Notes on U.S. tariff measures of 2 April 2025

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The decision:

1. Large and persistent goods trade deficits were declared a threat to the national security of USA.
2. Import tariff increases of at least 10% were announced. Over 60 trading partners of the United States to face a tariff increase more than 17%. Switzerland, for example, faces a 31% increase. See list here https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf
3. For the countries facing the highest tariff increases, the bilateral trade surplus (measured in relative terms) appears to be the sole driver in the tariff calculation. This can be confirmed by official methodology document on reciprocal tariff calculation when the values of key parameters are fed in: https://ustr.gov/issue-areas/reciprocal-tariff-calculations.
4. Average tariff increases given in URL directly above: "The unweighted average across deficit countries is 50 percent, and the unweighted average across the entire globe is 20 percent. Weighted by imports, the average across deficit countries is 45 percent, and the average across the entire globe is 41 percent."
5. Foreign trading nations with free trade agreements with the United States were not spared from these import tariff increases.
6. Countries with a goods trade deficit with the US still face the minimum 10% tariff increase.
7. Canada and Mexico exempted from these calculations—they are still on track for their 25% import tariff increase, but with reductions if they meet the conditions of the revised NAFTA (USMCA) accord.
8. Products exempted from these additional tariffs: steel, aluminium, autos and auto parts (already hit by 25% additional tariff increases); and copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, and energy and energy products (see list of exempted products here: https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-II.pdf)

Analysis and implications for corporate executives and policymakers

1. **If implemented, these import tariffs take the average level of US import tariffs back to levels not seen since the early 20th century. The size of the import tariff increases are so large for many countries that they being offset by currency depreciation is very unlikely.**
2. Best to organise your thoughts on the extra import taxes imposed by the second Trump terms in **matrix terms**. In the matrix's vertical dimension are sensitive sectors (like steel, aluminium, autos and auto parts) and non-sensitive sectors. Along the columns of the matrix are China, Canada, Mexico, the other nations hit by more than 10% reciprocal tariffs and the rest of the world. Place the sector and export base in this matrix. There is going to be huge variation across geography in tariff treatment. **The Most Favoured Nation (equal treatment) rule of U.S. tariffs is now dead.** Another blow to global trade rules.
3. South East Asian nations have been hit particularly hard—Vietnam hit the most (46% extra tariff). Moving factories to that region from China now seriously discouraged. But Malaysia got hit less and may be the relative winner in ASEAN. **Overall, China+1 strategies in South East Asia are casualties** of this U.S. tariff move**.**
4. Relatively speaking, Canada and Mexico's tariff increases are less than many South East Asian nations. **China+1 or outright production relocation to neighbours of USA advantaged by the 2 April decisions.**
5. Many fast-growing emerging markets (e.g Bangladesh) now face much higher additional tariffs.
6. Within Europe, U.K. hit much by lower tariff increases (10% versus EU's 20%). In terms of headline tariff hikes, the **UK is Europe's winner** (but is still hit by the 25% auto tariffs and note the role of excluded products). Meanwhile **Switzerland is Western Europe's biggest loser**—but a large share of Swiss exports will be exempted because they are pharmaceuticals and gold. **Other Swiss manufacturers will need to find third markets and should accelerate export diversification measures.**
7. Balkans economies hit harder than Switzerland. **Hammers the desirability of Balkans as an export base to USA.**
8. **Tariff uncertainty will continue.** EU, Japan, and India are very likely to retaliate. Escalation spiral of tariffs cannot be ruled out. Will retaliation remain bilateral against the USA or will across-the-board tariffs be instituted? **The fate of the open world trading system now lies in the hands of officials in America's major trading powers.**
9. Another source of uncertainty going forward is that it is unclear how frequently these tariff increases will be recalculated based on changes in bilateral exports and imports with the United States.
10. **In the hardest hit economies expect monetary policy easing to offset the loss of export sales to the USA.**
11. **Expect lots of discussion of deflection of manufactures from Asia to other markets—**not just from China but also from many Asian nations. Could lead to further tariff hikes.
12. The Administration's theory of harm (such as it is) is reproduced on the next page. Notice the argument about generalised suppression of wages and consumption by trading partners—an argument that used to made about China, now it has been generalised. The way the White House framed these matters **foreign state practices aren't a problem per se, it is their impact on national consumption, imports, and the trade deficit that matters.** Another logical slip: a nation's consumption share in GDP may be small but its consumers could spend large shares on imports—the latter was not taken into account.

Theory of harm in the Executive Order

"Large and persistent annual U.S. goods trade deficits have led to the hollowing out of our manufacturing base; inhibited our ability to scale advanced domestic manufacturing capacity; undermined critical supply chains; and rendered our defense-industrial base dependent on foreign adversaries. Large and persistent annual U.S. goods trade deficits are caused in substantial part by a lack of reciprocity in our bilateral trade relationships. This situation is evidenced by disparate tariff rates and non-tariff barriers that make it harder for U.S. manufacturers to sell their products in foreign markets. It is also evidenced by the economic policies of key U.S. trading partners insofar as they suppress domestic wages and consumption, and thereby demand for U.S. exports, while artificially increasing the competitiveness of their goods in global markets. These conditions have given rise to the national emergency that this order is intended to abate and resolve.

…

"However, despite a commitment to the principle of reciprocity, the trading relationship between the United States and its trading partners has become highly unbalanced, particularly in recent years. The post-war international economic system was based upon three incorrect assumptions: first, that if the United States led the world in liberalizing tariff and non-tariff barriers the rest of the world would follow; second, that such liberalization would ultimately result in more economic convergence and increased domestic consumption among U.S. trading partners converging towards the share in the United States; and third, that as a result, the United States would not accrue large and persistent goods trade deficits.

"This framework set in motion events, agreements, and commitments that did not result in reciprocity or generally increase domestic consumption in foreign economies relative to domestic consumption in the United States. Those events, in turn, created large and persistent annual U.S. goods trade deficits as a feature of the global trading system.

Put simply, while World Trade Organization (WTO) Members agreed to bind their tariff rates on a most-favored-nation (MFN) basis, and thereby provide their best tariff rates to all WTO Members, they did not agree to bind their tariff rates at similarly low levels or to apply tariff rates on a reciprocal basis."