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What's Been Happening

1 — Trump's Reciprocal Tariffs Begin to Sow Chaos — 1

[**In One Sentence**]

- President Donald Trump declared a base 10% tariff on all imports into the United States, with higher tariffs planned for 60 trading partners that have significant trade deficits with the U.S.
- Among these countries, 20% tariffs are to be imposed on the EU, 34% on Mainland China, 32% on Taiwan, 24% on Japan, 46% on Vietnam, and 25% on South Korea.
- Pharmaceutical companies breathed a sigh of relief after President Trump announced they would be excluded from reciprocal tariffs, sparing the sector from new trade penalties.
- Other products, such as copper, semiconductors, lumber, certain critical minerals, and energy sources and products were also exempted from the tariff.
- The 25% auto tariffs on imported vehicles have begun to take effect, targeting cars not assembled in the U.S., with additional tariffs on auto parts like engines and transmissions due to take effect from May 3.
- Treasury Secretary Scott Bessent urged countries not to retaliate against U.S. tariffs, warning that such actions could trigger further escalation.

[**Mark the Essentials**]

- Tariffs are expected to significantly impact automobile companies with high import reliance—Volvo, Mazda, Volkswagen, and Hyundai are most at risk, while even U.S.-assembled vehicles contain 57% imported content leaving firms like GM particularly vulnerable due to high import rates and low domestic parts content.
- Despite being exempt from tariffs, uncertainty remains for the pharmaceutical sector as the Trump administration considers a Section 232 investigation that could lead to national and economic security-based import duties under the Trade Expansion Act of 1962. Section 232 investigations have already been announced for copper and lumber.
- Trump claimed that the new tariffs would generate over $1 trillion of revenue and reduce the national debt and offset income taxes but economists question this projection, noting that higher prices may curb consumer demand for goods.

- In response to U.S. tariffs, China's Finance Ministry announced matching 34 percent tariffs on U.S. goods, while the Ministry of Commerce added 11 American firms to its "unreliable entities" list, restricting their business activities in China.
- The sweeping tariffs have drawn sharp criticism from U.S. allies and partners—burdening Vietnam, Taiwan, and Japan with tens of billions in surcharges—and have prompted European plans for retaliation. Meanwhile, China also sees a diplomatic opening, with Xi Jinping set to visit Southeast Asia to position China as a more stable and reliable trading partner.

[**Keeping an Eye On…**]

- Eight long decades after the Normandy landings, 'Liberation Day' has finally arrived – or so it seems for President Donald Trump and his minion, Peter Navarro. The core grievance of the duo is that the U.S. runs large and persistent bilateral trade deficits because the U.S.' trade partners neither bind their tariff rates at the U.S.' low levels or apply tariff rates on a reciprocal basis. To remedy this defect, elevated reciprocal duties are to be applied on these countries' exports to foster genuine reciprocity. In truth, the additional duties imposed are not intended to etch reciprocity within these other countries' tariff schedules; the worst offenders with the highest duties, such as India, are slated to pay lower additional tariffs compared to a lower tariff country, such as China or Vietnam. Rather, the additional duties are to be based on the size of their respective trade surpluses with the U.S., with the reciprocal tariff rate calculated using that country's goods trade surplus with the U.S. divided by the total amount of goods exported by that country to the U.S. and then halving this figure to arrive at the final reciprocal tariff rate. The Trump administration's reciprocal tariffs make a mockery of the most favored nation (MFN) principle and contravene multilateral trade law. Worse, the duties will not eliminate the U.S.' goods trade deficits, given that the causes of these deficits range much beyond the level of foreign tariffs and are intimately connected with issues such as comparative advantage and domestic savings and consumption rates. A high tariff country like India, after all, continues to run a persistent goods trade deficit.

  The Trump administration's reciprocal tariffs amount to a second unilateral 'war of choice' by America during the first quarter of the 21st century. Like its predecessor war in Iraq which doomed the political fate of America's neoconservative cohort, the failure of this newest unilateral 'war of choice' will also reverberate within U.S. domestic politics for a long time to come. The international trading system will be poorer off too, given the sheer frivolousness of the Trump-Navarro action. In the last 100 years, the two great periods of U.S. tariff raises - the Smoot-Hawley tariffs in the early 1930s and the Nixon Shock of the early 1970s – were both precipitated by a breakdown of the international monetary order of the day, leading to structural misalignments in currency rates and 'beggar thy neighbor' charges of trade self-preferencing. This time around, the U.S. dollar is just marginally overvalued and the monetary order more or less undisturbed – conditions that are hardly suited to sparking a trade war. In any case, before the Trump-Navarro reciprocal tariffs become a permanent reality, they will likely have to pass legal muster at home. This is not a given. The tariffs cite the IEEPA and trace their emergency authority to deal with an "unusual and extraordinary threat" from the "War and National Defense" title of the U.S. Code. Whether longstanding trade deficits with all and sundry, including allies and partners, truly amounts to a national emergency or whether the measure, rather, amounts to an unlawful "claim to discover in a long-extant statute an unheralded power to regulate a significant portion of the American economy" remains to be seen. The tariffs will surely be tested first in

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domestic court - even if the WTO's dispute settlement body is unable to issue a definitive verdict, given the lack of a quorum on its Appellate Body.

[**Expanded Reading**]

- These are the hardest-hit US trading partners under Trump's tariffs, *CNN*, April 4, 2025
- Trump's Trade War Escalates as China Retaliates With 34% Tariffs, *The New York Times*, April 4, 2025.
- Trump spares drugmakers from tariffs; costs could still go up, *The Hill*, April 4, 2025.
- Trump's 25% auto tariffs are in effect. What investors need to know, *CNBC*, April 3, 2025.
- With Trump's Tariffs, the Chasm Between Allies and the U.S. Widens, *The New York Times*, April 2, 2025.

2 — Trump Administration Vows to Tackle China's Shipbuilding Dominance Head-on — 2

[**In One Sentence**]

- President Donald Trump has vowed to counter China's shipbuilding dominance via port fees on Chinese vessels, via tax incentives, as well as a new White House Office of Shipbuilding housed with the National Security Council.
- Labor unions and steel producers have backed USTR's proposed port fees on Chinese ships, while shipping industry groups warned of doubled freight rates and supply chain disruptions.
- Trump's proposed fees on China-linked ships has divided industry groups, with manufacturers backing US maritime revival while exporters fear trade disruption.

[**Mark the Essentials**]

- There is strong bipartisan support backing the rebuilding of U.S. shipbuilding capabilities, with even the Biden administration having previously considered imposing port fees and penalties on Chinese vessels.
- The EU and Canada have rejected Trump's Chinese vessel fees and U.S.-flag requirements, warning of trade disruptions while advocating for mutual consultations under the aegis of the OECD.
- The proposed $1.5M Chinese vessel fees threaten U.S. exports, with agricultural exporters potentially staring at major losses annually. Smaller ports too are threatened with closure.
- Trump's Chinese vessel fee plan faces feasibility challenges, given that Japan and South Korea lack the capacity to replace China's shipbuilding dominance, at least in the short to medium term.

[**Keeping an Eye On...**]

- With each passing week, definitive Section 301 measures targeting China's maritime, logistics and shipbuilding sectors appear closer to realization. In January 2025, following a probe of China's shipbuilding sector, the Biden administration had determined that China, by unfairly subsidizing this sector, "had displace[d] foreign firms, deprive[d] market-oriented businesses and their workers of commercial opportunities, lessene[d] competition, and create[d] dependencies on China, increasing risk and reducing supply chain resilience." In February 2025, the Trump administration picked up the baton, proposing a list of remedies. These include: (1) charging Chinese shipping operators a fee of up to $1 million per entrance of any of their vessels to a U.S. port or a fee of $1,000 per ton of vessel capacity (service fees on non-Chinese operators with fleets comprised of Chinese-built vessels, and service fees on non-Chinese operators with prospective orders for Chinese vessels is also envisaged); (2) mandating that an increasing share of U.S. goods exports must be shipped on U.S.-flagged and build vessels; (3) taking measures to reduce exposure to China's National Transportation and Logistics Public Information Platform (LOGINK); and (4) engaging

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with allies and partners to coordinate actions to combat China's dominance in the shipbuilding sector. On this last point, it bears remembering the Biden administration had begun the process of stripping out Chinese-built ship-to-shore cranes from U.S. ports (in favor of Japan's Mitsui Co. Ltd.) to address cyber-vulnerability risks. Over on Capitol Hill, meantime, a bipartisan bill has been introduced to revitalize the U.S.' shipbuilding and commercial maritime industries, including by providing for a 25% investment tax credit for shipyard investments and a mandate requiring a portion of commercial goods imported from China to move aboard U.S.-flag vessels starting 2029. A Strategic Commercial Fleet Program is also envisaged, given that not even one of the 60 merchant fleet vessels currently enrolled in the U.S. Defense Department's Maritime Security Program (MSP) and Tanker Security Program (TSP) was produced in the United States. The last three tankers enrolled in the DoD's program were in fact built in China!

The U.S. shipbuilding sector's woes are for real, with the industry being a shell of its former self. In the 1950s, before the rise of Japanese, Korean and Chinese shipbuilders, U.S. shipyards churned out the largest number of vessels; today, U.S. shipyards produce less than 1% of the world's commercial fleet. And it is equally true that Chinese shipbuilders have benefited from enormous government subsidies, which has reallocated global production in its favor. But this having been said, the roots of the slow demise of the U.S. shipbuilding sector can be traced much closer to home – and, specifically, in the aggressive protectionism sought and handed down to the domestic industry for a century and counting. The most notorious of these laws, the *Jones Act of 1920*, restricts all domestic seaborne transportation of goods to ships built, owned and operated by U.S. nationals (with very limited exceptions). And for as long as the U.S. has signed free trade agreements with other countries dating back to the 1980s, the shipbuilding sector and related cabotage laws have been carved from the purview of reciprocal trade concessions. Cosseted behind tall protectionist walls and having chosen to subsist on a captive domestic market, the competitiveness of U.S. shipbuilding has eroded to the point that U.S.-built vessels today cost an estimated four to five times that of vessels built in foreign shipyards. So, will the executive and legislative branch actions lead to a turnaround in the fate of this sector? With dedicated effort, perhaps yes. And then also, only up-to-a-point. But if the exactions on Chinese operated or built vessels are imprudently enforced or mandates requiring a portion of commercial trade to be moved aboard U.S.-flag vessels drawn up with hasty timelines, the consequences for U.S. agricultural exporters could be dire. Already, bulk grain exporters have seen a 40% increase in freight cost following the initiation of the Section 301 probe. And in which case, the retaliatory ag. tariffs stemming from Trump's trade war might turn out to be the lesser of two headaches insofar as U.S. farmers and ranchers are concerned.

[**Expanded Reading**]

- China port fees need more nuanced strategy, shipping industry tells hearing, *FreightWaves*, March 31, 2025
- Trump's Port Fees On Chinese Ships Threaten US Maritime Industry, Say Executives, *Reuters,* March 25, 2025
- Public Hearing Regarding Proposed Actions in Section 301 Investigation on China's Targeting of the Maritime, Logistics, and Shipbuilding Sectors for Dominance, United States Trade Representative, March 21, 2025
- USTR Finds That China's Targeting the Maritime, Logistics, and Shipbuilding Sectors for Dominance Is Actionable Under Section 301, United States Trade Representative, January 20, 2025

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[**Legislative Developments**]

- Rep. Dusty Johnson (R-SD) and the bipartisan House Agriculture Trade Caucus have introduced H. Res. 230 urging the Trump administration to pursue new trade agreements and enforce existing ones to eliminate unjustified barriers hindering U.S. agricultural exports.
- Sen. John Cornyn (R-TX) introduced the bipartisan *FIGHT China Act of 2025* to restrict U.S. outbound investment in key Chinese tech sectors, mirroring a House bill that nearly passed last year but was blocked amid year-end budget negotiations.

[**Hearings and Statements**]

- The Senate confirmed Jeffrey Kessler (54-45) as Commerce under secretary for the critical Bureau of Industry and Security leadership position, bringing both China tech. and trade as well as past Trump-era policy expertise.
- House Democrats have blasted President Trump's tariff policies and potential bypassing of Congress during a March 25 trade hearing, while Republicans defended his approach.
- House Democrats have urged Trump to restore Labor Department programs and protect ILAB, the Bureau of International Labor Affairs, citing its vital role in enforcing fair trade and labor practices.
- House Republicans have urged Trump to negotiate trade deals boosting farm exports amid concerns over foreign trade barriers.
- Democrats on the House Agriculture Committee have urged Trump to end erratic tariffs on North American partners, citing market instability risks.

[**Expanded Reading**]

- What To Expect From Trump's 'Liberation Day' Tariff Rollout On April 2, *Time Magazine*, March 31, 2025
- Some Republicans Ask For Tariff Exemptions And Express Concern Over Trump Trade War, *NBC News*, April 1, 2025
- White House Weighs Helping Farmer As Trump Escalates Trade War, *The New York Times*, April 1, 2025
- Cornyn, Cortez Masto, Colleagues Introduce Outbound Investment Legislation to Counter China, *Sen. Cornyn's Office*, March 13, 2025.

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