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THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

NO. 87 (2588), 8 AUGUST 2025 © PISM

BULLETIN

U.S. Implements "Reciprocal" Tariffs, Significantly Altering Foreign Trade Conditions

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After a suspension period, the so-called reciprocal tariffs came into force on 7 August, establishing new conditions for trade between the U.S. and its partners. This will increase predictability in international trade, but will also likely weaken global economic growth. The diversity and complexity of the regulations may hinder their implementation and undermine the principles of international trade within the WTO system.

On 2 April, U.S. President Donald Trump announced the introduction of so-called reciprocal tariffs, aimed at, among other things, reducing the U.S. trade deficit, attracting investment to the United States, and increasing federal budget revenues. Due to the negative reaction of financial markets, their entry into force was suspended until 9 July (however, the basic rate of 10% remained in force for most countries). The U.S. thus gave its partners time for negotiations. Most of them did not introduce retaliatory measures in order not to escalate disputes and to reach a quick compromise (with the exception of China and some others). The U.S. administration focused its attention on its main trading partners (e.g., the EU and Japan) and countries with the largest trade surpluses with them (e.g., Vietnam). Separate talks were held with Canada and Mexico, as well as China. In early July, President Trump threatened to further increase tariffs to put more pressure on his partners. At the same time, he again postponed the implementation of the tariffs to 1 August. Finally, on 31 July, he issued an executive order setting tariffs for 68 countries and the EU, which came into force on 7 August.

Trade According to the U.S. The level of tariffs is the result of eight framework agreements concluded by the U.S. (including with the EU, Japan, and the UK), but in most cases it is a unilateral decision by the Trump administration based mainly on the trade balance with the country concerned. In most cases, the U.S. has introduced lower rates than those specified in April, but significantly higher than at the beginning of this year, when the average U.S. customs tariff was around 2.3%. The current tariffs range from 10% (e.g., for the UK and countries not listed in the executive order, mainly those with a trade deficit with the U.S., such as Australia) to 41% (for Syria). Most of the partners listed in the U.S. regulation are subject to a 15% tariff, mainly those with a small trade surplus with the U.S., as well as, for example, the EU, Japan, and South Korea. The U.S. increased tariffs on some countries for political reasons: for example, the main tariff for India is 25%, to which an additional 25% is to be added due to India's purchase of energy raw materials from Russia (the increase in tariffs is to come into force on 27 August), and the rate for Canada has been set at 35%, purportedly due to the lack of progress in reducing the flow of fentanyl into the U.S. Brazil (subject to a 10% tariff under the regulation) has been hit with a total tariff of 50%, partly in the context of its proceedings against former President Jair Bolsonaro, a Trump ally, who is accused of plotting a coup. Talks with Mexico have been extended by 90 days, and the 12 August deadline for reaching an agreement with China has been maintained. Sectoral tariffs, including 50% on steel and aluminium, remain in force.

The new regulations are also aimed to limit the circumvention of tariffs through transshipment, mainly from China (which will be subject to a 40% tariff). The regulation also paves the way for, among other things, an increase in tariffs if the U.S. government considers the actions of its partners to be insufficient. Differentiated trade conditions for individual partners, including customs duties and exemptions (e.g., trade in selected strategic goods from the EU is to be duty-free), the complexity of certain issues (e.g., the definition of transshipment), and possible differences in the interpretation of framework agreements will hamper the implementation of the arrangements.

Reaction to U.S. Tariffs. The approach of the U.S. trading partners to the new tariffs varies. Some have criticised the new trade conditions (e.g., certain EU countries), while others, such as some ASEAN countries, have welcomed them as a positive solution, as they have avoided higher rates. Some governments want to continue negotiations, hoping for lower rates, including Taiwan (currently 20%), South Africa (30%), and Canada (35%). The leaders of India and Brazil have taken a tough stance on U.S. tariffs and have announced that they will defend the interests of their companies and farmers, but they are also in talks with the Trump administration on a trade agreement. In response to the tariffs, U.S. partners may also seek to develop trade initiatives to increase trade with other countries and reduce their dependence on exports to the U.S. market. This would likely benefit other entities, mainly China, by strengthening its global trade ties. Over time, the agreements with the U.S. may be contested by its partners if they entail significant economic and social costs.

Impact on the U.S. Economy. According to calculations by the Budget Lab at Yale, the average effective tariff rate in the U.S. has now risen to around 18%, its highest level since the 1930s. This could mean higher inflation (June data indicate that prices for imported goods are already rising), as well as higher costs for companies, including higher component prices, which would reduce their competitiveness in other markets. This, together with, among other things, the Trump administration's aggressive immigration policy, may have a negative impact on the labour market and weaken U.S. economic growth in the short term. Although economic growth in Q2 this year was 3% year on year, this may not fully reflect the state of the economy, as it was the result of, among other things, a large drop in imports due to tariffs. In the first half of the year, growth was slightly above 1%, which is 0.1 percentage points less than a year earlier. Probable decrease in imports as a result of tariffs may limit the increase in customs revenue (which has been growing rapidly in recent months), as well as reduce U.S. trade deficit (which fell by 16% year on year in June). The U.S. is likely to attract quite a lot of foreign investment, which will have a positive impact on its industrial production capacity, for example. However, their value as indicated, for example, in agreements with the EU and Japan ($600 billion and $550 billion over several years, respectively) will be difficult to achieve, due to, among other things, the capabilities of enterprises, which will limit their impact on the U.S. economy.

Significance for the Global Economy. Establishing new conditions of trade with the U.S. will increase stability and predictability in the global economy. However, it is also likely to mean a slowdown in global economic growth compared to the situation before the tariffs were introduced, although not as significant as feared in April. In its July forecast, the IMF indicates that global growth will be 3% in 2025, which is 0.3 percentage points less than in its January analysis, but also 0.2 percentage points more than in April. Financial markets reacted relatively calmly to the introduction of the U.S. tariffs, which may mean that they have already priced in the new reality. Companies selling to the U.S. market will have to adapt their operations to the new conditions, including, most likely, absorbing some of the tariff costs in order to remain competitive, particularly vis-à-vis companies from countries subject to lower tariffs and those manufacturing in the U.S., which may be particularly painful for entities from the poorest countries. Some companies may take steps to modify their supply chains and redirect some of their exports to other markets, including the EU, which would increase competitive pressure on those markets. The increase in tariffs by the U.S., the world's largest importer of goods ($4.1 trillion in 2024), may increase global inflation. Furthermore, the differentiation of customs duties by individual countries without the conclusion of free trade agreements means further marginalisation of the World Trade Organization (WTO), as it undermines its most-favoured-nation clause, according to which beneficial trade conditions with one country must be extended to other WTO members.

Conclusions. The mostly balanced reactions to the tariffs by the U.S.'s trading partners and financial markets may indicate that Trump's tactic of escalating threats and then settling on a lower, but still high tariff has proved quite effective, and so he is likely to continue employing it during ongoing negotiations. Evidence for that is in Trump's announcement on 6 August that the U.S. would introduce 100% tariffs on chips, and further restrictions may apply to medicines, among others. However, the economic cost in the short to medium term may cause some changes in this policy, such as more exemptions from certain tariffs. It is also unclear whether it will be effective against China, which has some leverage over the U.S., such as the ability to restrict exports of critical raw materials.

For Poland's economy, the increase in U.S. tariffs may be costly, but in the long term, greater predictability may prompt Polish companies to adapt their export activities to the new conditions. From Poland's perspective, most important is more stable transatlantic political relations, which could strengthen cooperation between European countries and the U.S. in the area of security, including maintaining U.S. support for Ukraine in its war with Russia and a its military presence on NATO's Eastern Flank. The importance of the U.S. for European security has made it difficult to obtain more favourable conditions for EU access to the U.S. market. The increase in EU Member States' purchases of military equipment and energy resources from the U.S., as envisaged in the EU-U.S. framework agreement, could have a positive impact on Poland's security, provided that the U.S. has sufficient production capacity.