



## Navigating through uncharted waters: Tariffs and the Cook Islands economy

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### Tariffs aim to protect domestic industries, but end up hurting consumers

A tariff is a tax on something that is imported. The arguments for a tariff generally revolve around protecting your domestic industries from international competition. But in practice, they mean you have to buy more expensive goods and spend money producing things that your country isn't best placed to produce. For example, in the Cook Islands, it doesn't make sense for us to produce milk, so we import it. If we placed a tariff on milk, households would end up paying higher prices.

The general idea in trade policy around the world for the last 50 years or so has been to reduce tariffs and trade barriers – both to make people better off, and make prices to consumers reflect the true costs of goods. Free trade also helps make a contribution to peace – the more people trade with each other, the less likely they will go to war. The tariff announcements by the US have turned this approach upside down.

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### The US tariff announcements have plunged the global economy into uncertainty

The White House claims that other countries around the world are “taking advantage” of the US on trade, that they are levying tariffs on American exporters and not playing fair. The White House has calculated what this tariff level is and applied a tariff of half that level on any imports from that country. The tariff level is suggested as the trade deficit with a country divided by the total US imports from that country level. This calculation has no relationship to actual tariff levels, and the way the calculation has been done is pretty unconventional.

It is too early to be sure what the effects of the tariffs will be, and the global impacts will depend a lot on any retaliatory tariffs imposed by other countries, as well as diversion of trade away from the US. But a trade war is almost definitely a bad thing. The first most obvious losers are American consumers, who will have to pay more for everyday items. Other immediate losers will be major exporting nations to the US. At a wider level, trade between countries will become harder. Together with the ongoing policy uncertainty, we are likely to

see a slowing of global growth and potentially even a recession.

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## **At this stage, the impacts on the Cook Islands are unclear, but may be small**

The Cook Islands has been assessed a 10 per cent tariff – the lowest rate of tariffs applied by the US. The direct impacts of this are likely to be small as we do not do a lot of trade with the US. In 2024, we exported just \$90,000 worth of goods to the US, and imported \$8.3 million. Combined, this equates to less than 1.5 per cent of our GDP.

But we may face flow-on impacts to our tourism sector. A weaker global economy and higher prices would mean that households have less discretionary income for people to take a holiday in the Cook Islands. The tariffs also had an immediate negative impact on household wealth, through the shock to financial markets causing a sharp drop in people's retirement savings funds and other investments. But the overall impact on tourism may be limited.

We may also see higher inflation in imported goods, including from higher transport and logistics costs. This would squeeze household budgets in the Cook Islands. There is also potential for supply disruptions, as global supply chains readjust to the tariffs. MFEM continues to monitor global developments, and the emerging impacts and risks to the Cook Islands economy.