase of industrial renewal (Vakhshouri, 2017). This combination of federal investment, geopolitical shifts, and technological innovation is intended to encourage the private sector to invest more in the United States. This paper analyzes U.S. tariff and tax measures in this context and examines their potential implications for Serbia.

2. U.S. tariff measures

In recent years, the United States has implemented significant changes to its tariff policies in response to global economic challenges, shifts in trade dynamics, and domestic political priorities. These measures are designed to protect the domestic economy, strengthen national security, and improve trade balances. During the COVID-19 pandemic, tariff policies were further adapted to address supply chain disruptions and changes in demand.

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New legislative frameworks, such as the Infrastructure Investment and Jobs Act, have encouraged stricter oversight of import and export procedures while ensuring compliance with international trade agreements. Moreover, the U.S. has increasingly relied on tariffs as an economic policy tool, including the introduction of additional duties on goods from countries considered competitive or engaging in unfair trade practices against American producers.

On April 2, 2025, Trump declared “Liberation Day” and signed an executive order introducing:

- A basic 10% tariff on all imported products from countries not subject to other sanctions.
- Additional reciprocal tariffs ranging from 11% to 50% on products from countries with the largest trade deficits with the U.S., including China, Mexico, Canada, and the EU. (Min, 2025).

These measures were enacted under the International Emergency Economic Powers Act (IEEPA) and sparked trade tensions with Canada and Mexico. These tariff measures are intended not only to protect domestic industries but also to counteract unfair trade practices and improve conditions for U.S. consumers. In this context, it is important to monitor how these policies evolve and shape future U.S. trade relations with the rest of the world.

By increasing tariffs on Chinese products, the U.S. seeks to protect domestic manufacturers, particularly in sectors such as electric vehicles, semiconductors, and steel. Tariffs often reach up to 100% and are accompanied by measures such as anti-dumping policies and Buy American provisions that favor domestic firms in public procurement. In empirical study, the SMART model was applied to illustrate the effects of the U.S.–China tariff conflict. It was found that the U.S. trade balance improved by approximately 0.21% of real GDP, while about 0.22% of imports were diverted to other countries. (Žemaitytė & Urbšienė, 2020). Through an analysis of trade data between 2017 and 2022, another paper shows that although there is a tendency for trade activity to shift away from China, global supply chains remain deeply integrate. (Jurnal of international economics, 2024)” The IMF workin paper is investigating complex macroeconomic influens on economy. Bayesian SVAR models are used to quantify the impact of tariff shocks and trade policy uncertainty on the United States. It concludes that tariff shocks significantly reduce trade, investment, and overall output. It is also noted that repealing the 2018/19 measures could raise economic activity by about 4% over a three-year period.

Fiscal officials (e.g., Treasury Secretary Bessent) have emphasized that tariff measures aim to restore U.S. manufacturing capacity, especially in sectors such as medical equipment and shipbuilding. The focus of reindustrialization is on shipbuilding, critical minerals, batteries, artificial intelligence (AI), semiconductors, pharmaceuticals, the automotive sector, and the semiconductor industry.

The U.S. also prescribes tariff exemptions and relief measures. Recently enacted exemptions cover more than 45 categories of industrial products, including nickel, graphite, and pharmaceutical components—particularly those not produced in sufficient quantities domestically, such as EV battery anodes and generic drugs. As previously noted, the objective of implementing tariffs is to promote reindustrialization. The reshoring of electronics and semiconductor industries is projected to take the longest, while technology transfer is expected to occur within the shortest timeframe.

3. Tax incentives and subsidies

Tax incentives serve the function of reducing business costs and encouraging capital investment, while subsidies are used to strategically direct investments toward sectors of national importance, such as advanced technologies, energy infrastructure, and the automotive industry. These measures not only contribute to restoring the competitiveness of the U.S. economy in the global marketplace but also carry broader socio-economic significance through the creation of new jobs, the strengthening of innovation capacities, and the stabilization of supply chains. Particular emphasis is placed on safeguarding and enhancing U.S. technological sovereignty, whereby fiscal policy transcends the boundaries of conventional economic governance and becomes an instrument of national strategy (Gale et al., 2018).

The United States has implemented robust tax incentives to encourage reshoring. The most significant among them include:

- CHIPS and Science Act – \$52.7 billion allocated for semiconductor manufacturing.
- Inflation Reduction Act – tax credits for green energy and electric vehicles.
- Bonus depreciation – up to 100% deduction of capital investments.
- Local subsidies – up to \$500 million per facility in industrial and strategic-resource sectors.

Tax incentives and subsidies under President Trump’s economic program were designed to stimulate domestic production, reduce the tax burden on businesses, and shield sensitive sectors from the effects of international trade tensions (Furno, 2022). While industries such as manufacturing, energy, and agriculture were direct beneficiaries of these measures, the technology sector and small and medium-sized enterprises (SMEs) also profited through tax relief and deregulation. Academic literature (e.g., Gale, Gelfond & Krupkin, Brookings Institution, 2018; Barro & Furman, American Economic Review, 2018) indicates that these measures produced short-term positive effects on investment and employment, but also contributed to higher fiscal deficits and deepened structural imbalances in the U.S. economy.

Federal tax credits and subsidies brought by Trump administration are next:

- Advanced Manufacturing Investment Credit (Section 48D). Offers a 25% tax credit for investments in semiconductor manufacturing facilities.
- Advanced Manufacturing Production Tax Credit (Section 45X) Provides annual tax credits based on the production of advanced energy components, such as solar, wind, and battery storage technologies.
- Clean Energy Tax Credits
- Research & Development (R&D) Tax Credits, encourages innovation by offering tax credits for qualifying R&D activities, including improvements in manufacturing processes and product development.

As the next figure demonstrates, semiconductors are the priority of the new U.S. reindustrialization agenda, while at the same time posing the greatest challenge. Consistent with the previous figure, the semiconductor industry also faces the longest timeline for reshoring.

Table 1. Costs and realities of industrial reshoring by sector

Sector	Cost (USD)	Timeframe	Obstacles	Reality (1–5)
Electronics / Semiconductors	\$30–80B per facility	5–10 years	Engineers, supply chain	★ ★ ★
Automobiles / EVs	\$5–15B per facility	4–7 years	Logistics, batteries, subsidies	★ ★
Textiles / Footwear	\$500M–1B per region	2–4 years	High labor costs, automation challenges	★
Steel and Metals	\$3–7B per facility	3–5 years	Environmental regulations, Asian competition	★ ★
Pharmaceuticals / Biotech	\$1–3B per complex	3–6 years	Regulation, R&D, skilled workforce	★ ★ ★ ★
Technology (AI/Robotics)	\$500M–2B	1–3 years	Limited scalability	★ ★ ★ ★
Defense / Aerospace	\$2–10B	3–5 years	Dependence on state contracts	★ ★ ★ ★ ★

Sorce: Autors

The table presents the targeted sectors benefiting from tax incentives and subsidies, along with estimated costs and the likelihood of sectoral revitalization. The textile industry has the lowest probability of returning, whereas the defense, aerospace, and pharmaceutical sectors are assigned the highest likelihood of survival and growth (JCT, 2017).

According to the Economic Policy Institute, tax expenditures amount to approximately \$1.5 trillion annually, equivalent to over 7% of the U.S. economy. This figure represents nearly one-third of the federal discretionary budget. The following chart illustrates the allocation of subsidies across key sectors identified for industrial reshoring (Hassett, 2025).

4. Potential risks of the new U.S. trade policy

1. Rising costs for consumers and businesses

The imposition of tariffs on pharmaceutical products—sometimes reaching 200%—may significantly raise drug prices, reduce access to generics, and disproportionately affect vulnerable groups such as the elderly and low-income households (Barro & Furman, 2018). Tariffs increase production costs and consumer prices, thereby fueling inflation. For instance, tariff-related effects have already contributed to higher consumer prices and slower real GDP growth

2. Reduced economic activity and employment

Industrial output has contracted for six consecutive years, while employment growth in the sector remains weak—an outcome of persistent uncertainty over tariffs (MarketWatch; Axios). In August 2025, the manufacturing sector lost 12,000 jobs, totaling 38,000 jobs lost over the year, further undermining narratives of economic growth (Alam, 2024).

3. Uncertainty and negative effects on investment

The Global Trade Policy Uncertainty Index reached record levels in early 2025, destabilizing financial markets and investment decisions. Hedge funds warn of a potential “capital exodus,” threatening the perception of the U.S. economy as a safe haven. The International Monetary Fund (IMF) has expressed concerns that new tariffs could jeopardize global financial stability.

4. Disruption of global trade and slower growth

The Asian Development Bank warns that broad U.S. tariffs could significantly slow both domestic and global economic growth. The World Trade Organization (WTO) projects a decline in goods trade, particularly in North America, complicating recovery for export-reliant economies (Gravelle et al., 2019)

5. Retaliation from Trade Partners and Threats to Exporters

Retaliatory measures by China, Mexico, and Canada could severely damage U.S. exports—particularly in agriculture, automobiles, and forestry—given the high dependence on these markets. The EU and Canada have already responded with countermeasures worth tens of billions of dollars.

6. Supply chain and logistics disruptions

Complex global supply chains risk “bottlenecks” caused by tariffs and transport interruptions, hampering component availability and slowing industrial activity. Increased inventories and delivery delays are already causing production losses and higher costs.

7. Structural distortions and long-term welfare losses.

Mega-structural models suggest that while tariff increases may temporarily boost industry’s share of GDP and welfare, retaliatory actions by trade partners could ultimately render the U.S. net worse off (Min,2025).

8. Conclusion

Tariffs and tax incentives represent a coordinated strategy for bringing industry back to the United States. While such measures can strengthen U.S. competitiveness, they also generate geopolitical repercussions with global consequences. For Serbia, this represents both an opportunity to position itself within supply chains and a necessity for strategic transformation of industrial policy.

The reindustrialization strategy under President Donald Trump sought to restore production capacity within the United States, reduce import dependence, and strengthen the domestic workforce. The benefits of this policy included short-term increases in investment across selected industrial sectors, job creation in traditional manufacturing, and a symbolic reaffirmation of support for domestic entrepreneurship. Tax relief, particularly the reduction of corporate income tax, stimulated certain levels of capital investment, while subsidies for agriculture and energy secured stability in sectors adversely affected by trade tensions.

However, the policy also had significant drawbacks. Protectionist measures, including high tariffs, provoked trade disputes with key partners, leading to counterproductive outcomes in sectors such as agriculture and necessitating compensatory subsidies. The long-term effects of tax incentives proved fiscally problematic, contributing to rising federal deficits without commensurate gains in productivity. Furthermore, the emphasis on fossil fuels rather than renewable energy entrenched reliance on traditional energy models and delayed the energy transition.

Taken as a whole, Trump’s reindustrialization policy generated some short-term gains in strengthening the industrial sector and symbolically reviving domestic production. Yet its structural weaknesses—fiscal unsustainability, geopolitical tensions, and limited technological reach—diminished the long-term developmental potential of the U.S. economy.

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