



Reciprocal Tariffs Mean a Fundamental Shift in U.S. Trade Policy

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On 2 April, President Donald Trump announced tariffs on all U.S. imports. They have been set at 10% at least, and much higher for products from countries with the largest trade surpluses with the U.S. Goods from the EU will be subject to 20% tariffs. The change in trade policy is profound and will be a shock to the U.S. economy, leading to higher inflation and possibly even an economic crisis and recession. Responses from U.S. partners are almost certain, which will lead to at least a short trade war.

Import Duties. All U.S. imports will be subject to at least a 10% duty, with a higher rate for products from some countries or economic blocs, for example, the EU (20%), China (34%), and Japan (24%). Contrary to the claims of the U.S. administration, the additional tariffs are not a direct reflection of the tariff and non-tariff barriers of other countries, but rather of the level of U.S. trade with them (the wider the deficit, the higher the rate). As a result, high tariffs were imposed on trading partners such as Vietnam (46%), South Korea (25%), and South Africa (30%). It is possible that the U.S. authorities proceeded from the assumption that a 1 percentage point increase in import tariffs would result in a 2% decrease in imports (a regularity that occurs in foreign trade, although it is not always that precise) and then set tariffs at a level that, if this ratio were correct, could result in an almost perfect balancing of U.S. foreign trade. However, it seems no account was taken of the wider context, such as the differences in the competitiveness of certain economies or their specialisation, so this balancing is unlikely to occur, as the regularity is not automatic and the actual consequences will be unpredictable. Reciprocal tariffs on all countries are due to come into force on 5 April, and those at the increased level on 9 April. Exemptions include steel, aluminium, cars and car parts (subject to duties under earlier decisions), copper, medicines, semiconductors, certain energy and mineral raw materials, and [products from Canada and Mexico, which will be subject to the increased rates already in place](#). The 34% tariff on products from China

will be added to the 20% tariffs already in place, bringing them to 54%. The rates may change depending on the reaction of the U.S. partners, such as possible retaliation.

Implications for the US. With the introduction of reciprocal tariffs, the U.S. authorities have declared their intention to rebuild the country's industry and reshore jobs on a large scale, as well as to increase tariff revenues to enable major tax cuts. The rapid occurrence of these positive effects is unrealistic. Labour costs in the U.S. remain several times higher than in developing countries, for example, the difference between the U.S. and China is probably at least fourfold. Moreover, businesses will need time to make investments and the labour market to adapt and provide suitably skilled workers. Customs revenue, on the other hand, is a small category of government revenue, currently around 1.9% of total federal budget revenue, while corporate income taxes are 7.6% and personal income taxes 50.5%, so even if tariff revenue increases, it is unlikely to allow for a broader fiscal reorganisation.

The introduction of high tariffs will shock the U.S. economy. Negative business reactions (including a continuation of stock market drops) and a decline in investment are to be expected. Higher inflation is almost certain due to the increase in the costs of imported products. Difficulties in access to intermediate products may lead to problems for some businesses and even bankruptcy. The response of U.S. trading partners will exacerbate these effects by limiting U.S.

producers' access to foreign markets. Together, these phenomena could lead to increased unemployment and an economic crisis. Uncertainty will contribute to a decline in consumption, making it more difficult for U.S. companies to sell their products domestically.

The U.S. already faces a record high risk of recession, which investment bank Goldman Sachs estimated a few days ago at 35%. The high potential cost of a trade war to the U.S. economy and the lack of action to bring about structural economic change at the domestic level indicate that the imposition of tariffs is probably a prelude to negotiating new international trade arrangements and is based on the assumption that the U.S. can withstand the negative economic consequences of tariffs for longer than other countries.

Potential Next Steps. The imposition of broad tariffs on most trading partners is probably not the end of the disruption. After observing the impact of raising tariffs, the U.S. may enter into negotiations with partners, including the EU. The American side may play up the differences in interests between the Member States in terms of the economy and security. [According to statements by President Trump's advisors, the existential threat to the U.S. is China.](#) Aggressive action against the EU may therefore be tactical, opening the way to defusing tensions by reducing trade imbalances and developing a common policy towards China.

Foreign trade measures are also likely to be complemented by domestic solutions. The U.S. authorities have announced deregulation and tax cuts to create new industrial jobs. It is possible that, despite its declared fiscal conservatism, the Trump administration will have to consider introducing state aid programmes to stimulate the economy, especially if it is hit hard by the effects of the tariff war.

Also, action by the U.S. authorities on currency policy is likely. Trump's entourage has repeatedly argued that the high dollar exchange rate is detrimental to U.S. exports. This points to the possibility of lowering it through unilateral decisions (e.g., restricting capital inflows to the U.S.) or in coordination with partners. The U.S. authorities have not yet specified the details of their approach to this issue, but stress that the dollar is to remain the main global currency. Political interference with the dollar exchange rate will make it more difficult to maintain this status. In the short term, however, it will not lead to fundamental changes [due to the lack of alternatives, although the euro could benefit in the event of a large debt issuance by the EU.](#)

The extreme solutions suggested, most notably in a November article by Stephen Miran (now Chair of the

Council of Economic Advisers), published on the website of the company he worked for at the time, "A User's Guide to Restructuring the Global Trading System", are unlikely. Miran proposed fundamentally lowering the dollar and converting maturing U.S. debt into 100-year bonds by putting pressure on allies in the area of security. However, there is no indication that China (the second largest U.S. creditor after Japan) would agree to accept debt repayment in this form. If tensions with the EU escalate, it is also difficult to imagine a positive reaction from the Union. A forced conversion, on the other hand, would be considered a debt default, leading to a collapse of the U.S. credit rating and a deep financial and economic crisis, as well as unpredictable turbulence in global financial markets. Similar effects would result from a market-unacceptable and politically motivated depreciation of the dollar. Such a development would make it difficult to find buyers for U.S. bonds, which would be dangerous in the context of the debt refinancing needs. While attempts to manipulate the dollar exchange rate are therefore likely, there is no indication at present that they will take an extreme form.

Conclusions and Recommendations. The U.S. decision on tariffs undermines a global trading system that has existed for decades and was based on stable rules under international law, including the treaties that make up the World Trade Organisation. In the short term, due to the lack of details about preferred future solutions, the biggest problem for businesses trading with the U.S. from, among others, the EU, will be uncertainty about the possibility of continuing relations with U.S. partners. If tariffs are maintained, enterprises in the U.S. will start to reorient their supply chains. This will result in a decline in interest in EU imports (especially cars and products from the chemical or engineering industry). This will be problematic for Germany, the EU's largest exporter to the U.S., whose industry is facing long-term problems. Poland, for which the U.S. share of extra-Community trade is only 12.7% (compared to 22.7% for Germany, 25.7% for Austria, or 21.2% for Italy), will be affected by tariffs mainly indirectly due to the presence of Polish companies in the supply chains of German manufacturers. This will primarily affect manufacturing companies in the industrial machinery and automobile and automotive parts sectors.

Early reactions from EU leaders, most notably European Commission President Ursula von der Leyen, indicate that it is very likely that the EU will impose retaliatory tariffs while further solutions are negotiated. In turn, retaliatory tariffs will lead to an increase in U.S. tariffs and, as a result, an escalation of costs and tensions.