

Resisting Donald Trump's Trade War

Tariffs cannot be used as weapons. Warren Buffett (April 4, 2025)

By Georges Ugeux



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The Misconception of Tariffs

The confusion between tariffs and income tax is threatening the United States. Since Donald Trump became president, uncertainty has plagued his administration. It is based on a complete ignorance of the mechanisms of foreign trade.

1. Tariffs are not paid by foreign countries

Contrary to Trump's statements, tariffs are not paid by the exporting countries. His various statements that foreign countries will pay for the tariffs are incorrect and misleading. At present the prices of goods are not substantially increasing the income of the US Treasury. A deficit of \$1.9 trillion is expected for 2025, higher than 2024. That risk applies to the retaliation that many countries are currently contemplating. It is critical to measure the consequences of tariffs imposed on the US economy for the country that imposes them. This is why this paper contemplates resistance rather than retaliation.

2. Tariffs will increase inflation

J. P. Morgan Research believes the business sector is poised for a large shock of sentiment, which could be one of the factors spurring the economy on toward a recession (<https://www.jpmorgan.com/insights/global-research/current-events/us-tariffs#section-header#2>). The first quarter of 2025 has already showed a decrease of 0.3% of GDP. The IMF reduced its forecast for GDP growth in the US from 2.8% to 1.7% (<https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025>).

Yet economists with Morgan Stanley Research said in a recent report that they expect inflation in 2025 to rise 2.5%. So it is the prospect of stagflation that tariffs might provoke (<https://www.cbsnews.com/news/inflation-trump-tariffs-economists-forecast-2025/>) (*Chart 1*).

3. The Federal Reserve is not going to reduce interest rates now

Under those circumstances, the chairman of the Federal Reserve, Jerome Powell, was right in delaying any decrease in interest rates. "We are well positioned to wait for greater clarity before considering any adjustments to our policy stance. It is too soon to say what will be the appropriate path for monetary policy," he said (<https://www.cnbc.com/2025/04/04/powell-sees-tariffs-raising-inflation-and-says-fed-will-wait-before-further-rate-moves.html>). It is indeed impossible for the Fed to act now as uncertainties on tariffs, the economy and public finance dominate the current landscape. That statement

provoked the ire of President Trump, who called Powell a "loser".

Trump's comments suggest that the White House might use Powell as a scapegoat if the economy slows, even though businesses report Trump's tariffs and uncertainty around trade policy are weighing on hiring.

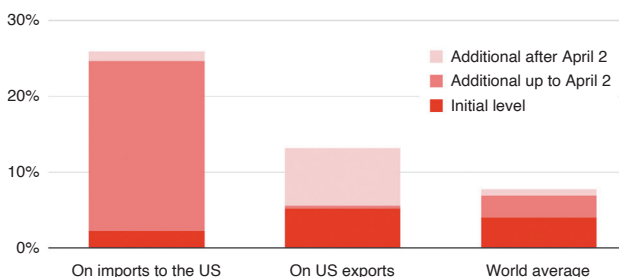
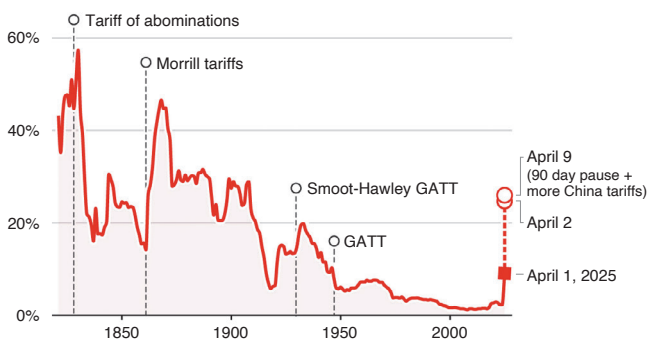
4. The budget deficit is not decreasing

The bipartisan forecasts of the budget deficit of the US do not show any sign of reduction, despite the gesticulations of Elon Musk who seems to have realized that his DOGE department does not have any effect on Federal expenses (*Table*). Interestingly, corporate income taxes represent only 9% of the revenues of the US (<https://taxpolicycenter.org/briefing-book/what-are-sources-revenue-federal-government>) and the explosion of the public debt is growing

CHART 1

US tariffs are highest in a century, global tariffs are also rising sharply

Effective average tariff rate, US



Note: Weighted average tariffs on US exports and world average use WITS data for 2022. Includes announced tariffs by the rest of the world on use exports up to April 12. <https://www.facebook.com/photo.php?fbid=1096632655840856&id=100064823943405&set=a.222830736554390>

Source: Haver Analytics; PIIE; Refinitiv Eikon; World Bank and IMF staff calculations

TABLE

US budget deficit forecasts 2024-2035

	Average, 1975-2024	Percentage of GDP				\$ billions			
		Actual, 2024	2025	2026	2035	Actual, 2024	2025	2026	2035
Revenues	17.3	17.1	17.1	17.8	18.3	4,918	5,163	5,580	8,031
Individual income taxes	8.0	8.4	8.7	9.5	10.0	2,426	2,621	2,968	4,413
Payroll taxes	6.0	5.9	5.8	5.9	5.9	1,709	1,759	1,840	2,605
Corporate income taxes	1.8	1.8	1.7	1.6	1.2	530	524	495	517
Other	1.5	0.9	0.9	0.9	1.1	253	259	277	496
Outlays	21.1	23.7	23.3	23.3	24.4	6,826	7,028	7,294	10,730
Mandatory	11.1	14.3	14.0	14.0	15.1	4,130	4,228	4,386	6,626
Social Security	4.4	5.0	5.2	5.3	6.0	1,454	1,572	1,664	2,624
Major health care programs	3.5	5.8	5.8	5.8	6.7	1,669	1,754	1,832	2,949
Medicare	2.1	3.2	3.1	3.2	4.0	910	942	1,000	1,753
Medicaid, CHIP, and marketplace subsidies	1.3	2.6	2.7	2.7	2.7	759	812	831	1,195
Other mandatory	3.2	3.5	3.0	2.8	2.4	1,006	902	891	1,053
Discretionary	7.9	6.3	6.1	6.1	5.3	1,815	1,848	1,897	2,322
Defense	4.2	3.0	2.9	2.8	2.4	855	859	866	1,053
Nondefense	3.7	3.3	3.3	3.3	2.9	960	989	1,031	1,268
Net interest	2.1	3.1	3.2	3.2	4.1	881	952	1,010	1,783
Total deficit (-)	-3.8	-6.6	-6.2	-5.5	-6.1	-1,907	-1,865	-1,713	-2,699
Primary deficit (-)	-1.7	-3.6	-3.0	-2.2	-2.1	-1,026	-913	-703	-916
Debt held by the public at the end of each period	49.7	97.8	99.9	101.7	118.5	28,199	30,103	31,883	52,056

Source: <https://www.cbo.gov/publication/61172>

exponentially.

Negotiating Tariffs with Countries Is Misguided

Any serious analysis of trade deficits by country is irrelevant. The numbers displayed by Trump of new percentages of tariffs in the Rose Garden of the White House on April 2, 2025 were fake. Both the formula and the numbers were wrong, creating a false basis for negotiation.

What makes it even more absurd is to consider that tariffs need to apply to a country. By definition, they should apply by industry, and governments are in the back seat and not the front negotiator. This demonstrates that the Trump administration is looking more at aggression than effectiveness. It is obvious that this choice was based on a retaliatory political, and often ideological, basis. A perfect example is the attitude towards China: the US government was embroiled in a non-negotiation of a 145% exorbitant rate and was then forced to reduce it to 30% (<https://www.npr.org/2025/05/22/nx-s1-5395814/trump-tariffs-strategy>).

The announcement of an exemption of 25% of the tariffs does not fundamentally change the situation: most US imports are products (Chart 2). Soon after the announcement of increased tariffs on China, the US administration is already backing down. Every day changes and targets are announced, the last major one being the 50% tariff on the European Union that had to be delayed by the Trump administration to July 9 (<https://www.bbc.com/news/articles/cdd2mz719yvo>).

5. Tariffs cannot replace direct taxes

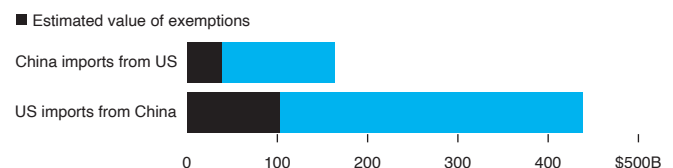
Equating tariffs with direct taxes looks at first sight like a *quid pro quo*. The reality is more complex: while direct taxes are based on profits generated by a company, tariffs directly impact international trade. The Trump administration has ignored this basic reality and is not even aware that import duties are paid by the importer, not by the exporter.

Fortunately, there's a more effective, expansive, and less disruptive way of securing lowered tariffs and trade barriers. Rather than hurling tariff thunderbolts to get the attention of US trade partners, Trump should invite them to negotiate free trade agreements (FTAs), states the Cato Institute (<https://www.cato.org/blog/reciprocal-trade-barrier-reductions-are-goal-free-trade-agreements-are-solution>).

CHART 2

China, US exempt about a quarter of imports from tariffs

Still, the US imports far more from China than the other way around



Source: Calculations by Bloomberg News and RAND China Research Center based on China Customs and USTR data for 2024
<https://www.bloomberg.com/news/articles/2025-05-02/china-s-stealth-exemptions-may-amount-to-a-quarter-of-us-imports>

The 2025 increase of US tariffs by a factor of five will threaten the US economy if it is ever applied. The country's dependency on those imports will in turn increase the risk of inflation and make the US less competitive. The country's role as a platform for international trade will be dismantled by rerouting through other parts of the world or countries.

The trade negotiations will be tough, and one can only be surprised to hear that "my comments were made in response to a question whether Japan could, as a bargaining tool in trade negotiations, explicitly reassure Washington it wouldn't sell its Treasury holdings easily" (<https://www.straitstimes.com/business/japan-says-no-plan-to-threaten-treasuries-sale-in-us-trade-talks>), Japanese Finance Minister Katsunobu Kato said. Why lose a \$1.1 trillion holding of US Treasuries as a bargaining chip? We all know that Trump is a gambler (and often a loser) and only responds to strong counterparts in negotiation.

The Peterson Institute for International Economics projected that the recently proposed tariffs on Canada, Mexico and China would have cost the typical US household over \$1,200 a year. In making this projection, they noted the pernicious possibility that domestic producers could use the tariffs to their advantage by raising their own prices to just below the tariff-adjusted price of their competitors (<https://sovos.com/blog/sut/tariff-and-sales-tax-mishmash/>). However, the US side reportedly insisted that the scope of the negotiations be limited to the additional portion of the reciprocal tariffs, and that levies on automobiles and other items be excluded. This is an unacceptable stance. It is important for Japan to confirm its red line and proceed with the negotiations (<https://asianews.network/japan-u-s-tariff-negotiations-seek-progress-with-focus-on-specific-issues-the-japan-news/>).

The idea that the US would reduce direct taxes thanks to the tariffs announced by Trump is not practical. "We're going to make a lot of money, and we're going to cut taxes for the people of this country," Trump said before boarding Air Force One for his return from Pope Francis' funeral in Rome. "It'll take a little while before we do that, but we're going to be cutting taxes, and it's possible we'll do a complete tax cut, because I think the tariffs will be enough to cut all of the income tax" (<https://asianews.network/japan-u-s-tariff-negotiations-seek-progress-with-focus-on-specific-issues-the-japan-news/>). The idea of tariffs replacing a major source of revenue lacks seriousness and merit. If pursued, it would worsen the federal budget deficit and the structure of the federal tax system, according to the Tax Foundation (<https://taxfoundation.org/blog/trump-income-tax-tariff-proposals/>).

6. Tariffs affect public debt

Among the issues that have not been taken into consideration is the possible impact of tariffs on the world's exploding public debt. The IMF has raised this issue in its World Economic Outlook: "The series of recent tariff announcements by the United States, and countermeasures by other countries, have increased financial market volatility, weakened growth prospects, and increased risks. They come in the context of rising debt levels in many countries and

already strained public finances, which in many cases will also need to accommodate new and permanent increases in spending, such as defense. Rising yields in major economies and widening spreads in emerging markets further complicate the fiscal landscape" (<https://www.imf.org/en/Blogs/Articles/2025/04/23/rising-global-debt-requires-countries-to-put-their-fiscal-house-in-order>) (Chart 3).

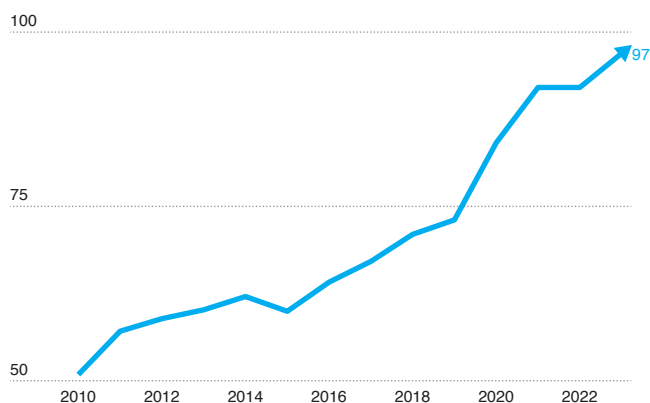
This comes after numerous alarm signals from the IMF and economists that are ignored by politicians and definitely by the US Treasury. Focused as they are on tariffs, they are entering a phase of budgetary constraints. However, the US administration will confront in the next few months two major hurdles: the 2025 budget and the debt ceiling. Do they really believe that they will be able to finance the reduction of taxes with tariffs? Do they realize that the interest rate charges are likely to be the largest budget item in 2025? (Chart 4).

Tariffs are estimated to raise about the same amount of revenue as increasing the corporate income tax from 21% to 36%, in the absence of these recent tariffs. While raising the corporate tax rate is generally seen as highly economically distorting, tariffs would reduce GDP and wages by more than twice as much. All future households will be worse off. The estimated economic declines are likely lower bounds, with actual declines potentially even larger. (<https://budgetmodel.wharton.upenn.edu/issues/2025/4/10/economic-effects-of-president-trumps-tariffs>).

In Trump's second term, the administration is doubling down on its strategy of management by absence. The presidency – and now the president's party – is defined not by a coherent philosophy but by a refusal to govern unless there is something immediate to gain from it. It is government via headline – an illusion of action only when the cameras are rolling (<https://thehill.com/opinion/white-house/5290873-america-government-neglect-trump/>).

CHART 3 Public debt reached record levels in 2023

Global public debt, \$ trillion, 2010-2023

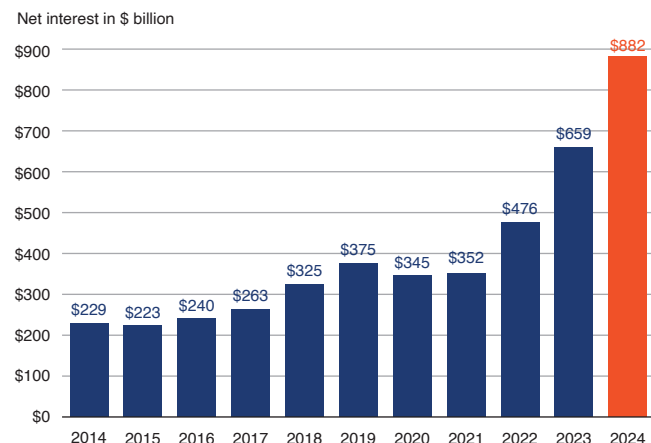


Note: Figures represent nominal values in current US dollars. Public debt refers to general government domestic and external debt throughout the document. General government consists of central, state and local governments and the social security funds controlled by these units.
<https://unctad.org/news/global-public-debt-hits-record-97-trillion-2023-un-urges-action>

Source: UN Global Crisis Response Group – technical team calculations based on International Monetary Fund (IMF) World Economic Outlook (April 2024)

CHART 4

Net interest costs over past decade



Source: Department of the Treasury

<https://www.crfb.org/blogs/interest-costs-have-nearly-tripled-2020>

CRFB.org



Dealing with a Chaotic White House

Timing is on the side of the “victims” of tariffs. The first 100 days have been a daily display of incoherence, versatility and chaotic administration characterized by a level of incompetence rarely displayed by a country. Tariffs have been announced, increased, decreased, refocused, and manifestly not coordinated within the administration.

The gesticulations of Elon Musk and the conflicts of interest of Trump himself have affected a level of tariffs that is still uncertain.

7. The Federal Reserve holds the fort

Tariffs are the main reason why Powell has been steadfast in his position on interest rates despite several direct attacks by Trump. The decision to keep the Fed's benchmark borrowing rate between 4.25% and 4.5% was widely expected by financial markets despite the president's repeated demands for the Fed to lower interest rates (<https://www.npr.org/2025/05/07/nx-s1-5387499/federal-reserve-interest-rates-trump-tariffs-inflation>). Numerous aggressive declarations by Trump aiming to oust Powell did not change the course of the Fed. Trump, who promised lower rates while campaigning for re-election last year, has called on the Fed to lower rates “pre-emptively” and flirted with firing the head of the bank, criticizing him as “a major loser” and “Mr. Too Late” for not cutting rates fast enough (<https://www.bbc.com/news/articles/cglxldgx0l5o#:~:text=Trump%20who%20promised%20lower%20rates,not%20cutting%20rates%20fast%20enough>). It is reassuring to see that the central bank kept its priorities and ignored the various verbal attacks from the White House. It is an example of the necessity to have central banks' independence maintained.

Don't Volunteer

It was surprising to see the reaction of many governments pre-

empting the possible consequences of the statements of the White House by volunteering concessions, visits to the White House and other ways of bending the knee in front of the president of the US. It is a golden rule in negotiations not to precipitously offer solutions to requests that proved to be flexible.

In the case of an autocratic president, these first responses were considered to be signs of weakness. The only attitude that Trump respects is an expression of strength. The right attitude consists in answering, and often retaliating against, the attacks of the US on a country.

One does not volunteer against a bully. Already today many of the threats have not materialized. It is only when the tariffs become effective that retaliation works. Fighting chaos is ineffective. The dogs bark, the caravan passes, says an Arab proverb.

8. Market reactions challenge the US administration

The announcement of the tariffs in the Rose Garden was immediately followed by a sharp drop in US equity prices ([Chart 5](#)). If there is one parameter that the White House cannot ignore, it is the reaction of the equity markets: it became obvious during those few days, but it also led to several “corrections” of outrageous tariffs. The reason is obvious: the Republican electorate is largely invested in equities and the prospect of a loss of value of their portfolios could impact the support of Congress. Carefully watching the reaction of the markets is one of the best ways to assess the level of trust and confidence of investors in the administration.

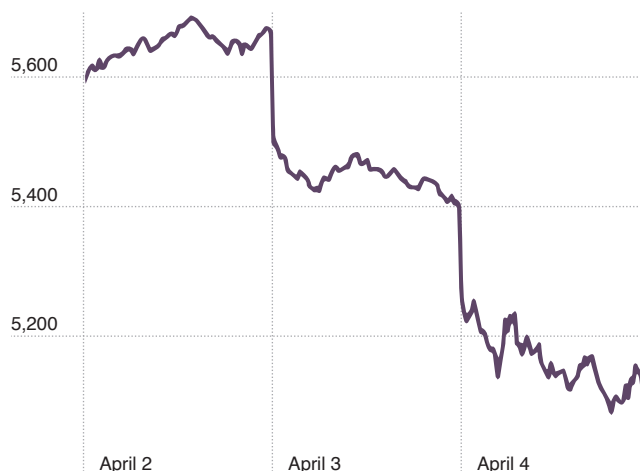
9. Think strategically

Prior to taking a position, the need for developing a strategy is paramount. It requires a clear idea of one's priorities. Several key points need to be clarified:

- Prime Minister Shigeru Ishiba stressed that Japan will continue to demand that the US abolish auto tariffs. Ishiba said an agreement

CHART 5

S&P 500 Today -5.97% ↓ (April 4, 2025)



Source: <https://www.nytimes.com/2025/04/04/briefing/tariffs-stock-market-tiktok-ban-ovechkin-record.html>

between Washington and London to set a 10% low-tariff quota for British vehicle exports to the US is “one model”, but said that Japan will stick to its stance of asking for complete removal of US auto levies, arguing that Japan’s trade and investment situations are different from those of the United Kingdom (https://www.japantimes.co.jp/business/2025/05/11/economy/japan-continues-to-ask-for-auto-tariff-abolition/?utm_source=planodnu&utm_medium=email&utm_campaign=72&tpcc=dnu&pnespid=51_tk41a6.adprvtrwj4vpp7aeaundyhhr0hfpqfavjvhl0ihp.zeubohad9kyv3kwxu).

- International trade is rarely centered on a competition for the same products and services: the healthcare industry is a perfect example of a sector that needs to be protected. Even the US is not able to be self-sufficient in this field, and needs to pool world resources in the interest of patients.
- A possible deficit is likely to be due to the area of expertise of the pharmaceutical industry. The US depends on other countries a great deal for pharmaceutical imports. In 2022, the US imported approximately \$168 billion worth of pharmaceutical products – the most in the world. Coupled with the fact that China produces more active pharmaceutical ingredients (APIs) than any other country, which are used in both generic and brand-name drugs, steep tariffs pose a great threat to the US pharmaceutical industry, health providers, and consumers alike, the American Medical Manufacturer Association reported (<https://www.ajmc.com/view/trump-s-new-tariffs-could-drive-up-health-care-costs-experts-warn>).
- At the end of April 2025, China has quietly exempted from tariffs some semiconductors made in the US, in an attempt to protect its leading technology companies from a bitter trade showdown with Trump (<https://www.washingtonpost.com/world/2025/04/25/china-tariffs-semiconductors/>). At last, negotiations are taking place between the US and China in Geneva. Chinese Vice Premier He Lifeng met for about eight hours with US Treasury Secretary Scott Bessent and US Trade Representative Jamieson Greer in their first face-to-face meeting since the world’s two largest economies imposed tariffs well above 100% on each other’s goods, leading to a sharp reduction of these tariffs.
- The first comprehensive trade deal was agreed upon between the UK and the US (<https://www.whitehouse.gov/fact-sheets/2025/05/fact-sheet-u-s-uk-reach-historic-trade-deal/>). It is narrowly restricted to the car industry and ethanol imports in trade that provides a US deficit of \$198 billion.
- The EU is now confronted with a 50% tariff announcement by Trump: it has adopted a cooperative attitude. The fact that the Trump administration considers Europeans to be weak, while they are simply prudent and tactical is part of a basic contempt for Europe. “The European Union, which was formed for the primary purpose of taking advantage of the United States on TRADE, has been very difficult to deal with,” he claimed (<https://www.telegraph.co.uk/us/politics/2025/02/26/trump-says-eu-was-formed-to-screw-the-united-states/>), showing complete ignorance of the fact that the EU is following an internal common market.

Trump claimed the bloc’s trade barriers, taxes, corporate penalties and other policies had contributed to a trade imbalance with the US that was “totally unacceptable” (<https://www.nytimes.com/2025/05/23/us/politics/trump-tariffs-eu-apple.html>).

These examples and the first trade deals agreed confirm that the negotiations will not be for a generic tariff: while the US administration wants to obtain a 10% minimum, it is unclear whether it will uniformly apply.

10. Time is of the essence

It seems certain that negotiations will not be with a myriad of countries. Time is of the essence, and we know that the Trump administration has an acute way of proclaiming victory early. There is no interest for governments to try to get to an agreement with the administration before being approached by it directly. Unfocused as he is, Trump jumps from one or another “deal”. The 100% tax on foreign movies is a good soundbite, but it is impossible to implement.

11. Loss of trust will penalize the US

The main casualty of Trump’s trade policy will be loss of trust in the US. Its allies have been confronted with an array of actions that have surprised them and have clearly demonstrated that these alliances – and particularly NATO – are not secure indefinitely. International economic ties have been reneged upon after decades of partnership. The approach of “deal making” is undignified for a country. Rather than entering into what is called a “good faith negotiation”, Trump has chosen aggressive tactics that have nothing to do with honest deal making (*Chart 6*).

The Legislative Branch is supposed to be close to the people, understand and respond to their needs, hold the entire government to account, and monitor how taxpayer dollars are being used. But how can a branch that is funded and staffed with a fraction of the resources of the Executive Branch fulfill its duties, let alone act as a co-equal branch of government? (<https://www.congressfoundation.org/blog/1921-congress-lacks-the-capacity-to-meet-the-demands-of-a-21st-century-constituency>). Will it eventually assume its authority? (<https://www.hoover.org/research/restoring-confidence-congress-will-house-come-order>) asks the Hoover Foundation.

Conclusion: Legitimate Resistance Will Negatively Affect the US

Our approach is one of legitimate resistance, not retaliation. The announcement of a 25% tariff on imports by Apple will favor its foreign competition, especially South Korean firm Samsung. With the demand for home appliances growing – especially in the competitive North American market – Samsung has invested in American manufacturing to cater to this demand. The use of Foxconn, a Taiwanese company producing iPhones in China, makes this threat complex. Apple’s manufacturing partner Foxconn continues expanding its Indian operations with a \$1.5 billion

investment, planning to produce 25-30 million iPhones at its Indian plants in 2025, more than doubling last year's output (<https://timesofindia.indiatimes.com/technology/tech-news/wall-street-bull-makes-a-big-prediction-on-apple-making-iphones-in-india-apple-may-manufacture-60-65-iphones-in-india-depending-/articleshow/121355617.cms#:~:text=Apple's%20manufacturing%20partner%20Foxconn%20continues,than%20doubling%20last%20year's%20output>).

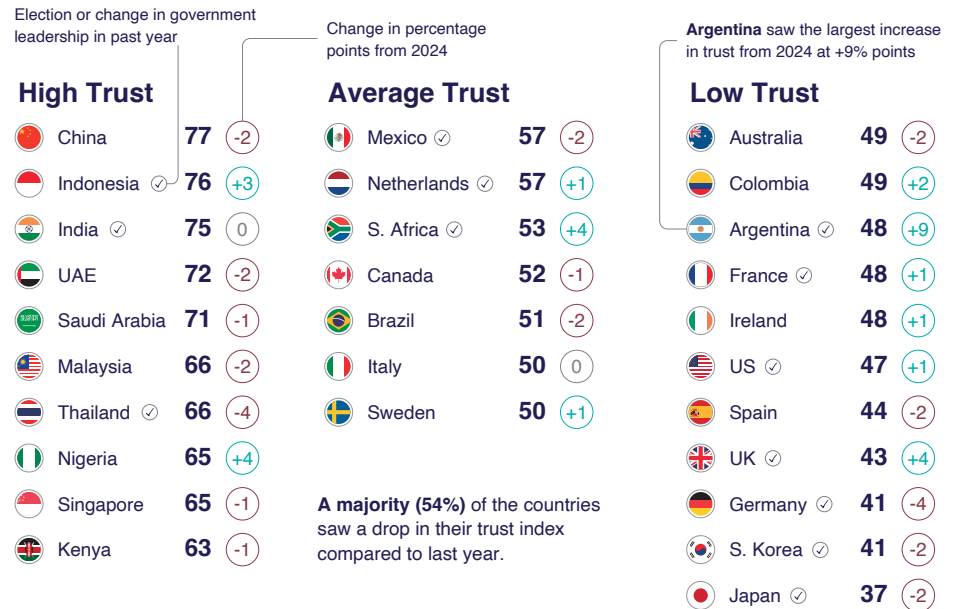
- Facing erratic tariffs announcements is a challenge. It would be a mistake, however, to follow those irrational moves, except verbally. Facing a moving target, countries and companies need to wait and see until the US is really acting on those announcements.
- Strategic planning is the most critical action: being prepared with different responses for different scenarios will allow fast reaction and effective action if and when a particular measure is taken by the US.
- Finding alternative ways to export to the US is far from impossible: the search for the least expensive way to trade is not new and most countries are currently undertaking discussions to find new ways to reach the US.
- Trust is the biggest casualty of this trade war and will profoundly transform international relationships, as well as the ability of the US to conduct foreign policies based on mutual respect.
- The economic consequences of the tariffs imposed by the Trump administration are starting to deeply erode the advantage the US had in a series of sectors: already today, consumers are showing their preference for non-US products such as Tesla cars or soft drinks.

There is no doubt in my mind that the US will be a net loser in this war that it has launched. The notion that it has been taken advantage of is not based on reality (<https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>). International trade is based on fairness, not bullying. Confidence has been lost, and it is the economic dominance of the US that will be replaced by a broader

CHART 6

Trust index By country

The **2025 Edelman Trust Index** represents the average percent trust in NGOs, business, government, and media based on a survey of over 33,000 respondents from 28 different countries.



Source: Edelman, 2025

<https://www.voronoiapp.com/other/How-Much-Do-Different-Countries-Trust-Institutions-In-2025-3946>

Only elections/leadership changes between the 2024 (Nov. 3-22, 2023) and 2025 (Oct. 25- Nov. 16, 2024) Trust Barometer survey dates were included.

interregional new order. Former Danish Prime Minister and NATO Secretary General Anders Fogh Rasmussen summarized the situation: Trump will destroy world trade, but democracies can defend themselves – and each other (<https://www.theguardian.com/commentisfree/2025/may/11/trump-world-trade-democracies-nato-economic-attack>). This is our common challenge. **JS**

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