Lessons from a week of Trump trade policy turmoil

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Less than a month into the new Trump administration and already it feels as though enough has been written about trade, tariffs and US foreign relations to last four years. With events moving quickly – the president's latest comments suggest steel and aluminium tariffs are coming today and wider-ranging tariffs could be announced this week – there is clearly a danger of leaping to firm conclusions about the path ahead. With that caveat in mind, there are three lessons from the past week.

First, while President Trump is clearly serious about tariffs, he's also open to doing deals. Colombia, Canada, Mexico were threatened with substantial tariffs, only for those threats to be rolled back at the 11th hour. Colombia's government agreed to allow flights of deported migrants to land in the country, while Mexico and Canada publicly committed to beefing up border security and drug patrols, in each case giving President Trump a "win". In this light, the president's latest warning that his administration is planning to introduce tariffs on a reciprocal basis – imposing duties on trading partners at levels equivalent to those imposed on the US – could present more opportunity for deal-making.

At the same time, there is clearly a danger in assuming that Trump is bluffing, only for no deal to materialise. It's now a cliché to suggest the next four years will be shaped by this erratic, volatile approach to governing, but that does seem the likely economic and market environment.

Secondly, it is striking that the tariffs threatened on Colombia, Canada and Mexico – all three of whom are long-standing US allies – were suspended, but those on China went into effect. This may be a coincidence, but it is difficult to escape the conclusion that the administration is taking a tougher line on Beijing. President Trump's cabinet – once fully confirmed by the Senate – will be chock full of China hawks, from Secretary of State Marco Rubio to US Trade Representative Jameison Greer. Peter Navarro, a long-time hard-liner against Chinese trade practices, is back in the administration as a close advisor to the president. This reinforces the idea that we have entered an era of US-China superpower rivalry. This is an issue we have been advising about for several years and, while the re-election of President Trump could still redraw the global geopolitical map, the most likely scenario four years hence is a global economy that is still coalescing into two blocs centred on the US and China. (See here.)

The final lesson from the past week relates to how countries respond if and when they are subject to US tariffs. China's retaliation has been relatively measured, with Beijing imposing tariffs on about $20bn of imports from the US – far less than the $450bn of imports from China that was hit by the US. China's government also announced antitrust probes into the operations of several large US firms, including Google and Nvidia, though it remains to see where these will go. The relative stability of the renminbi has been notable given that a large devaluation of the currency would be likely to ruffle feathers in Washington. Taken together, the package of measures is relatively modest and appears designed to avoid escalation. Other countries are likely to respond in a similar manner if and when they come under fire from US tariffs.

So where does this leave us? The path ahead for US trade policy is murky, to put it politely. But the associated uncertainty will have real-world consequences. Nowhere is this more true than at the Federal Reserve, which could be facing either a once-in-a-century tariff price shock, or a lot of sound and fury that ultimately signify something far less. The uncertainty is likely enough to keep Fed officials on the sidelines over the coming months, and if high tariffs are ultimately imposed then the subsequent rise in inflation will prevent further easing over the remainder of 2025.

Much will depend on the whim of one man. The past week has offered few certainties about Donald Trump's trade policy approach – other than that the threat of higher tariffs isn't going away – but it has provided some lessons about how this global economic drama could unfold.

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