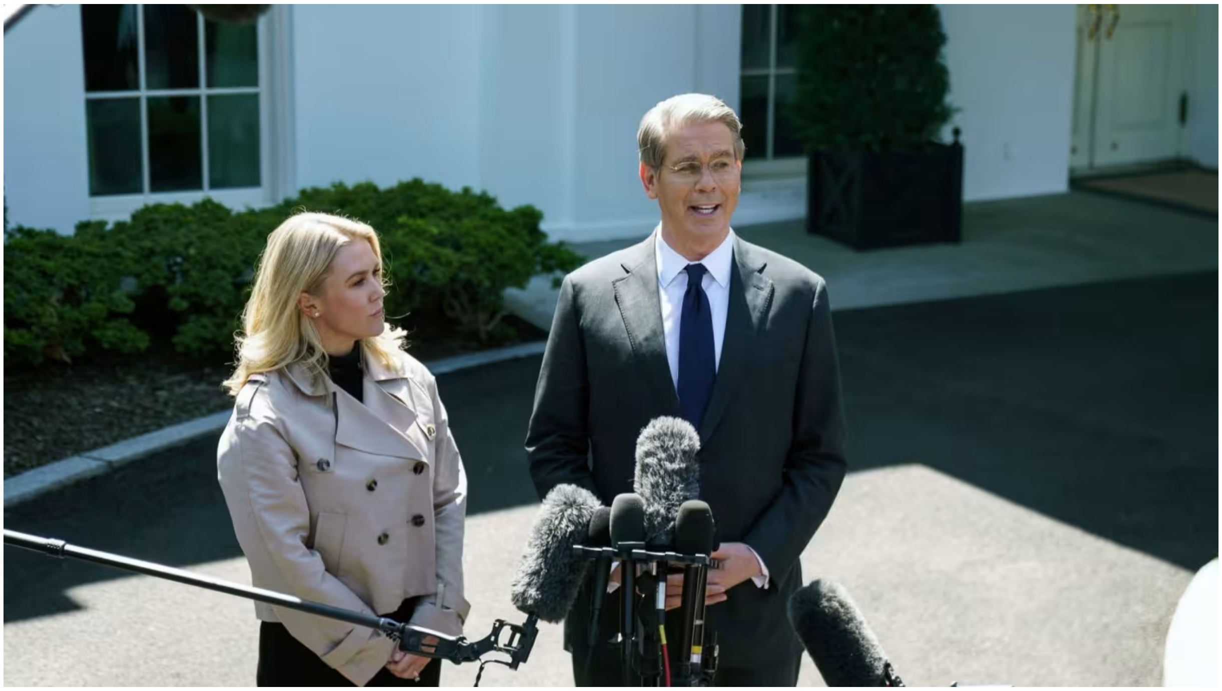
Trade Secrets **Trump tariffs**

Donald Trump's tariffs are just one damn thing after another

US trading partners should hold off offering concessions given this illogical shambles



White House press secretary Karoline Leavitt and Treasury secretary Scott Bessent announce a 90-day pause in the variable component of US President Donald Trump's 'reciprocal' tariffs © Will Oliver/EPA-EFE/Shutterstock

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I dunno, I go on holiday for a few days and in my absence Donald Trump has turned the US's already messed-up tariff schedule into the kind of hopelessly tangled cat's cradle that even the most down-and-out feline* would reject as a place of repose. Oh yes, welcome to Trade Secrets. Today I look at why the president has got himself into such a mess and what his trading partners should try to negotiate. **Charted Waters**, which looks at the data behind world trade, is on US inflation expectations.

*I am aware the term probably doesn't refer literally to cats, but I like the image.

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A tangled mess of tariffs

To catch you up properly (to catch myself up, frankly) would take about three normal-length newsletters. So, as the man said, let me sum up. Since "liberation day" on April 2 when Trump announced his bogus "reciprocal" tariffs involving a baseline 10 per cent on almost all trading partners and higher differential duties on a subset of them, the US has, among other things, imposed previously announced 25 per cent car tariffs (though delayed them on car parts); added another 50 per cent tariff on Chinese imports in retaliation for China's retaliation; last Wednesday paused for 90 days the differential bit of the "reciprocal" tariffs while retaining the 10 per cent baseline and other levies already in place; and announced late on Friday a bunch of exemptions to the "reciprocal" tariffs, including smartphones and laptops. Trump followed up yesterday by claiming the exemptions weren't exemptions, reminding everyone there were still duties on all Chinese imports and warning of across-the-board tariffs on electronics to come. See Chad Bown's timeline ("live blog" might be more accurate) of the trade war for updates, and Joseph Politano's great graphic of tariff rates.

Trump's behaviour is now indistinguishable from someone taking sadistic delight in trampling on the idea that he has any kind of grand plan. Particular joys were Treasury secretary Scott Bessent after last Wednesday's partial "pause" saying that it was all part of a cunning strategy, only for Trump to contradict him and say actually his decision was instinctive and based on financial market reaction, and US trade representative Jamieson Greer finding out about the U-turn halfway through testifying at a congressional hearing.

I won't even try to guess where Trump will go from here, but I will run through my typology of decision-making to show where the randomness comes from. As noted before, the great tariff guru Doug Irwin of Dartmouth College says that historically the aims of US tariff policy fall into three Rs — **restriction** (protectionism), **reciprocity** with trading partners' tariffs and raising government **revenue**. For Trump's policy I now add four Cs (previously I only had three) — **coercion** of trading partners, reducing the **current account** deficit, pursuing **clientelism** and spreading **confusion**.

The steel and auto (and potential semiconductor and pharmaceutical) tariffs are all about restrictive protectionism for particular industries, even if they are given a nonsensical national security label. The 10 per cent baseline "reciprocal" tariff looks like it's more about revenue, though the amount of money it raises won't get anywhere near Trump's aim of replacing the federal income tax. The one thing the higher differential "reciprocal" tariffs *aren't* about is reciprocity, since they have nothing to do with the duties each trading partner charges the US. They're more about coercion (trying to force trading partners to abolish VAT and digital services taxes and so on) and improving the current account, since they are based on bilateral trade deficits. However, the tit-for-tat escalation of tariffs with China *is* about reciprocity. Sort of.

Meanwhile, the consumer electronics exclusions announced late on Friday look to a cynical eye like clientelism, since they favour tech companies that Trump wants onside, and make no sense in an industrial policy context. There are now lower tariffs on laptops and smartphones from China, with which the US is supposed to be competing, than on cheap toys, with which it is not. Finally, Trump in general likes creating confusion to keep people guessing, though he pretty clearly massively overplayed it this time.

You can see how we got here. The administration is trying to hit multiple contradictory targets with a single instrument. On top of that, it is now operating in the context of a toxic financial market reaction it failed to predict and which could return at any point. There's also a high degree of rank incompetence in the administration to round off the picture.

If you assume the bond markets are giving Trump a degree of slack but will start selling off again if he announces fresh tariff increases or suspends the partial "pause" — and frankly, I doubt many investors realise just how high tariffs are nonetheless — he's got some sharply constrained decisions to make. Does he make the partial pause permanent? In that case, where does his coercive leverage over tax and trade policy in other countries go? Is he giving up on closing the current account deficit? Does he now have to abandon his revenue goal? In that case, what funds his planned massive tax cuts? And so on, and on, and on. There will be no consistent logic, just one damn thing after another.

Making deals in a credibility vacuum

OK, so you're a big exporter to the US, watching this shambles from outside with a mixture of horror and pity. You've supposedly got 90 days until the differential "reciprocal" tariffs are restored, though if commerce secretary Howard Lutnick is to be believed — admittedly an "if" so large you'd need a supersized container ship to transport it to Asia — you've only got a month before sectoral tariffs on chips and pharmaceuticals come in. What do you do?

Handing out negotiation advice isn't exactly my thing, but given the widespread bafflement at exactly what the administration is up to, I'm not sure why anyone is hurrying to engage at all. I could understand wanting to bag a deal early on to reduce tariffs if it avoided joining a rush at the end of the "pause". But at this point no one has any credible information about what sectoral duties are coming in before that, whether the pause will ever end and how financial markets are feeling.

The designated lead negotiator is Bessent, but he's got a solid track record of being contradicted by Trump as soon as he says anything. Unlike former USTR Robert Lighthizer, who negotiated the "phase one" deal with China in Trump's first term, Bessent does not have Trump's backing to credibly offer lasting tariff reductions in return for concessions. He also believes the US has a much stronger hand than it actually does, a point made by the Peterson Institute's Adam Posen last week. It might well make sense for other countries not to make any offers for a while yet and let the weakness of the US's position and the threat of renewed market disruption sink in. When all's said and done, I'd be surprised if any meaningful and durable deals come out of this.

In the meantime, all right-minded people agree that everyone else should get on with trading among themselves, shoring up the rules-based global trading system and keeping the multilateral spirit alive with World Trade Organization-compliant rainbows and consensus-based kittens. You know the drill. But how?

There are few signs of grand new designs as yet. The EU said it wanted to negotiate with China to address potential trade diversion, but hasn't specified exactly how this would work. New Zealand, which has a record of coming up with bright ideas every ten minutes (to be fair, one of them eventually became the Asia-Pacific CPTPP regional trade agreement), last week suggested a closer relationship between the CPTPP and the EU. New Zealand's prime minister and the European Commission president duly had a call. But while it was all very cordial, the two blocs' approaches to tariff, digital and regulatory issues are such that any agreement is likely to be modest, maybe something on rules of origin for goods.

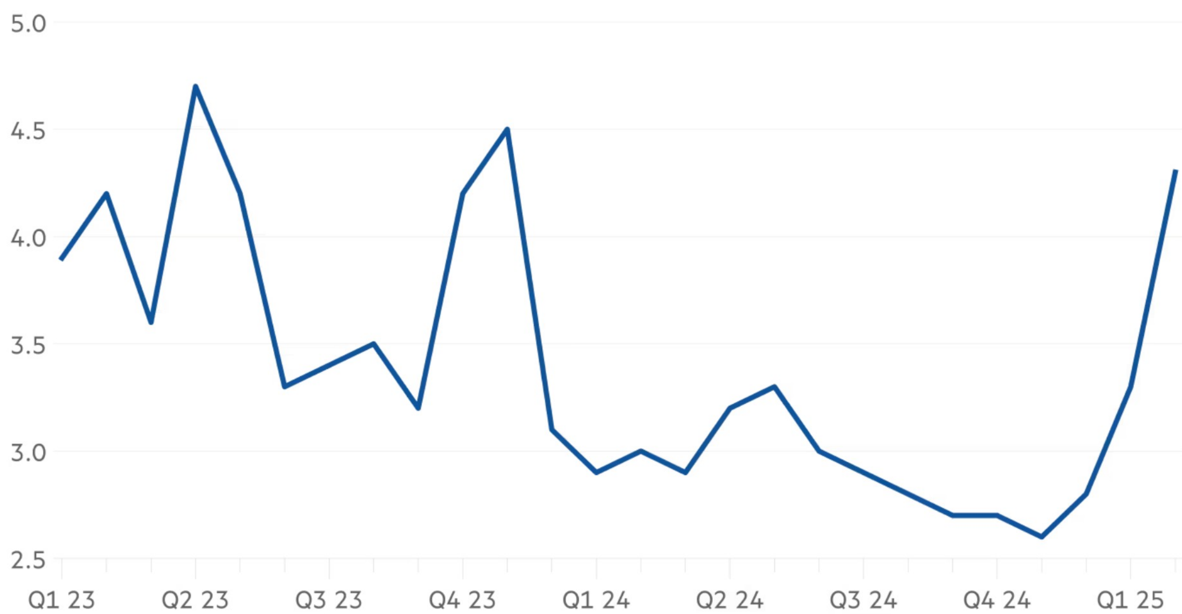
It remains the case that if the EU wants to show it is serious about extending rules-based trade, it needs to ratify the agreement with the South American Mercosur bloc that's all ready to go. But convincing or outvoting France, the main objector to the Mercosur deal among the member states, is more politically challenging than having a nice chat with a friendly Kiwi.

Charted waters

US consumers' inflation expectations were already heading up before the Trump tariffs pushed them even more sharply skywards.

Consumer inflation expectations were already rising

One-year inflation expectations



Source: University of Michigan survey

Trade links

The economist Keyu Jin, writing in the FT, says that if Trump is trying to weaken China, he's doing it all wrong.

Nathan Tankus of the Notes On The Crises newsletter looks at how the Trump tariffs might trigger a crisis for the dollar.

The academics Jonas Nahm and Jeremy Wallace argue that tariffs against Chinese exports won't stop Beijing winning the green tech future.

- China and the EU are looking at setting minimum prices for Chinese electric vehicle exports to Europe rather than using tariffs.

- Simon Evenett and Fernando Martín Espejo of the Global Trade Alert project look at how Chinese exports to the US were deflected to third countries during Trump's first term.

Patrick Schröder at the Chatham House think-tank (usual disclaimer — I'm an unpaid associate fellow there but had nothing to do with this report) says that Trump's tariff "liberation day" shows how vulnerable the US is to shortages of critical minerals.

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