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Trump expands trade war beyond tariffs

Amidst the flurry of executive orders and the omnipresence of President Trump across the media, it has been challenging to decipher clear trade policy signals from the noise of the first month of the administration. However, in terms of the geo-economic implications of Trump 2.0, it is clear that tariffs will be a key feature and leverage point in the US relationship with its main trading partners.

To recap, despite numerous announcements, Trump has implemented just one tariff policy thus far – a 10% additional tariff on Chinese goods, with a 25% universal tariff on steel and aluminium imports to follow from mid-March. The later predominately impacts large trading partners of Mexico and Canada, as well as other partners in Brazil and Germany. Universal tariffs on Mexico and Canada were put on hold for now, giving - perhaps false - comfort to other partners and markets that the administration may take a more pragmatic approach to trade policy if a deal is available to the President. Elsewhere, developments towards a peace settlement between Ukraine and Russia may have also underpinned a rise in the euro and European equity markets this week.

So far, Trump has not targeted the EU directly, despite his punchy rhetoric on the bloc's large goods trade surplus with the US. However, the steel and aluminium tariffs will hit producers across Europe, while the latest announcement on "reciprocal tariffs" could be the most impactful measure yet on the EU, with the mooted inclusion of local VAT rates and digital taxes as quasi-tariffs by the US. Trump has signed an executive order to investigate these so-called tariff disparities on a country-by-country basis and remedy these divergences with fresh US tariffs, potentially from early April.

With current EU tariffs on the US close to free trade status, this in itself would not be too damaging. Instead, developing countries, such as Brazil and India, with relatively large tariff barriers are set to be hit hardest. However, the order also indicated that other domestic taxes or perceived barriers by trade partners, such as VAT, may be treated as an additional tariff which "disadvantage" US exporters. In a European context, this implies standard VAT rates (which average c.20%) could be in line for reciprocal US tariffs. In Ireland's case, a VAT rate of 23% is currently among the highest in the EU.

While we don't yet have exact details of how these reciprocal tariffs will work, they pose an imminent risk to the EU's export sector. However, as before, the interregnum between executive order and implementation gives a window for the EU to strike a deal with the US, which might yet be tangled up with geopolitical factors such as increased European defence spending.

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