Trump announces plan for ‘reciprocal’ tariffs in latest trade move

But the president’s timetable leaves time for negotiations.

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President Donald Trump continued his relentless remaking of U.S. trade relations on Thursday, announcing a new policy of taxing foreign goods at the same rate that other nations apply to American products.

The president billed his new “reciprocal” tariff policy as a straightforward response to unfair behavior by U.S. trading partners, who in some cases apply higher tariffs to specific American goods than the United States applies to the same products from those countries.

But in signing a presidential memorandum, he ordered no change in current tariff rates, instead directing his top aides to prepare a report on the steps needed to balance the scales with each of the more than 200 countries, territories and regional associations that the United States trades with. That report should be complete by April 1, according to Commerce Secretary Howard Lutnick, one of those charged with preparing it.

“If you build your product in the United States, there are no tariffs,” Trump said from the Oval Office. He said the levies would be applied on top of previously announced steel and aluminum tariffs, adding that such policies “should have been done years ago.”

Trump presidency

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“Reciprocity may sound appealing. But remember who pays tariffs: It’s the American importer, and the burden eventually falls on the consumer,” said Erica York, vice president of federal tax policy for the Tax Foundation. “It’s like shooting yourselves in the foot because someone else is shooting themselves in the foot.”

The president's order, requiring studies by the commerce secretary and chief trade negotiator, fell short of actually imposing the tariffs that he had repeatedly signaled in recent days were imminent. Delaying a final decision until at least April opened the door to high-stakes bargaining between the president and foreign leaders, who may seek to avoid the harshest trade-chilling measures by offering to lower their own barriers.

The studies that the president ordered Thursday join several other trade reviews that he demanded in one of the first acts of his second term. That comprehensive review of U.S. commercial engagement with the rest of the world, also due in April, is aimed at developing a sweeping "America First" trade policy.

For all of the president's often daily ruminations about higher tariffs, the welter of studies and reports that he has commissioned leaves unanswered whether his final goal is a reversal of decades of greater globalization or negotiated deals with individual trading partners.

"The process laid out today could lead to orderly and good-faith negotiations that end up reducing trade barriers, or it could lead to ratcheting up of trade barriers. We don't know how it will play out," said John Veroneau, a former U.S. trade negotiator and now a partner at Covington & Burling in Washington.

The National Foreign Trade Council, which represents companies such as Caterpillar and Coca-Cola, expressed "relief" at the absence of new tariffs in Thursday's action. While praising Trump, the council and several other industry groups urged the president to use the threat of higher U.S. trade barriers to force nations to open their markets rather than to make the tariffs permanent.

"This memorandum is a good starting point to investigate the high tariffs and other discriminatory barriers to trade we want to bring down in other markets. The remedies that U.S. agencies identify to address these barriers must include negotiations. We urge President Trump to use any leverage gained through tariff negotiations to break down barriers — not build them up — and to expand opportunities for American businesses, while avoiding tariffs that cause inflation and lead to higher prices for consumers," said Gary Shapiro, head of the Consumer Technology Association.

In customizing the tariffs to specific countries, White House officials said they would consider tariffs imposed on U.S. products, foreign regulations, taxes — including Europe's value-added tax — and exchange rates. Countries with which the United States has the highest trade deficits could draw the earliest scrutiny.

If implemented, Trump's reciprocal approach would amount to scrapping the decades-long U.S. promotion of low tariffs on most items, which policymakers from both parties have credited with giving American consumers access to inexpensive goods from all over the world.

The president, however, says the higher foreign tariffs are a barrier to U.S. exports of cars to Europe, motorcycles to India, and meat and dairy items to Brazil. That uneven playing field helps explain the chronic U.S. trade deficit, which last year hit a record $1.2 trillion.

"They've charged us and we haven't charged them. And it's time to be reciprocal. You'll be hearing that word a lot. Reciprocal. If they charge us, we charge them," Trump told reporters this week. "If they're at 25 [percent], we're at 25. If they're at 10, we're at 10. If they're much higher than 25, that's where we are too."

The United States and other major developed nations such as Canada, Germany and Japan have similar weighted average tariff rates of around 1.5 percent, according to the World Bank.

But some nations maintain higher tariffs on select products. The European Union, for example, imposes a 10 percent tax on vehicles imported from the United States — four times the 2.5 percent levy the U.S. assesses on European cars that land here.

As Trump escalated his tariff threats in recent weeks, European officials debated making an offer to drop the E.U. tariff to the lower U.S. mark — a sign that the president's strategy already was working, according to his allies.

The president, however, may want to keep the higher tariffs rather than negotiate them away. He has often spoken of tariffs as a tool to raise government revenue, allowing for offsetting reductions in income taxes.

"I'm skeptical that the real goal is to get others to lower their trade barriers. Trump's real goal is higher tariffs," said York, with the Tax Foundation.

Others raised concerns about the path of free trade itself. Eswar Prasad, an expert on international trade policy at Cornell University, said it was "remarkable" to see the United States, which largely designed the rules underpinning the global trading system, now moving to abandon it.

Trump's reciprocal plan "could spell the end of free trade as we have come to know it," he said.

Trump's proposal also takes aim at Europe's value-added tax, which he and his advisers see as a tariff by another name. But the administration is wrong about the VAT's trade impact, according to York. The levy, which ranges from 17 percent to 27 percent in European countries, is effectively a sales tax charged on both domestic products and imports — like those levied in scores of U.S. states — and thus does not discourage consumers from buying American goods, she said.

European officials, meanwhile, have been caught between two instincts: hawkishly pushing back against tariffs or finding ways to assuage Trump and minimize the damage. The latter is exemplified by the suggestion of reducing the E.U. import tariff on cars, an idea that has gained serious traction in Brussels. European officials have been making diplomatic entreaties in Washington and may also be willing to offer increased purchases of American energy.

But the numbers haven't helped. This week, data shows that Germany, Europe's export behemoth, posted a record $72 billion trade surplus last year with the United States.

Trump has complained that Europeans should buy more American autos and agricultural products. But it's not clear that tariffs are really the problem.

"Our infrastructure isn't really made for those U.S. cars; they also consume a lot more fuel as they are just so much bigger than the cars we have here," said Inga Fechner, senior economist with ING in the Netherlands. "I doubt that lower tariffs would convince more Europeans to buy American SUVs."

A move by the United States to match the 10 percent tariff the European Union imposes on cars imported from the United States would particularly hit luxury makers with no U.S. factories, including Germany's Porsche and Italy's Ferrari — though their well-heeled customers are likely to be more able and willing to bear higher, tariff-fueled price tags.

"The question is how much of the tariffs can be passed [on] to customers," said Daniel Schwarz, managing director at the analyst house Stifel. "In the case of Ferrari, I assume a lot."

Some other European carmakers — like BMW, for instance — produce so many cars in the United States that they are net exporters, even shipping their U.S.-made vehicles back to Europe. Others like VW would see a bigger impact on their bottom lines — especially if Trump follows through with tariffs on Mexico and Canada, where VW produces cars for the American market.

Some developing nations maintain much higher tariff rates to protect their domestic industries. India applies tariffs of 60 percent on automobiles and flowers, and 50 percent on apples, corn and motorcycles, according to the Office of the U.S. Trade Representative.

Indian Prime Minister Narendra Modi arrived in Washington on Wednesday for talks with Trump on a number of security and economic issues.

In some cases, raising U.S. tariffs to match those of other countries would make little economic sense, according to William Reinsch, a trade expert at the Center for Strategic and International Studies.

To protect its domestic coffee growers, Kenya, for example, imposes a 25 percent tariff on coffee produced in other countries. The United States has no similar tariff.

But under the reciprocal approach, the United States would institute its own 25 percent tax to match Kenya's, leaving U.S. importers facing higher costs, which would be "a supremely stupid thing to do," Reinsch said.

By insisting on matching other nations' tariff decisions, the reciprocal approach "basically hands our trade policy over to other countries," he added.

The 14 countries that the United States has free trade agreements with — including Australia, Canada, Mexico, Israel and Jordan — should be the least affected by the new arrangement. Those deals generally eliminate most tariffs or set them at low levels.

White House officials said Trump had broad legal authority to impose the tariffs, including the provision of a 1962 law that the president used to impose tariffs on steel and aluminum beginning in 2018.