

Trade Secrets **US trade**

A farcical Colombian chapter in Trump's trade war

A pointless spat over deportation flights shows the destructive futility ahead



Donald Trump and Colombian president Gustavo Petro © AFP via Getty Images

Alan Beattie YESTERDAY

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Well, that made [no sense at all](#). Believe what narrative you want: following an exchange of heated rhetoric and mutual threats of trade sanctions on social media yesterday, either Colombian President Gustavo Petro backed down from his refusal to allow military deportation flights or Donald Trump blinked and allowed said removals to proceed in a more humane manner. Given the relative sizes of their economies (an [instant analysis](#) by the Kiel Institute of Trump's threatened 25 per cent tariffs showed a distinctly non-negligible 0.4-0.6 per cent hit on annual Colombian GDP) it's quite likely Petro didn't think through the consequences of acting on his own. He might well have found the dollar-based financial system mightier than the pen of his anti-colonialist [poetic defiance](#) on, of all places, Elon Musk's X social media platform. On the other hand, US stock futures fell after Trump made his threats, which might merit some reflection for all those people who've confidently been telling me that the president will never do anything to weaken share prices.

It's also entirely possible that both think they got a result. Petro got the confrontation he wanted rather than just doing the theatre of taking handcuffs off deportees without actually refusing them, as Luiz Inácio Lula da Silva did in Brazil. Trump no doubt thinks his willingness to reach for the heavy ordnance in terms of tariffs and financial sanctions worked, and will do so again. Is this the end of this particular chapter of the saga? What will happen to the threatened tariffs on Mexico, Canada and China to be imposed on Friday? By now you know my habitual quotation from screenwriter William Goldman (of whom I'm genuinely thinking of carrying around a cardboard cut-out): [nobody knows anything](#).

Despite said mantra I did ask you all to guess what Trump would do first on taking office, and I report back on that below. Today's main piece is on how tax and trade wars combine to create a whole new conflict. Responding to reader demand, I also look at Trump's plan for an External Revenue Service. **Chartered Waters** is on Bitcoin. Any thoughts on anything: alan.beattie@ft.com.

Chewing the VAT

It seems like we weren't looking at a wide enough field of fire when trying to anticipate the opening salvos. The surprise on the first day of Trump's presidency was the threat to [impose punitive taxes](#) on foreign corporations and nationals in the US in retaliation for what he describes as unfair taxes abroad, as well as the somewhat more predictable decision to pull out the OECD agreement on minimum corporate tax.

The mechanism Trump chose, a little-known 90-year-old provision of the tax code, was unexpected. But the US moaning about foreigners imposing unfair taxes on US companies abroad has a strong recent history. In the past it has spilled into trade disputes and may now do so again, depending on if and how Trump conducts his assault.

Given the number of tech bros swarming over his administration, it's not surprising Trump is repeating his first-term offensive on the [digital services taxes](#) (DSTs) that several European countries have introduced. But since [before his first election](#) in 2016 he's also been moaning about countries with a value added tax. Export rebates on VAT, so the argument goes, act like tariffs by charging US exporters entering a foreign market while foreign companies aren't charged in the US, which doesn't have VAT.

[Few economists buy this argument](#), but Trump's VAT obsession taps into a rich

and venerable vein of grievance on the subject among certain Washington trade lawyers.

The US introduced a tax provision, the Foreign Sales Corporation, in the 1980s to correct for the alleged VAT disadvantage. The EU brought WTO cases against it and an associated measure starting in 1997. After nearly a decade of [prolonged litigation](#) and complaints about compliance, Brussels won.

There was lots of grumpiness on Capitol Hill about the US's sovereign right to tax, similar to the interminable "[zeroing](#)" dispute over WTO rulings against US antidumping methodology. And thus was added another eye of newt to the simmering Washington cauldron of resentment about WTO dispute settlement that caused the US progressively to detach from it.

OK, so. What's Trump going to do about it and what can the EU (the main likely target, certainly for digital taxes) do to defend or counterattack? If Trump uses trade or investment restrictions to punish the EU for its DSTs, the EU's choice is clear and things could get spicy very quickly. As keen readers will know, the EU created an "[anti-coercion instrument](#)" (ACI) precisely because of Trump's previous threats on DSTs. The ACI gives the EU wide leeway to retaliate against foreign governments that use trade tools to attempt to force the EU or its governments to change policy — in this case to kill the DSTs.

The ACI has now been on the books since 2023 and hasn't been used. What better *casus belli* than the original provocation come back again? The only thing is making sure enough member states are on board, since they [gave themselves a big say](#) over deploying the ACI, and Trump will no doubt try to bully or bribe them out of it.

On the other hand, if Trump sticks to using purely tax tools to punish the EU for DSTs, they might find it harder to respond. Power over tax still mainly resides with EU member states, not centrally. The ACI is supposed to be used against trade and investment actions only. If Trump manages to discipline himself to meeting DSTs (and maybe VATs) with tax retribution, he might put the EU in a difficult spot, unable to retaliate collectively. Then again, precision and self-discipline, as Gustavo Petro could now tell you, aren't exactly the traits for which Trump is famous.

Trump's hope springs external

Another weird out-of-the blue plan of Trump's is to start collecting tariff revenue through a new External Revenue Service, part of his insistence that foreign exporters pay the taxes on imports to the US. At least one reader has asked me if this means anything, so as a service I had a think. More usefully, I also went to one of the world's great repositories of customs-related knowledge, Anna Jerzewska, founder of the consultancy [Trade and Borders](#).

The verdict: "no". I'm sure many of you know this already, but companies sending goods across borders generally hire a registered customs broker to do all the formalities including paying duties. For smaller consignments this might be a carrier like FedEx, for larger ones more likely a specialist company or a service offered by the big cargo carriers such as Maersk. The importing company involved typically pays the broker who transfers the money to the customs authorities, in the US's case Customs and Border Protection.

Unless Trump is going to try some impossible scheme such as charging a foreign exporter tax in its home country before the goods are shipped, the system can't really be changed. Jerzewska says: "It's very unclear what any External Revenue Service will do, but what it won't do is collect tariffs in a radically different way. Tariffs are charged to importers, and that will continue." And that, as far as I am concerned, is that.

Hopefully someone can make Trump happy with a plan to do something for show. He could carve out some part of CBP and called it the External Revenue Service if he wants, perhaps fitting its officers out in snazzy outfits featuring a silver belt buckle in the shape of a dollar sign. After all, the Italian Guardia di Finanza, a militarised tax police force who collect customs duties among their other tasks, wear [intimidating grey uniforms](#) complete with ceremonial swords and zip around in impressively heavy-duty [patrol boats](#). Collecting taxes in Italy isn't traditionally a task for the faint-hearted. Someone get Trump a brochure.

None of this posturing will make any difference, of course, to the question of who actually bears the cost of import taxes. A rise in tariffs could be absorbed by the foreign exporter who reduces their prices to keep the post-tax import price the same, or by a company inside the US economy taking the hit from the higher price of imported inputs on its margins. Or it could be passed along to the eventual end-user. The evidence from the first Trump administration is that it was some combination of the second and third. Relabelling existing collection mechanisms won't change this.

My readers know things

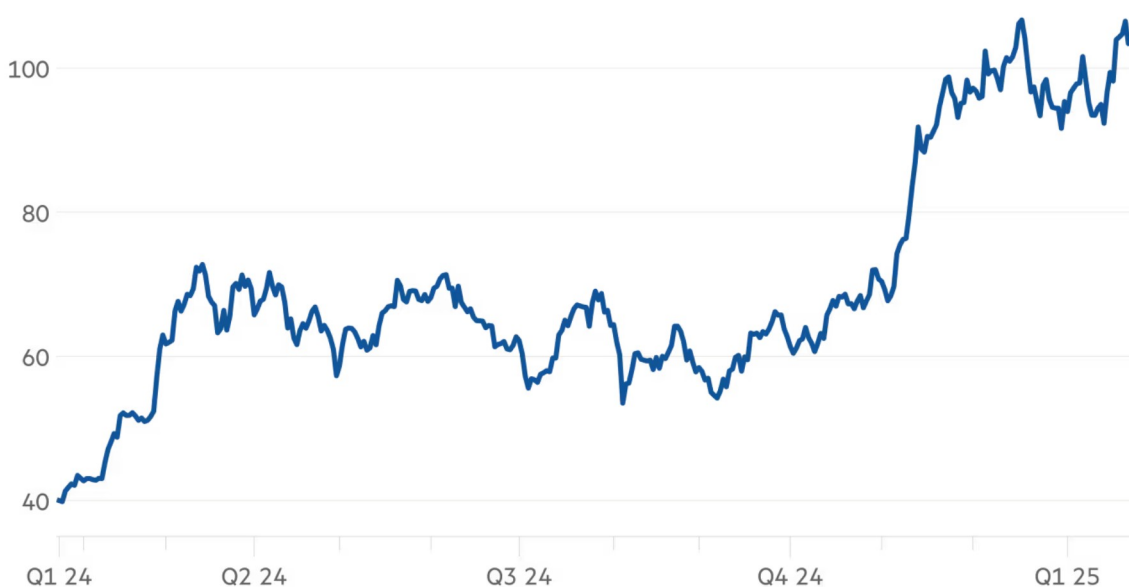
I asked you a few weeks back what Trump's first trade action would be as president. "Repeal the offshore drilling ban, even if he has to break the law" was spot on — Trump issued an executive order to that effect on the first day — assuming we count that as a trade action. "Declare a national economic emergency" was the most innovative suggestion. Not quite yet, but I guess if he follows through with tariffs on someone like Colombia using the International Economic Emergency Powers Act ([IEEPA](#)), that will be fulfilled. Obviously putting tariffs on Mexico and Canada was another popular guess. But in the latter case we're going to have to wait until the February 1 deadline to see if that happens.

Charted waters

Having a cryptocurrency fan in the White House is, it seems, [good for Bitcoin's business](#).

Bitcoin has soared since Donald Trump's re-election

\$'000 per bitcoin



Source: LSEG via markets.ft.com

Trade links

The FT does a [big overview](#) on Trump's waging of global economic warfare.

The EU is contemplating introducing “[Buy Europe](#)” domestic procurement rules. This would be a victory for France, which has pushed the idea for decades.

My FT colleague Martin Sandbu says the EU should [grasp the trading and economic opportunities](#) that Trump's policies are opening up.

Sam Lowe of the Most-Favoured Nation newsletter [heroically does his best to explain](#) that the regional “PEM” convention on pan-Euro-Mediterranean preferential rules of origin, which the UK may or may not take up the [EU's offer to join](#), isn't a customs union. Also, for those keeping up with the twists and turns of UK policy, the government is apparently now [not in favour](#) of a full trade deal with the US after all.

If your idea of fun is a trivia competition with other economics and finance nerds — and let's face it, if it isn't I'm not sure what you're doing here — then the FT's Alphaville is holding the inaugural Washington leg of its legendary pub quiz on February 6. [Details here.](#)

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