TRADE talks

A podcast about the economics of trade & policy

with Chad P. Bown

Episode 207. What happened on Trump’s Tariff Day

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Chad Bown: On Wednesday, April 2nd, President Donald Trump celebrated what he was calling “liberation day.” He did it by making American trade a lot less free.

We are not going to call that day liberation day. To us, it will always be “Tariff Day.” So what is happening, and what does it all mean?

Chad Bown: You are listening to an episode of *Trade Talks*, a podcast about the economics of trade and policy. I'm your host, Chad Bown, the Reginald Jones Senior Fellow, at the Peterson Institute for International Economics in Washington.

Chad Bown: You may have noticed, I just said “we.” And that is because I am joined by a very special guest.

Soumaya Keynes: Well, hello there, Chad.

Chad Bown: Do you want to introduce yourself?

Soumaya Keynes: I would be delighted to introduce myself. I am Soumaya Keynes, formerly of *Trade Talks*, now at the *Financial Times* and host of a different podcast, *The Economics Show*, although technically, I am currently on maternity leave.

Chad Bown: Formerly of *Trade Talks*? Soumaya, I don't think anyone ever leaves *Trade Talks*. So, maternity leave, has it been relaxing?

Soumaya Keynes: Well, for a start, I have a horrible cold, so that's generally stressing me out. Apologies to listeners. But also yesterday I was watching the tariff announcement and I would say that was the opposite of relaxing. Would you use the word relaxing to describe yesterday?

Chad Bown: No, unfortunately not at all.

Soumaya Keynes: Okay, well look, let's get into it.

I was watching the announcement as everyone else was and noting a few things. Number one, the President loves to talk. He said so many words, and a lot of them were very familiar. He was complaining about a lack of reciprocity. He was talking about America's national security, how that was being undermined, and he was saying that there is a "national emergency that threatens our security and our very way of life."

Chad Bown: Ooh. It does sound bad when you put it like that.

Okay, so he called the national emergency and he announced tariffs – a lot of tariffs, and we will get into those. But first, I think it might be helpful to set out what he *didn't* announce on Tariff Day. Some things were left out. Like copper, pharmaceuticals, semiconductors, lumber, certain critical minerals, and energy products – no tariffs there.

I think with at least some of these, we should expect that there are going to be trade restrictions, just not yet. So the story for them isn't over.

For lumber and copper, they have their own trade actions already in the pipeline.

For other sectors like steel and aluminum, they weren't included because they have already been hit with their own tariffs of 25 percent.

And President Trump has already announced 25 percent tariffs on cars. This is a huge deal, and these tariffs went into effect on 12:01am on the day after Tariff Day.

Soumaya Keynes: There were also some countries left out of Tariff Day. When the president was talking, he had this massive tariff poster with a list of countries and their new tariff rate.

And I obviously squinted at it, very energetically, looking for Mexico and Canada, two of America's most important trading partners. But they weren't there, they were missing from this big Tariff Day announcement.

When the documents came out, it became clear that Mexico and Canada have been tied up in other trade actions by the Trump administration.

He's already invoked the International Emergency Economic Powers Act to hit them with tariffs. Thinking about this new executive order on Tariff Day, they were basically carved out. It said, look, if you want to worry about them, look to those other actions. They set out the tariffs for Mexico and Canada.

But if you read through the whole executive order, there was a sting in the tail. They weren't completely forgotten about. And what it said was if those other actions were to suddenly go away, things couldn't revert back to where they were before Trump came along.

The new baseline tariff for them is going to be 12 percent. That is a hefty tariff that is much higher than the tariff that was there before Trump came on the scene.

Chad Bown: For Mexico and Canada, some products would still get better treatment than that 12 percent. The United States wants to carry on buying cheap oil from Canada, and it still wants companies to comply with the rules of the US-Mexico-Canada trade deal. So, stuff can still come in tariff free if companies stick to those rules. But for everything else, the new baseline tariff is 12 percent.

Soumaya Keynes: Now presumably this was to get some kind of leverage over Canadian and Mexican negotiators. We shall see whether those negotiators accept the presence of that new baseline. I'll bet that they won't.

Chad Bown: Also in the executive order was a statement on *de minimis*. This is the program the United States has in place that allows low-value shipments to come in without having to pay any tariffs whatsoever. The *de minimis* program toward everyone apart from China will stay available for now, or at least until the Customs and Border Protection agency has some way of collecting the associated tariffs.

Soumaya Keynes: So small packages not from China also missed out of Tariff Day for now. They will eventually be brought in.

Okay, so a couple of other things that have come up in discussions. A lot of non-trade people have been entering the chat. Trade in services doesn't get hit by tariffs. That's, not a thing, so far.

Also Russia – so Russia was not on the Trump administration's list. But that's actually because it's affected by a different set of policies. Russia invaded Ukraine. The US government did not like that when that happened. It was very bad. And so there were lots of sanctions and trade restrictions and trade isn't really flowing between the US and Russia anyway. In 2024, the US imported only around $3.5 billion worth of goods from Russia. That's really not very much. The US imports more from Romania or Guatemala. So, yeah, we don't need to worry about Russia for the purposes of Tariff Day.

WHAT TRUMP DID HIT WITH TARIFFS

Chad Bown: Let's talk about what President Trump did hit with the Tariff Day tariffs.

Soumaya Keynes: Most countries for all other products are going to get a 10 percent tariff. Now that's in addition to existing tariffs.

So just take a random product, like a plastic suitcase. The US rate, pre-Trump, was 20 percent. From Saturday, April 5, it's going to be 30 percent. That's even if you have a trade deficit with the US and it's even if you have a trade deal with the US.

Australia, sorry, it's 10 percent.

Chad Bown: That would've been a really big deal. But then it gets worse.

On Wednesday, April 9th, for countries with a trade surplus in goods with the United States, the tariffs will increase again. And for each country, there is a figure set by a formula published on the USTR'S website.[1]

Soumaya Keynes: Most countries get their own special figure, what a treat, except a really bad treat that they will not enjoy. So the EU gets 20 percent, China gets 34 percent, Cambodia gets 49 percent. The UK only gets the floor, so they get a 10 percent tariff.

If you take that same plastic suitcase, it used to have a tariff of 20 percent. If you import it from the UK, it's got a tariff of 30 percent from the EU, it's 40 percent. And Cambodia – I don't actually know if Cambodia does sell any plastic suitcases to the US – but if you wanted to do that, you'd face a tariff of 69 percent.

[1] US Trade Representative (USTR). 2025. Reciprocal Tariff Calculations, April 2. Available at https://ustr.gov/issue-areas/reciprocal-tariff-calculations

Chad Bown: The first nerdy question that everyone had was, how have all of those numbers been calculated? What on earth has happened to contribute to this massive poster the president was waving around.

And guys, the answer is there's algebra. Therefore it must be really smart. But basically what they do is they take the trade deficit and they then divide it by imports, and then they divide it by two.

As one Trump aid told the *New York Post* the divided by two part came because the President is lenient and he wants to be kind to the world.

Soumaya Keynes: Okay, so there has been a certain amount of ridicule of this formula. There was one particular post I saw that said that "your tariff is your star sign divided by the number of boys you'd kissed times by one."

I'm not going to pretend that the exercise was many, many levels more sophisticated than that, but I do think there was a bit more to it than that. So I'm going to try and explain what they were trying to do here with this formula.

Essentially what they did is they asked the question, "what tariff would we need to make imports fall by so much that the trade deficit goes away?" And basically they made some assumptions about how sensitive imports are to tariffs. And those assumptions then gave them their formula. Now, they've tried to cite some papers that talk about those sensitivities, how much prices change when tariffs change, but that's the basic exercise.

It isn't very sophisticated. It makes some very extreme assumptions. It assumes that exports aren't affected at all by tariffs. It is in no way proportionate to unfair trade barriers. It does get the President some very big tariff numbers, so it does what he wants – although not too big because he did want to divide by two.

I guess I'm interested in how stable these figures are. Trade deficits can bounce around quite a bit. Did some of the smaller countries just get unlucky by having this formula calculated in one year rather than the previous year? I guess there'll be much more analysis of this formula to come.

Chad Bown: Yes, there's a lot of really questionable elements to this approach. But one implication of this formula is that there are some really small and really poor countries who are going to be really screwed. It can lead to some odd examples. Madagascar got a 47 percent tariff. What leverage does Madagascar have in potential negotiations with the Trump administration?

Or take a country like Cambodia, not a country that's an existential problem for the United States, but under this formula, Cambodia gets hit with a 49 percent tariff, much higher than even a country like China.

Soumaya Keynes: Thinking about the response to this. A lot of analysts were surprised by how high some of these tariffs were on places in Asia. I.e., Vietnam, Taiwan, and Thailand were all hit by tariffs that were higher than expected.

And that has obviously created problems for all of those executives who were operating a China plus one strategy. For years, the idea was that, since relations are tense with China, you move your stuff out and maybe to Vietnam. And it seems that on Tariff Day, nope, exports from Vietnam to the US are still hit with tariffs. They got a 46 percent tariff.

Chad Bown: Another important detail from the executive order is that these tariffs will only apply to non-American content, provided at least 20 percent of the value of the good coming in is from the United States.

So, if you've got a widget and 20 percent of the value of that is some component that was originally made in America, you don't have to pay tariffs on the part that is US content.

Soumaya Keynes: I just want to underline here how much of a change this new tariff regime represents. Under the old system, for lots and lots of trade, it didn't really matter where the stuff came from.

Under this new regime, it matters a lot because it hugely influences the tariff that you are going to pay, even if you are not in a trade deal. That potentially means huge extra amounts of paperwork for companies as they have to show where a product came from.

And, just stepping back, it could be that companies start to do really well in a market, not because they're the best producer of something at the lowest possible cost, but actually just because they're really amazing at filling in paperwork. I'm just not really sure that's where we want to be.

But look, Chad, why don't you fill us in on China, because there's been a lot of confusion here.

Chad Bown: Stepping back, US tariffs on China after the first Trump administration were already really high because of his first trade war. So on day one of Trump's second term, US tariffs on China were already averaging over 20 percent.[2]

Then over the first two months of his second term, he increased them by another 20 percent. Now you add in the extra ones from Tariff Day, and starting April 9th, suddenly average tariffs on China are going to be over 70 percent.

Then, if China continues to buy Venezuelan oil – so, President Trump issued a separate executive order last week saying that if you buy Venezuelan oil, you're going to get hit with a tariff of 25 percent – if that happens, you put all those things together, we could soon be living in a world where if you tried to import something from China into the United States, the average tariff could be close to a 100 percent.

Soumaya Keynes: I am going to make a really insightful point of analysis here and say that that is a large tariff and it will be basically impossible for exporters or retailers to absorb the whole thing. So have fun American consumer.

Chad Bown: One last point on China on Tariff Day, President Trump also released a separate executive order saying that *de minimis* on China will be gone as of May 2nd. Because apparently there are now systems in place to be able to collect all the tariffs coming in on those small value packages from Temu and Shein.[3]

Soumaya Keynes: Just some other nuggets from this executive order: If anyone retaliates or if manufacturing output falls, then Trump will go further, go harder. So more trade restrictions, more tariffs, fun times.

Chad Bown: That is important because it's possible of course, that manufacturing output might fall *because of* all of these tariffs, in which case the policy response might be to take them off.

Well, he's saying at least in this executive order, the tariffs might go higher if that happens.

One last point is that goods loaded onto the water before April 5th won't get the tariff. So, potentially the point is to try to avoid some disruption there.

[2] See Chad P. Bown, US-China Trade War Tariffs: An Up-to-Date Chart. PIIE Chart, 2025.
[3] See Chad P. Bown, What if Trump halts duty-free packages from China? *Trade Talks* podcast episode 203, February 23.

HOW BIG ARE THESE TARIFFS HISTORICALLY

Chad Bown: Now let's turn to history. I asked Doug Irwin, friend of the podcast, chief tariff historian, and my colleague here at the Peterson Institute, to put these tariff increases into historical context.

Doug Irwin: As I hit think of this historically – the Smoot Hawley tariffs were relatively high, then incrementally put higher – but here we're starting with a base where everyone's getting a pretty low tariff. Obviously, you've done the work on China, China's been an exception for some time.

But everyone else has a sort of baseline, relatively low tariff, and they're jumping up to incredibly high levels. So, Smoot-Hawley took the tariff from 36 percent up to 42 percent – that's about a six percentage point increase. This is so much more because we're hitting so many trading partners – going from zero, in some cases, like Australia with an FTA – up to 10 percent and then taking other countries from 2, 3, or 4 percent on average up to 20 or 30 percent or so. So this is a massive shock to US trade and something we really haven't seen before in US history.

Chad Bown: This tariff episode is extraordinary in more ways than one.

Doug Irwin: I've charted 200 years of history of US trade policy, and you do get some big movements every now and then. But what's behind them is some political consensus – a political coalition of Northern states or Southern states getting together and getting around a certain proposal and working it through Congress and working with the president.

So there obviously has always been a debate over US trade policy, but for big moves it takes a lot of political force behind that to make it happen. And unfortunately, our political system has deteriorated so much – with the delegation of so much power to the president, under the assumption that they would be on board with this post-war system of cooperating with countries and working down trade barriers – we've delegated so many powers that you can have someone come in with a very different view, without much of a political coalition behind you or a political consensus that this is the right direction for the country, with no debate in Congress, no debate on bills on the House floor or the Senate floor, and unilaterally do this incredibly historic thing with respect to US tariff rates.

It's really astounding when you think about it along those dimensions.

Chad Bown: There was one episode that sort of resembles what President Trump might be attempting. In 1971, there was the "Nixon shock," a 10 percent tariff meant to address the US's unbalanced trade at the time.

Doug Irwin: So, we have seen an across the board tariff in the post-war period being imposed. It was President Nixon in August of 1971, imposing a 10 percent across the board tariff. And it was called reciprocal at the time, and there's some reciprocity element to it, but there was a very specific reason for those tariffs and a very specific ask.

The ask was we wanted Japan and Germany to revalue their currencies. This is back under the Bretton Woods system. We had fixed exchange rates. We couldn't devalue the dollar; we couldn't push the dollar down. We had to get other countries to agree to revalue their currencies. And this was the leverage – a term we've heard a lot of recently – to get those two countries to do it. Now, once again, it hit a lot of other countries too that were innocent bystanders, but it put pressure on those two countries and the tariffs went off within 3-4 months because those countries agreed to do that.

So, what we don't see this time is, what is the specific ask? We're going to get two dozen countries coming to the US saying we want to bring our tariff number down. And so, instead of having a multilateral negotiation, we'll have a whole series of bilaterals about what it is that the US has a problem with your specific country. We'd done that with Germany and Japan in 1971, but it was much simpler back then, and the tariffs came off very quickly.

But another reason why that shock wasn't nearly as shocking as this one is that the tariffs in 1971 were not imposed on imports that were already coming in duty-free.

And about half of us imports at that time were coming in duty-free. We didn't have free trade agreements, but there are a lot of US imports of things that we don't produce, and so we don't tax them; i.e., coffee, tea, bananas, tin, and things like that. This time, and we still don't have all the details, but my suspicion is these tariffs apply to all imports.

So whereas in the Nixon shock the 10 percent tariff was only really on half of us imports, these tariffs are going on everything. And so the damage around the world is going to be much greater.

WHAT HAPPENS TO THE US DOLLAR

Soumaya Keynes: Let us talk about the dollar now. So, for the past few months, people have been shouting a lot about this. Essentially Trump's complaint seems to be that America's trade balance isn't adjusting the way that it should.

Chad Bown: I asked Maury Obstfeld – Maury is the former chief economist of the IMF. He's an international economist extraordinaire, and also my colleague here at the Peterson Institute. I asked Maury what he would expect to see in response to these tariffs.

Maury Obstfeld: Well, theory tells us that when a country imposes a broad-based tariff that its currency will appreciate in principle. That appreciation will both make imports less expensive, somewhat counteracting the tariff, though it's probably not a full offset.

It also makes our exports less competitive, meaning our exports go down. All in all, you have some reduction in imports, but also a reduction in exports. And it's very unclear that you will get a big reduction in the trade deficit, if any, reduction at all.

Soumaya Keynes: Okay, so tariffs go up. You might expect the dollar to appreciate in value too, but while Trump was talking on Tariff Day, the dollar didn't appreciate. It actually seemed to depreciate a bit. Not, not by a huge amount, but yeah.

Here's Maury:

Maury Obstfeld: I think the impact of all this on US growth is very relevant for the exchange rate.

There are several mechanisms. Probably the most obvious is if the US were to go into recession because of contractionary effects from all of these announcements. The Fed would cut interest rates, and the dollar would fall.

And if people anticipate that, then the dollar will fall immediately.

Soumaya Keynes: Currency markets are mysterious beasts. We have a lot of offsetting forces here. One thing that analysts have been talking about is whether the lack of a rigorous process for these tariffs might undermine confidence in the US's institutions. Fundamentally, dollar strength has been supported by a belief that the US will be relatively stable and predictable.

Maybe these tariffs are eroding that belief.

Chad Bown: People have been predicting that will happen for a number of years now, and I guess we'll see.

Generally, it's dangerous to say anything definitive about currencies because they change so much. But so far at least it doesn't look like the dollar's moves are going to offset the effects of tariffs for America's importers.

WHO CAN STOP TRUMP'S TARIFFS

Soumaya Keynes: Looking ahead, one important question is whether these tariffs will stick. Could someone sue the US government arguing that actually Trump can't do this?

Chad Bown: He is using a law called the International Emergency Economic Powers Act, or IEEPA. It's been pretty unusual for other administrations to use it, though Trump's team seems to be making a habit out of it.

The idea is that there's an international emergency and the president needs extreme action to respond to a threat to the United States.

Soumaya Keynes: And you might think about hazelnuts from West Africa and think really a threat to the United States. Madagascar has been hit with a 47 percent tariff because it's threatening America's national security.

Chad Bown: During Trump's first term, there were people who tried to challenge the tariffs that he had imposed on the grounds of national security. I spoke to Kathleen Claussen. Kathleen is a law professor at Georgetown University, and I asked her what we learned from those cases.

Kathleen Claussen: The bottom line on almost all those lawsuits is that the government wins almost all the time.

That is to say that, when importers have come forward and said that the President or these agencies have been exceeding their delegated authorities, or that the original delegated authority is unconstitutional, the courts have rejected those arguments.

They've done so on the basis largely that the President is acting in a special realm. That this is not ordinary foreign commerce, but that these tariffs all are related to national security and economic security in some way. And when the President invokes that type of power, he's in this special place where he deserves greater deference than if we were just doing ordinary commerce.

And that's an argument that we haven't seen before in a space that we haven't seen before, so there was a lot of new information and new conversation happening around these statutory authorities both sort of on the street and in the courts.

Chad Bown: Could this new case be different? What might a challenge to this latest action look like?

Kathleen Claussen: There are some arguments out there that this action – in particular, this far reaching, sweeping use of a IEEPA – goes too far and that courts won't accept this use of the statute for this purpose.

There are a couple of dimensions worth mentioning. One is that courts may not be happy with the far reach of the emergency, that this is so broad. This is so vast. This is clearly not what Congress intended in passing the statutes on which the president is now relying.

And the second dimension is that IEEPA does not itself mention the word "tariff." And so perhaps, this use of tariffs again, a court will think has gone too far. But again, by and large, so far what we've seen is a lot of deference from the courts on these sorts of matters.

Chad Bown: Is there another way to stop the tariffs?

Kathleen Claussen: Let's be clear, this authority that the president has – i.e., all of it, the IEEPA power, the Section 232 power, the Section 301 power, and others we haven't even talked about yet, and may or may not talk about in the weeks ahead – that comes from Congress. So Congress has the power – it's in the Constitution right there in Article I – to take back these delegations, to reframe these delegations, and to regulate commerce with foreign nations. That's the constitutional authority that Congress has.

And so with legislation, it can step up and make all of this go away.

Soumaya Keynes: So Chad, how likely do you think it is that Congress will step in?

Chad Bown: Unless the economy goes into some sort of free fall, I think it's probably pretty unlikely. But I wish them well.

Soumaya Keynes: And Congress will be so glad for your well wishes, Chad.

WAS THERE SOME OTHER WAY

Soumaya Keynes: Before we finish, look, it's unlikely that we were going to make an episode saying this was the best idea ever. Have you met us? But my last question is, conditional on the objective being to raise tariffs by a lot, was this the best way of doing it? Could there have been another way?

Chad Bown: Yes! In fact, under the WTO's rules, there is a legal way for the United States to raise its tariffs. This is under something called Article XXVIII.

You do have to pay for it. Meaning the United States would have to accept reciprocal tariff increases by other countries in return. But the reality is I think we're likely to see that kind of reciprocal retaliation anyway. The European Union announced that it's waiting a month to try to negotiate with President Trump, but then it will be prepared to retaliate.

What other countries are going to be doing will of course be the topic of many future *Trade Talks* episodes.

Soumaya Keynes: Chad, do you really think the Trump administration was going to go to the WTO and say, "Hey, should we go through like a very long drawn out legal process so that someone else can decide how much other people can hit us back if we want to raise our tariffs?"

Chad Bown: Yeah, probably a good point. But there is a process. Anyway.

The other thing I want to point out before we go is that I think it's really unclear what's going to happen with US trade deficits with President Trump's new approach to tariffs.

We know that President Trump hates bilateral trade deficits as well as the overall US trade deficit with the world. This motivation for tariffs is an important one in his most recent executive order.

I was talking about this with Maury Obstfeld after we stopped recording though, and Maury reminded me that the overall US trade deficit with the world is a macroeconomic phenomenon. It's the result of an accounting identity between national level savings and investment. The overall trade deficit of the United States is unlikely to change by much even with the United States changing its tariffs.

But with the new US tariffs, *who* the United States has a trade deficit with might change. And it might change a lot.

Suddenly, all of the countries that do get hit with these really high tariffs – the ones bigger than 10 percent – the US imports from those countries will start to fall, and the bilateral deficit with those countries will too. In relative terms, US imports from the lower tariff countries will tend to increase and we will get bigger deficits with them. And the challenge, for economic efficiency at least, is that that reallocation of bilateral deficits is not necessarily a good thing for the US economy.

One of the reasons why the US runs a trade deficit with a country like Cambodia is because Cambodia is really good at making clothing. The world is not going to be a better place if the US starts importing its clothing from somewhere else like the UK, simply because the UK faces a 10 percent tariff and not the 49 percent the is faced by Cambodia. Anyway.

Soumaya, thanks for taking a break from maternity leave and for joining me this week for Tariff Day. Tariff Day was pretty terrible, but it was great to suffer through it with you, just like old times.

Soumaya Keynes: Thank you, and also thanks to listeners for suffering through my horrible sounding voice.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*.

A huge thanks to Soumaya Keynes at the *Financial Times*. She will be back to her podcast soon, so please do check it out. It is called *The Economics Show with Soumaya Keynes*.

A big thanks as well to Doug Irwin and Maury Obstfeld at the Peterson Institute and Kathleen Clausson at Georgetown Law. Thanks to Melina Kolb, our supervising producer. Thanks to Isabelle Robertson, our audio producer, and thanks to Alex Martin and Sam Elbouez on digital.

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See you next week, everybody.