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Trump's latest tariff idea

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US President Trump is planning new tariffs. To this end, he is drawing up a plan to impose tariffs on foreign goods if the respective exporting country has imposed tariffs on corresponding US goods. Trump also wants to take other aspects into account when setting the level of his tariffs, such as whether other trade barriers exist in the country of origin or taxes are levied on US goods. These tariffs could, for example, affect cars from the EU.

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Trump commissions "fair and reciprocal plan" on trade

Yesterday, Donald Trump commissioned a **"reciprocal plan"** from the relevant US authorities to restore "fairness" in US international trade and to combat "non-reciprocal" trade practices of other countries. The results of this investigation are to be presented by April 1. The results of an **investigation in the reasons for the US trade deficits** and possible remedies, commissioned on January 20, are also expected by that date.

Trump is concerned that some trading partners impose higher tariffs for certain product groups than the US. The following were mentioned in particular:

- The EU would demand a 10% tariff on the import of US cars, while the Americans would settle for 2.5%. What was left out was the fact that the US imposes a 25% tariff on the import of SUVs – the most popular vehicle among Americans.
- The US has a significant deficit in trade with the EU in shellfish: imports of 274 million dollars are offset by exports of just 38 million dollars.
- Trade in ethanol is also unfair. Brazil levies a tariff of 18% on this, while the US only levies a tariff of 2.5%.

The examples given mostly concern only relatively small trade volumes; overall, the US imported goods worth around 3.3 trillion dollars last year, 600 billion of which came from the EU.

Not only tariff rates are to be taken into account

In fact, the US does on average charge slightly lower tariffs than other countries. However, the differences with other advanced countries are quite small overall as there are also a number of goods for which the US charges higher tariffs than its trading partners. Some emerging market countries, however, charge significantly higher tariffs than the US. From the US perspective, however, the volume of trade with these countries is low.

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When setting tariffs, additional aspects should be taken into account, such as whether further trade barriers exist in the country of origin, subsidies are paid or US companies are taxed. The Digital Services Tax in Canada and France and general value added taxes are mentioned here. This seems arbitrary and, in some cases, inappropriate, since a general VAT ultimately affects all companies. However, it may serve to drive up American demands in order to increase leverage for negotiations. At the same time, it is difficult to estimate what individual sectors will face. We published an **analysis** of what reciprocal tariffs based solely on the current differences in tariffs would mean for the EU.

The US trades with almost 200 countries, with a customs system that recognizes 13,000 product categories. In an extreme case, a sophisticated system of reciprocal tariffs could therefore comprise more than two million different tariffs, which would certainly not mean a reduction of red tape and bureaucracy.

“The Art of the International Deal”

Under the leadership of President Trump, the US is increasingly distancing itself from the post-World War II trade order. This was ultimately designed to arrive at low and uniform tariffs in order to stimulate world trade. Another element is the sharply increasing uncertainty that arises when new tariffs are repeatedly imposed and other countries' allegedly unfair economic practices are constantly being targeted. At yesterday's press conference, Trump also warned against jeopardizing the dollar's supremacy. He said that the BRICS countries had already caved in when he threatened massive tariffs.

The background to this is probably a strongly transaction-oriented approach to trade policy, where the Americans are seeking to strike a favorable deal for themselves. The memorandum explicitly highlights the “art of the international deal”, a clear reference to Mr. Trump's 1987 book “The Art of the Deal”.



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