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# Trump II lifts off

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**Donald Trump signed a multitude of executive orders on his first day at work. His plans for tariffs are particularly interesting from an economic perspective. Even though Trump has not ordered any immediate tariff increases, drastic measures are to be expected over the medium term. A general review of foreign trade policy by April should provide the necessary basis.**

Donald Trump was inaugurated as the 47th President of the United States yesterday at noon. The speech he delivered after taking the oath of office was all about "America First". As announced, President Trump signed a whole series of executive orders on his first day in office. This indicates that the takeover of government was much better prepared than for Trump-I in 2017. From an economic point of view, the following priorities have been set:

## The golden age of US manufacturing…

Under his leadership, the US is to become a "manufacturing nation" once more. This draws on the themes of his first term in office and corresponds to his long-held view that a new growth miracle must be built on a strong industrial base. To this end, he says, the US can build on something that no other industrialized country in the world has: the largest reserves of oil and gas worldwide. And these reserves will be used. The motto is "Drill, baby, drill".

To this end, Trump signed executive orders declaring a national energy emergency, facilitating oil drilling on federally owned land, supporting oil and gas production in Alaska, and lifting restrictions on liquefied natural gas exports introduced by Biden. At the same time, he picked apart key points of Biden's "Green Deal". He has canceled the targets for the introduction of electric vehicles. He wants to end tax breaks for e-cars and subsidies for the construction of charging stations. New wind power projects will no longer be approved. At the same time, he announced the US withdrawal from the 2015 Paris climate agreement.

## … behind higher tariff walls?

The renaissance of US manufacturing is to be accompanied by a general overhaul of foreign trade (**"America First Trade Policy"**). Instead of taxing US citizens to enrich foreigners, foreigners are to be taxed in the future to make American citizens better off. To this end, Trump orders to investigate the feasibility of establishing of an "External Revenue Service" to collect tariffs and other revenues related to foreign trade. So far, Customs and Border Protection (CBP) has been performing this task. The External

Revenue Service would thus be a counterpart to the “Internal Revenue Service” – the tax office – which collects taxes in the USA.

## No immediate tariff increases, but a comprehensive review

Trump orders a comprehensive review of US foreign trade policy. The relevant authorities are to submit reports by April 1 on unfair trade practices by other countries, currency manipulation, discriminatory foreign taxes, and technology transfer practices.

The relevant authorities are also instructed to check whether China has fulfilled its obligations under the phase-one deal. This was concluded during Trump's first term in office. According to trade data, China has not fulfilled the promised volumes of imports from the US.

Contrary to widespread fears, the new administration has not yet imposed any new tariffs on the first working day. However, based on the analyses available in April, he then has a wide range of options for targeting individual countries, sectors or entire groups of countries. In any case, some legal bases for tariffs require prior investigations (see box below).

The fact that Trump expects enormous revenues from tariffs – which are also intended to finance his other plans, such as tax cuts – points to widespread tariff increases in the medium term.

## Threats of tariffs are also a negotiating tactic

In one of his statements yesterday, Trump also hinted at the possibility of imposing tariffs of 25% on imports from Canada and Mexico as early as February 1. Both of these countries are actually linked to the US in the North American Free Trade Agreement (USMCA). However, the threat of additional tariffs is possibly a negotiating tactic here, to achieve concessions from these countries, particularly in the area of border security, the prevention of illegal immigration and the fight against drug smuggling.

## America does not want to be tied down by international agreements

According to Trump, the US is also withdrawing from the 2021 OECD-negotiated global minimum taxation of companies. This agreement allows countries to impose tax surcharges on local subsidiaries of multinational companies if the parent companies are subject to less than 15% tax elsewhere. Trump threatened to take action against countries that levy discriminatory taxes on US companies.

The US wants to maintain maximum room for maneuver and not be constrained by international treaties. The renewed withdrawal from the Paris climate agreement points in the same direction.

## Tough action against illegal immigration

On the basis of the number of signed executive orders, a tougher approach to illegal immigration was clearly the focus yesterday. Trump is declaring a national emergency at the southern border (i.e. the border with Mexico). This is also to be protected with increased deployment of federal troops and personnel. At the same time, he announced a more rigorous approach to illegal immigrants already in the country. Raids on companies employing such people are also to be expected.

Should there actually be a comprehensive deportation of illegal workers, significant price increases are to be expected in sectors that employ many illegal immigrants, particularly in agriculture and construction. This could make it more difficult to fulfill another of Trump's promises, namely to get inflation under control.

## Our view

In some respects, US foreign trade policy will return to the 19th century; not least, Trump referred to President McKinley's (President from 1897 to 1901) economic policy, which he considered brilliant. The US has traditionally been a country with relatively high tariffs. Behind these tariff walls, strong domestic competition helped to build an extremely efficient economy. Whether this is also a suitable recipe for the 21st century remains to be seen. In any case, the world of GATT and WTO is probably over; (relative) free trade will probably be replaced by managed trade. Trade partners that run large surpluses with the US can be sure of the new administration's special attention. This concerns important US allies such as Germany, Japan and South Korea.

Trump's hopes that tariffs will prove a lucrative source of income for the US are unlikely to be fulfilled. Currently, tariffs generate a maximum of 90 billion dollars per year (1.6% of US federal government revenue). By contrast, income tax accounted for over $2.7 trillion. The revenue-maximizing tariff rate is likely to yield no more than $800 billion, according to a **study by the Peterson Institute**.

In any case, it is unlikely that all of Trump's plans will be realized. At least some of them are likely to be challenged in court.

## Box: Foreign trade authority of the president

The US Constitution gives Congress the right to levy taxes and tariffs. Until 1930, Congress determined the amount of customs duties by law or amendment. Due to the bad experiences with the extreme tariff increases during the Great Depression as a result of the Trade Act of 1930 (better known as the “Smoot-Hawley Act”), more and more authority to set tariffs was delegated to the President.

**Legal basis for customs duties**

- **International Emergency Economic Powers Act**

The Trading with the Enemy Act (TWEA) of 1917 provided the framework for wartime. This was extended to include peacetime by the Emergency Banking Act of 1930. In 1974, this law was further amended by the International Emergency Economic Powers Act (IEEPA) to clarify the demarcation of powers for wartime and peacetime.

The IEEPA gives the President broad authority to address extraordinary threats to national security or the economy that originate outside the United States during peacetime. The only requirement is a declaration of a national emergency by the President. Unlike other statutes, the IEEPA does not require prior investigation or publication of a report. The possible imposition of a general tariff would arguably be based on this law. The only precedent for an application is President Nixon's imposition of a 10 percent general import duty in 1971 on the basis of the TWEA (after the TWEA was amended by the IEEPA, the Trading with the Enemy Act was limited to wartime).

- **Trade Expansion Act of 1962: Section 232**

This law authorizes an investigation into whether certain imports are affecting national security. If this investigation confirms this, the president has almost unlimited powers to restrict these imports. The investigation by the Department of Commerce must be completed within 270 days. The president then has 90 days to decide whether to accept the results of the investigation. If he does, he has 15 days to take action.

Tariffs on steel and aluminum imports in Trump's first term were based on this provision.

- **Trade Act of 1974: Section 301**

This is a power of action for the president in response to unwarranted or excessive foreign regulations or measures that may burden US foreign trade. The corresponding determination is the responsibility of the Office of the US Trade Representative (USTR). The

President may then impose tariffs or import restrictions, withdraw from free trade agreements, or enter into binding agreements with foreign governments that end unfair practices.

The tariffs on $370 billion of Chinese imports in Trump's first term in office were based on this law.

- **Trade Act of 1974: Section 122**

This provision authorizes the president to impose an additional 15% tariff for a period of 150 days to respond to large and problematic balance of payments deficits or to prevent a significant depreciation of the dollar.

- **Tariff Act of 1930: Section 338**

The president has the authority to impose tariffs of up to 50% on imports from countries that have “discriminatory” provisions for US trade. In an extreme case, imports from these countries can be completely stopped.

Various lawsuits have been filed in US courts against tariff measures. So far, such lawsuits have been unsuccessful; the American courts give the US government a great deal of leeway in matters of foreign trade. In theory, Congress could seize these powers again. However, such laws currently have little chance of being passed.

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