Flash Economics

N° 56
May 20, 2025

Donald Trump will backtrack on tariffs without getting much in return

Donald Trump has lowered tariffs to 10% on products imported into the US from many countries and to 30% on products imported into the US from China; he has cancelled tariffs on electronics and car parts.

In reality, given the United States' dependence on imported products, heavily taxing imports would unavoidably lead to higher inflation and lower consumption, and was therefore not a viable policy in the medium term.

But it will also become clear that the United States' dependence on imports of goods means that the benefits obtained by the United States for not imposing customs duties will be very limited:

- Given the low skill levels of the US workforce and the state of full employment, there will be no reindustrialisation;
- China is in a strong position vis-à-vis the United States given its virtual monopoly on the production and, even more so, the refining of rare earths;
- Europe cannot abandon its rules on health, the environment, competition or digital companies;
- Relocations to the United States will be small-scale because of the cost and the difficulty of altering global value chains.

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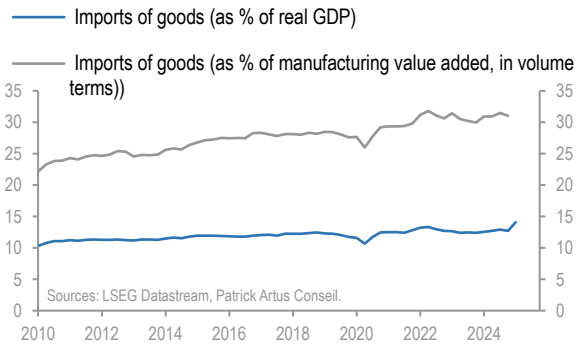
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High tariffs were not a viable medium-term policy for the United States

After announcing very high tariffs on products imported into the United States at the beginning of April 2025, **Donald Trump has kept on reducing the tariffs he introduced then**.
Tariffs paid on imports from most countries are now just 10%, there are now no tariffs on electronics and car parts, and tariffs on products imported from China were reduced to 30% on 12 May.

In reality, the United States is heavily dependent on imported products (Chart 1), whether raw materials (rare earths), intermediate goods (steel, aluminium), automobiles, electronic components or consumer goods...

Chart 1
United States: Imports of goods (as % of GDP and as % of manufacturing value added, in volume terms)



Taxing imports would lead to higher inflation, and higher inflation leads to a drop in household consumption given the low indexation of wages to prices. **The policy of high customs duties was therefore untenable for both economic (**falling consumption**) and political** (voters' sensitivity to inflation) **reasons**.

The benefits obtained by the United States as a result of abandoning the heavy taxation of imports will be limited

The Trump administration claims that many benefits for the United States will be obtained in exchange for abandoning the taxation of imports.
The extent of these benefits is questionable for several reasons.

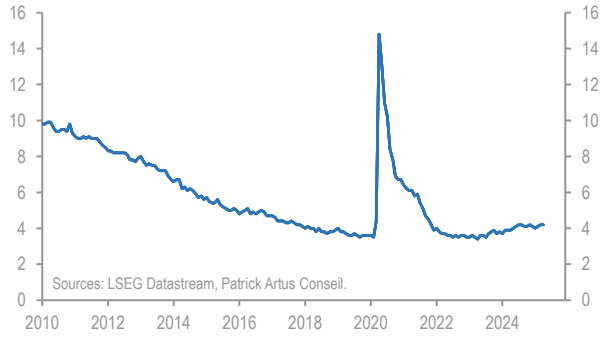
1. **The skill levels of the workforce are low** (**Table 1**), **the United States is close to full employment (Chart 2) and it rejects immigration.**

Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Canada	269	267
Germany	271	267
England (UK)	267	266
France	258	253
United States	261	251

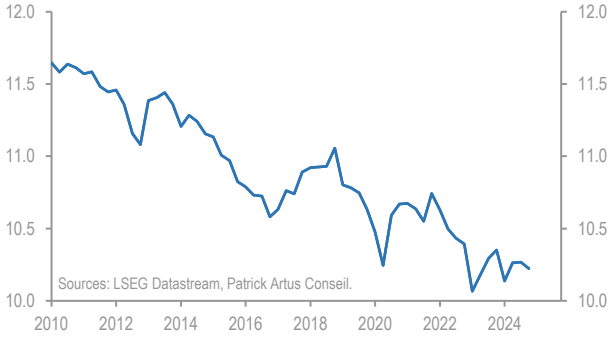
*In 2016, average score in numeracy and literacy
Source: OECD

Chart 2
United States: Unemployment rate (as %)



The reindustrialisation of the United States (**Chart 3**) will therefore be limited by a lack of labour, particularly skilled labour.

Chart 3
United States: Real value added in manufacturing
(as % of real GDP)



2. China is in a strong position vis-à-vis the United States

China accounts for over 70% of the world's **production of rare earths** (cerium, lanthanum, neodymium, dysprosium, thallium and praseodymium, which are used in the manufacturing of catalysts and magnets) and holds 37% of total rare earth reserves (ahead of Brazil, India, Australia, Russia and Vietnam in terms of reserves).

China's market share in the refining of rare earths is even higher (85% for light rare earths and 100% for heavy rare earths).

3. The concessions that the European Union can make are limited

European Union imports from the United States comprise energy (oil, refined products and natural gas, 56 billion dollars in 2024), medical and pharmaceutical products, drugs (45 billion dollars), engines (27 billion dollars), aircraft (18 billion dollars), cars (8 billion dollars), food products and drinks (7 billion dollars) ...

It is possible that the European Union will increase its imports of natural gas from the United States, since in 2024, Russia still accounted for 19% of the natural gas imported by the European Union, and these imports are due to stop at the end of 2027.

But it is difficult to envisage an increase in imports of American aircraft (which would be to the detriment of European manufacturers), an increase in imports of cars (because of European environmental standards), **an increase in imports of agricultural products** (because of European health regulations).

It is also highly unlikely that Europe will change its competition rules or its regulation of digital companies (for example, the Digital Services Act) to the benefit of American technology companies.

The only concession the European Union will be able to make is an increase in imports of American natural gas.

The United States must not rely on massive relocation, because of the problems already mentioned with regard to reindustrialisation (low skills, full employment) and because altering global value chains is extremely costly and difficult.

Summary: all in all, Donald Trump will substantially backtrack on the tariffs he wanted to impose on US imports, with little in return and few concessions from other countries

Maintaining high tariffs in the US would mean a sharp rise in inflation and a sizeable drop in consumption. But the Trump administration's backtracking on tariffs will come without many concessions from other countries because of:

- The low level of skills among adults, the state of full employment, the difficulty of altering value chains, which rule out reindustrialisation or major relocations to the United States;
- China's strong negotiating position, in particular because of its virtual monopoly on the production and refining of rare earths;
- The fact that the only concession the European Union can make is to increase its imports of American liquefied natural gas.

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