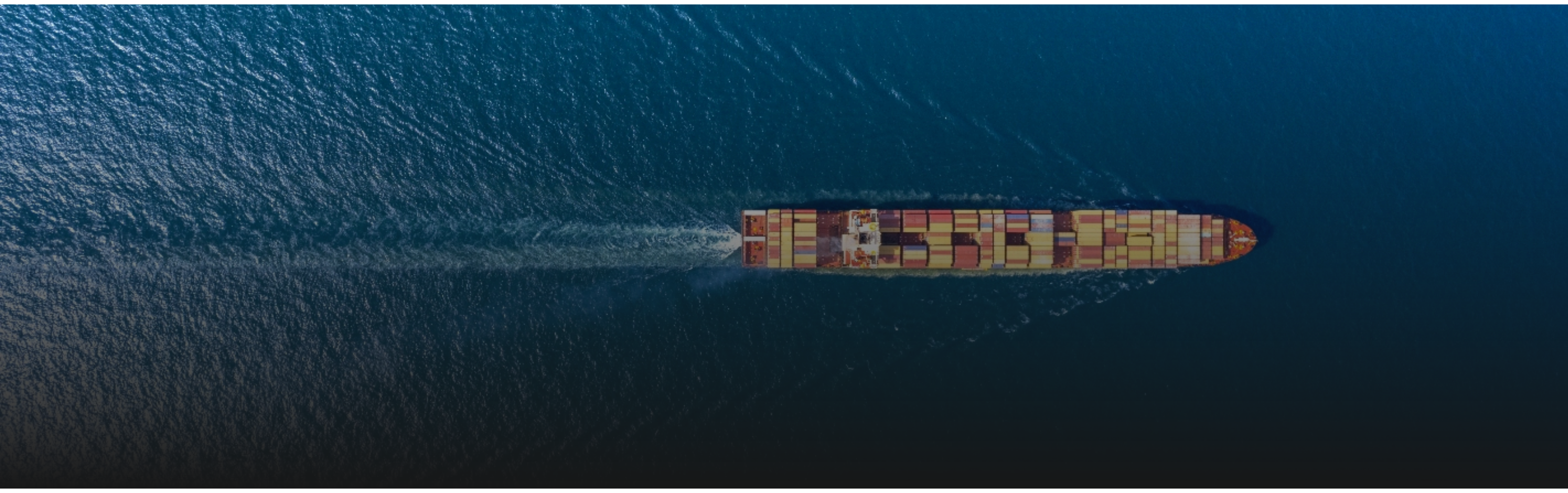

Stephen Woolcock February 27th, 2025

The US reciprocal tariff plan is anything but reciprocal

__Stephen Woolcock__ writes that the Trump administration's recently issued Reciprocal Trade and Tariffs memorandum is a unilateral plan that would damage international trade and economy more than the other tariffs proposed by the US.

Donald Trump's White House has issued two memoranda setting out the current administration's plans on trade. The first one, the America First Trade Policy, of 20 January, calls for a comprehensive investigation by US government agencies of other countries' "unfair" trade practices, plus reviews of bilateral trade agreements, US trade with China and much else. These investigations are to report by April 2025 and will form the basis of "a fair and reciprocal plan" according to which "the equivalent of a reciprocal tariff with respect to each foreign trading partner" is planned. If implemented, this plan would represent a decisive turn towards unilateralism by the US.

The Reciprocal Trade and Tariffs memorandum, of 13 February, is a unilateral "reciprocal" plan that would damage international trade and economy more than the other tariffs proposed by the US, which represent a re-run of those imposed during the first Trump administration. Back then, the trade disruption was ultimately managed. NAFTA was renegotiated by Canada and Mexico. US trading partners retaliated. For example, the EU imposed tariffs on Euro 4bn worth of US trade. But in 2021 agreement was reached to suspend the steel tariffs and retaliation and replace them with a tariff rate quota. This arrangement expires in March 2025, hence the proposed new measures by the US.

The proposed "reciprocal tariff plan" is a misnomer. It is in reality unilateralism or at best a unilateral US redefinition of what is reciprocity. The international trading system, established over 70 years ago under US leadership, was based on reciprocity and non-discrimination. The World Trade Organization regime defines reciprocity as "a broad balance of benefits" of commitments to open markets to foreign competition. Over the past seven decades, the US has engaged in reciprocal negotiations that have reduced tariffs but also opened world markets for US providers of services and investors, and provided binding commitments to protect the intellectual property rights of US science-based industries.

If the US has lower average tariffs than other WTO members, it is because of deals reached that provided benefits for US companies in sectors in which they had a competitive or comparative advantage. Negotiations among like-minded countries in plurilateral agreements or at a bilateral or regional level have also been based on similar principles.

So, the US "reciprocal" tariff plan is in fact a unilateral move that would unpick previous agreements that were based on reciprocity. The US has a trade deficit in goods, but it has trade surpluses in services, especially in digital services. For example, the US had a structural surplus in services with the EU of $105bn that goes some way to redressing the $150 bn US deficit in goods.

The "reciprocal" tariff plan envisages separate "tariffs for each foreign trading partner." This undermines the non-discrimination principle known as Most Favoured Nation (MFN) on which previous multilateral trade deals were based.

National treatment

Let's now look at the other principle on which non-discrimination is based: that of national treatment. The "fair and reciprocal plan" goes well beyond tariffs. In determining "equivalent reciprocal tariffs", it proposes identifying "unfair taxes" and non-tariff barriers to US suppliers, such as subsidies or burdensome regulatory requirements. In other words, regulatory measures covering chemicals, food safety, environmental and personal data protection or the digital economy in general could be seen as justifying an equivalent US tariff.

Other policies the plan covers are manipulation of exchange rates, wage suppression and structural impediments to competition. The application of the national treatment in international trade agreements has the function of providing national governments with regulatory autonomy, or the right to regulate, while ensuring that these measures are "fair" or not unduly restrictive of trade and investment.

In practice, market access means some loss of regulatory autonomy and since the 1960s much trade and investment policy has been about how to balance the two. Such balance has been sought by agreeing on common approaches to regulation or standards, or accepting that other countries' regulatory measures are equivalent. The US plan would define unilaterally what is "fair" and either impose tariffs equivalent to the degree of "unfairness" or use the threat of such a tariff to coerce its trading partners to change their regulation.

The digital economy

The implications of this can be illustrated in the case of the digital economy. The US and Europe have long adopted different approaches to regulation and standards. The US approach is more industry-led, meaning that standards are determined by which company or industry standard prevails on the market. Europe, in line with international standards-making in general, has sought to ensure competition by having all market participants agree to a neutral standard.

The European approach has also been to balance market interests and the pursuit of legitimate public policy objectives. In transatlantic relations this has created tensions in terms of industrial and food safety standards in the past. In the digital economy also, the EU has established standards to ensure personal data protection, whereas the US approach is based on industry determined (voluntary) standards.

In terms of disinformation (knowingly distributing false information for profit), the large US platforms are relieved of any legal liability under the Communications Decency Act of 1996, so here also the US approach has been voluntary. The EU worked with large platform service providers to develop a Code of Practice on Disinformation and thus find a compromise, but there were problems with the implementation of this approach even before the recent pivot to a libertarian line in Washington.

Divergences in approach to regulation threaten the future of an open international digital economy. In July 2024, 80 WTO members agreed on a modest step towards agreement on e-commerce, but the US declined to participate. Bilaterally, the US and the EU have been seeking a common approach to the digital economy, among other things, in the Trade and Technology Council (TTC). But given the Trump administration's view of the EU, the future of the TTC must be in doubt.

In the field of artificial intelligence, the US did not sign the Statement on Inclusive and Sustainable AI for People and the Planet of February. It would seem that "inclusive and sustainable" sounds rather too much like the kind of "ideological bias and social engineering" barrier to free markets the White House Executive Order on AI of 23 January 2025 is seeking to eradicate.

Rather than support joint efforts to find agreement, Vice-President JD Vance used the occasion of the recent Paris AI Summit and the Munich conference on security to berate other governments for excessive regulation. In his video call at Davos, President Trump criticised the EU for investigating and fining US companies for anti-competitive practices. Apple has been fined Euro 1.8 bn for anti-competitive practices. Meta has been fined Euro 1.2 bn for infringement of Chapter V of the EU General Data Protection Regulation. Facebook, Twitter and YouTube signed the EU Code on countering illegal hate speech online, but "X" left the code when Elon Musk bought Twitter and changed its name. Transatlantic tensions have been inflamed by US rhetoric and the attempt to defend the use of internet platforms to support right-wing politics in Europe on the grounds of freedom of speech.

The US is doubling down on an industry-led approach to the digital economy, which means standards determined by the big US based platforms. If the reciprocal tariff plan is used to try to coerce other countries to follow such standards, they are likely to defend their interests. The most telling target in any retaliation would be US digital services exports and access to data. For example, the EU could use the Anti-Coercion Instrument (ACI) it has recently adopted for such purposes. But the value of such a retaliatory instrument is in neutralising the threat of coercion rather than in its application. A transatlantic split on the digital economy would be costly for both sides and would endanger the future of an open international digital economy, with long term implications for the world.

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