MEMO

TO: U.S. Chamber Members and Interested Parties

FROM: Neil Bradley, Executive Vice President and Chief Policy Officer

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RE: Background information on reciprocal tariffs

The Trump Administration is set to announce “reciprocal” tariffs on America’s trading partners. On its face, such a proposal seems straightforward: If Country A imposes a 10% tariff on machinery imported from the United States, the United States would impose a 10% tariff on machinery it imports from Country A.

Yet the administration is reportedly taking an expansive view of what constitutes “reciprocity.” Such an approach could be particularly harmful to American consumers, manufacturers, and exporters.

The Downsides to Even a Limited Approach to Reciprocity

Raises Prices on Consumers, With Little Reciprocal Benefit

Countries generally do not import and export the exact same goods or services. In fact, U.S. trade negotiators have always sought a “balance of benefits” in trade negotiations with other nations, prioritizing market access for U.S. exports that U.S. companies produce in large quantities and high quality. We shouldn’t be especially concerned when a country imposes tariffs on items America doesn’t produce in meaningful quantities. The White House Office of Trade and Manufacturing Policy 2019 report advancing reciprocal tariffs cited as an example green tea, noting that Thailand at the time imposed tariffs of 90% and Japan 17%, while the U.S. only imposed a 3.2% tariff. The U.S. produces very little green tea. In 2024 we exported less than $40 million worth of green tea products, while importing over $200 million. Imposing “reciprocal” tariffs on green tea will raise prices paid by American consumers, but it won’t result in a surge in American green tea production.

Cases Where the U.S. Imposes Higher Tariffs

The 2019 White House report noted that there were over 140,000 product lines (at the 6 digit Harmonized System identification level) where the U.S. imposed higher tariffs than our trading partners. One such example is autos. Much has been made of the EU’s 10% auto tariff on U.S. autos, which is obviously higher than the U.S. 2.5% tariff. But that 2.5% tariff only applies to passenger automobiles. The U.S. historically imposed a 25% tariff on “light trucks” including pickups and SUVs — a category representing a majority of all autos sold in the U.S. On March 26, Trump signed an order imposing 25% tariffs on autos and light trucks under Section 232 of the Trade Expansion Act of 1962, effective April 3. As described in the order, duties will apply to “imported passenger vehicles (sedans, SUVs, crossovers, minivans, cargo vans) and light trucks.” It also outlines a process to impose tariffs on key automobile parts (engines, transmissions, powertrain parts, and electrical components), which is expected to focus on the value of the non-U.S. content of such automobile parts. The imposition of reciprocal tariffs by the U.S. would invite the EU to do the same by raising its tariffs U.S. light trucks and autos to “level the playing field” on the items where the U.S. already imposes higher tariffs.

Complicated to Administer

“Reciprocity” could generate an explosion in tariff complexity that officials will find impossible to administer. The U.S. Harmonized Tariff Schedule (HTS) sets out the tariff rates and statistical categories for all goods imported into the United States. The HTS categorizes all traded goods into more than 17,000 tariff codes and reflects tariff rates codified in law by Congress. These are the tariffs imports from all WTO members face (though imports under FTAs and programs such as the African Growth and Opportunity Act may receive duty-free treatment).

If “reciprocal tariffs” mean multiplying the 17,000 tariff codes by all 186 of the world’s countries and customs administrations, the result would be 3,162,000 distinct tariff codes. Can the U.S. Customs and Border Protection agency handle this complexity? Is this action aligned with the notion of a government cutting the bureaucracy and red tape that slows economic growth?

What Constitutes Reciprocity

These issues pale in comparison to the larger question of what constitutes “reciprocity.” Proponents of reciprocal tariffs have indicated that the scope of reciprocity won’t just include a comparison of U.S. tariffs to tariffs imposed by other countries, but instead will include items such as Value Added Taxes (VAT), trade deficits / surpluses, nontariff barriers, labor suppression, etc.

Some of these policies, like the VAT and the trade balance, don’t actually discriminate against U.S. exports. Other policies, like non-tariff regulatory barriers, do harm U.S. exports, but are hard to quantify and are best resolved through trade agreements. Still others, like labor policy, should largely be beyond the remit of trade discussions given that their inclusion would invite globalizing truly domestic policy matters.

Value Added Taxes: Both value-added tax (VAT) systems used by well over 100 other countries and U.S. state and local sales taxes are consumption taxes. VATs are imposed incrementally throughout the supply chain on the value added at each stage of production. Sales taxes are generally imposed on final consumption. Importantly, both VATs and U.S. sales taxes apply to both goods produced domestically and goods imported from abroad.

A German consumer buying a car pays Germany's 19% VAT regardless of whether the car is made domestically or abroad. Similarly, an American consumer in Tennessee will pay the state's 7% auto sales tax regardless of whether the car is made domestically or abroad.

Neither VATs nor U.S. sales taxes are imposed on exports. In the case of VATs, the sales tax that has been collected at each stage of production is rebated when the good is exported. In the U.S. the sales tax is never applied to a foreign consumer. VATs and U.S. sales taxes are trade neutral.

Imposing reciprocal tariffs on the basis that a foreign country imposes a VAT would effectively impose the foreign VAT on U.S. consumers. Americans would end up paying both the U.S. sales tax *and* a tariff equivalent to the VAT. In the example above, the Tennessee consumer would end up paying a 19% tariff to equate to the German VAT, plus any other reciprocal tariffs, plus the Tennessee auto sales tax. This policy would significantly increase prices for the Tennessee consumer.

	Current Policy	**"Reciprocal" Policy**
U.S. Tariff	2.5%	10%
VAT "Reciprocity"	0%	19%
Tennessee Sales Tax	7%	7%
TOTAL	**9.5%**	**36%**

Labor Policies: Critics of trade often point to the differences in labor costs and policies in the U.S. compared to other countries. While it is true that the cost of labor impacts the cost of production, it is not the case that differences in labor policy directly translate to differences in the balance of trade.

The United States runs trade deficits both with countries with lower minimum wages and relatively similar levels of unionization – like Mexico; but also with countries with higher minimum wages and higher levels of unionization, like the European Union and Japan.

Labor policies are largely a reflection of a country's domestic concerns. Imposing tariffs as a means of "offsetting" differences in labor policies is an effort to globalize labor policy – which begs the question, if it is reciprocal for the U.S. to tariff countries with lower labor costs, are other countries justified in tariffing the U.S. in an effort to get us to adopt their higher labor standards?

Regulatory Barriers: Regulatory barriers such as product standards, environmental requirements, sanitary, and phytosanitary measurers can all impede legitimate trade. Of course, every country, including the United States has such laws for the purposes of protecting consumers and advancing other legitimate governmental interests. Determining when a regulatory barrier has gone beyond protecting legitimate domestic interests and is principally serving to deter or block foreign imports is of course a matter of intense debate. Negotiations over bilateral or multilateral trade agreements offer the best opportunity to remove non-tariff barriers to trade and work towards regulatory harmonization or recognition.

Attempting to assign a value to regulatory barriers and impose that cost via tariff, would be entirely subjective. It would also invite retaliation for U.S. non-tariff barriers, including for example, America's sugar quota system that significantly limits the importation of sugar and complex rules of origin requirements that impact the importation of textiles.

Trade Deficits: The overall U.S. trade deficit is not the result of foreign trade barriers. As Martin Feldstein, who chaired President Ronald Reagan's Council of Economic Advisers, has written about the cause of trade deficits:

> The real reason is that Americans are spending more than they produce. The overall trade deficit is the result of the saving and investment decisions of US households and businesses. The policies of foreign governments affect only how that deficit is divided among America's trading partners.

A country with a current account deficit (of which a trade deficit is typically the largest component) must by definition have a capital account surplus of identical value. The current account records trade in goods and services and net earnings on foreign investments. The capital account records international investments themselves (as opposed to earnings on them), both inbound and outbound.

The U.S. currently runs a significant capital account surplus which means the United States is a net importer of savings from abroad.

At present, the U.S. capital account surplus and the corresponding trade deficit is overwhelmingly due to the large U.S. fiscal deficit, which today surpasses 6% of GDP.

The federal government finances this deficit through the issuance of Treasury securities, some of which are purchased by foreign governments and private enterprises. In this manner, the United States is able to finance ongoing consumption and capital spending in excess of its current savings.

A trade or current account deficit is often a sign of economic good health, signaling that purchasing power is strong and consumers are optimistic enough to spend. Historically, the U.S. trade deficit has expanded when the U.S. economy has grown faster than those of our major trading partners, as in the expansions of the 1980s and 1990s. By contrast, the U.S. current account has moved in the direction of a surplus in recessions, as happened in the Great Depression and the 2007-2009 recession. (The U.S. trade deficit was 3.1% of GDP in 2024, down from 5.5% in 2006.)

In fact, higher tariffs lead to higher trade deficits, not surpluses. According to a Chamber review of data from the Geneva-based International Trade Center and UNCTAD, 25 of the 30 countries with the world’s highest tariffs have trade deficits. The overwhelming majority of these high-tariff countries have very low incomes, and the few high-tariff countries with trade surpluses—such as Algeria, Chad, and Congo—serve as poor models for U.S. economic policy.