



POLICY COMPASS

Liberation Day:

Calculating Tariffs and Their Impact

By

Shane Gravel



8 May 2025

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Executive Summary

Highest Tariffs Since the Great Depression

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- ✦ U.S. President Trump announced a sweeping set of tariffs, much higher than anticipated and the most significant since the Smoot-Hawley Tariff of 1930.
- ✦ Aiming to bolster American manufacturing, punish competitors who act unfairly, and overall, reshape trade dynamics, President Trump included universal baseline tariffs of 10% on all imports, and even higher reciprocal tariffs on approximately 90 countries.
- ✦ The calculation methodology has sparked a debate, and it's highly contentious that these tariffs are truly reciprocal. The calculation is effectively a reflection of the US trade deficit versus each country. The higher the trade deficit, the higher the tariff. Trade deficits are not tariffs, and not necessarily a result of barriers.
- ✦ The U.S. in particular has been able to stomach much of these trade deficits because of its role as the global hegemon, a role that has conferred benefits such as foreign countries buying its debt and trade denominated in U.S. dollars.

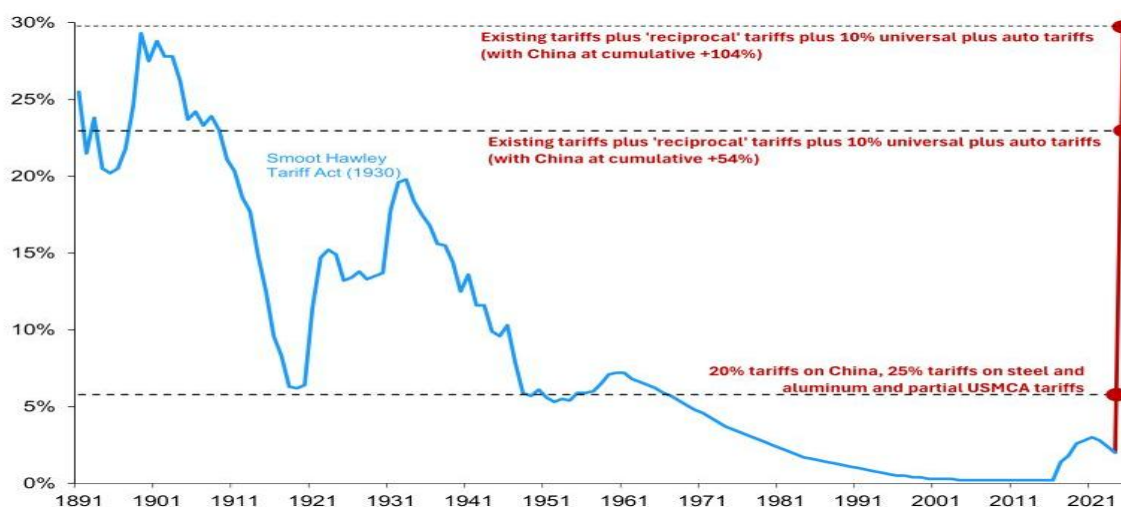
Reactions From Other Countries, In Particular China

- ✦ Some domestic industry groups like the Southern Shrimp Alliance and Alliance for American Manufacturing have actually celebrated the tariffs, citing U.S. protection of workers and standing up to unfair trade practices.
- ✦ China escalated its tariffs numerous times and restricted the export of rare earth minerals, many of which are crucial for tech. European Union placed \$22 billion of tariffs, albeit more targeted, on products like soybeans and motorcycles.
- ✦ Looking ahead, economists have predicted a number of key risks, including a 0.3% drop in global GDP by 2028 and 0.5% for the U.S. specifically, which may experience a recession by the end of this year.

Sell off of US Asset Across The Board

- ✦ The announcement of tariffs has sparked a negative market reaction with a sell-off of US assets across the board: Treasuries, equities, credit, USD.
- ✦ Markets have recovered after Trump announced a 90-day suspension. But this is likely a temporary reprieve until tariffs are enacted again, in mid-July.

Key Picture: Average US Tariff Rates (% , 1891-2025)



Source: US International Commission; EY-Parthenon

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1. The Highest Set of Tariffs Since The Great Depression

2 April 2025 marked a turning point in international relations, or at least of the global economic order: as discussed in our research, we consider this to be the end of globalisation period initiated by the visit of Nixon in China in 1972. U.S. President Trump announced a sweeping set of tariffs, much higher than anticipated and the most significant since the Smoot-Hawley Tariff of 1930 (**Key Picture**).¹ They were due to go into effect the following week on 9 April. To him, this would mark 2 April as 'Liberation Day and was a clear justified use under the International Emergency Economic Powers Act of 1977 (IEEPA).²

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Aiming to bolster American manufacturing, punish competitors who act unfairly, and overall, reshape trade dynamics, President Trump included universal baseline tariffs of 10% on *all* imports, and even higher reciprocal tariffs on approximately 90 countries. For China, this rate was as high as 54% (initially, before escalating to 145%) when factoring in the new 34% tariff with its existing 20% tariff (**Figure 1**).³

Figure 1: Liberation Day Reciprocal Tariffs

| Reciprocal Tariffs | | | Reciprocal Tariffs | | |
|--------------------|--|--------------------------------------|----------------------|--|--------------------------------------|
| Country | Tariffs Charged to the U.S.A. including Currency Manipulation and Trade Barriers | U.S.A. Discounted Reciprocal Tariffs | Country | Tariffs Charged to the U.S.A. including Currency Manipulation and Trade Barriers | U.S.A. Discounted Reciprocal Tariffs |
| China | 67% | 34% | Peru | 10% | 10% |
| European Union | 39% | 20% | Nicaragua | 36% | 18% |
| Vietnam | 90% | 46% | Norway | 30% | 15% |
| Taiwan | 64% | 32% | Costa Rica | 17% | 10% |
| Japan | 46% | 24% | Jordan | 40% | 20% |
| India | 52% | 26% | Dominican Republic | 10% | 10% |
| South Korea | 50% | 25% | United Arab Emirates | 10% | 10% |
| Thailand | 72% | 36% | New Zealand | 20% | 10% |
| Switzerland | 61% | 31% | Argentina | 10% | 10% |
| Indonesia | 64% | 32% | Ecuador | 12% | 10% |
| Malaysia | 47% | 24% | Guatemala | 10% | 10% |
| Cambodia | 97% | 49% | Honduras | 10% | 10% |
| United Kingdom | 10% | 10% | Madagascar | 93% | 47% |
| South Africa | 60% | 30% | Myanmar (Burma) | 88% | 44% |
| Brazil | 10% | 10% | Tunisia | 55% | 28% |
| Bangladesh | 74% | 37% | Kazakhstan | 54% | 27% |
| Singapore | 10% | 10% | Serbia | 74% | 37% |
| Israel | 33% | 17% | Egypt | 10% | 10% |
| Philippines | 34% | 17% | Saudi Arabia | 10% | 10% |
| Chile | 10% | 10% | El Salvador | 10% | 10% |
| Australia | 10% | 10% | Côte d'Ivoire | 41% | 21% |
| Pakistan | 58% | 29% | Laos | 95% | 48% |
| Turkey | 10% | 10% | Botswana | 74% | 37% |
| Sri Lanka | 88% | 44% | Trinidad and Tobago | 12% | 10% |
| Colombia | 10% | 10% | Morocco | 10% | 10% |

Source: [The White House, via X](#)

Not surprisingly, the action has prompted a large response, both domestically and abroad, with everything from praise to retaliation. Beyond the mere practice of tariffs, it has also sparked debates over calculation methodology and whether these tariffs are truly reciprocal.





















2. A Highly Contentious Calculation Formula

Are these tariffs truly reciprocal? Put simply, no. The Trump Administration calculated each country's new tariff in the announcement by taking the sum of all trade barriers the country placed on the U.S. and dividing it in half. The result is the tariff the U.S. will place on said country. A deeper look into the announcement indicates that the trade barriers calculated take into account *non-tariff* barriers and currency manipulation as well, hence why

countries with little tariffs on the U.S. can sometimes seem like they will be receiving higher than expected tariffs in return. One might then think that somehow, the non-tariff barriers and currency manipulation were quantified and then added to the prevailing tariff rate during calculations. Not exactly.

Instead, it appears that the Trump Administration took the *trade deficit* it has with each country (**Figure 2**), divided that by U.S. imports from said country and then by 2, and used the result as its tariff rate on each receiving country. The higher the trade deficit, the higher the tariff.

Figure 2: U.S Reciprocal Tariff by Trade Deficit 2024

| Countries and Territories | Reciprocal Tariff | U.S. Trade Deficit ▼ |
|--|-------------------|----------------------|
|  China | 34% | 270.4B |
|  European Union | 20% | 213.7B |
|  Vietnam | 46% | 113.1B |
|  Taiwan | 32% | 67.4B |
|  Japan | 24% | 62.6B |
|  South Korea | 26% | 60.2B |
|  India | 27% | 41.5B |
|  Thailand | 37% | 41.5B |
|  Switzerland | 32% | 25.5B |
|  Malaysia | 24% | 22.1B |
|  Indonesia | 32% | 16.4B |
|  Cambodia | 49% | 11.4B |
|  South Africa | 31% | 7.9B |
|  Israel | 17% | 6.7B |
|  Bangladesh | 37% | 5.7B |
|  Iraq | 39% | 5.4B |
|  Philippines | 18% | 4.4B |
|  Guyana | 38% | 3.9B |
|  Pakistan | 30% | 2.7B |
|  Sri Lanka | 44% | 2.5B |

Additional 8 rows not shown.

Countries with 2024 deficits under \$1 billion are excluded from this table. The reciprocal tariff is adjusted; the U.S. trade deficit in 2024 does not include December.

Table: CSIS Economics Program and Scholl Chair in International Business • Source: White House, *Annex I: Tariff Rates*, Apr. 2025; U.S. Bureau of Economic Analysis, *Trade Deficit Report*, Feb. 2025, aggregated at U.S. *Trade Deficit by Country*.

CSIS

Source: [CSIS](#)

The Trump Administration later shared the formula reported in **Figure 3**. One point of criticism, perhaps not surprisingly, is *how* the tariff rates were calculated. Trade deficits are not tariffs, or not even necessarily a result of trade barriers. Put simply, the U.S. has trade deficits with the countries in which it imports from more than it exports to. Trade barriers can be unfair or unnecessarily restrictive, but they also are hard to quantify. Further,

focusing on trade deficits in this case seems to neglect the role of overall economic productivity, consumer demand, or any other parallel or alternative explanations.⁴

Figure 3: Tariff (Received) Formula Released By U.S. Trade Representative (USTR)

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$$\Delta \tau_i = \frac{x_i - m_i}{\cancel{\varepsilon} \cdot \cancel{\varphi} \cdot m_i}$$

Change (Δ) in tariff rate (τ)

Trade deficit

A country's total exports to the U.S.

A country's total imports from the U.S.

Extra symbols that don't affect the calculation

Defined as 1

Total imports

In plain language:

Reciprocal tariff = $\frac{\text{Trade deficit}}{\text{Imports}}$

Source: [Axios](#)

The U.S. in particular has been able to stomach much of these trade deficits because of its role as the global hegemon, a role that has conferred benefits such as foreign countries buying its debt and trade denominated in U.S. dollars. There's plenty evidence that there are countries who seek to undermine this monetary hegemony (rendering these trade deficits more problematic), but also a broad consensus that this and associated de-dollarization are still far away.

The focus on trade deficits in the calculation, coupled with tariffs as the solution, arguably raises questions as to what the concern truly is. The Trump Administration has praised tariffs as the means to re-shore outsourced U.S. manufacturing and jobs – but at the same time, has been willing to pause or lower them for countries willing to negotiate and make concessions.

3. Reactions and Retaliations

The announcement of tariffs has sparked a negative market reaction with a sell-off of US assets across the board: Treasuries, equities, credit, USD. Markets have recovered after Trump announced a 90-day suspension. But this is likely a temporary reprieve until tariffs are enacted again, in mid-July.

At home, there has been a mix of praise and criticism, often stoking notions of patriotism or a neglect of economic realities. Some domestic industry groups like the Southern Shrimp Alliance and Alliance for American Manufacturing have actually celebrated the tariffs, citing U.S. protection of workers and standing up to unfair trade practices. Groups like the U.S. Wine Alliance opposed the tariffs and highlighted an existing, balanced U.S.-E.U. wine trade and the risks to retailers and restaurants increased prices would bring.⁵

Abroad, many countries with the capacity to retaliate placed tariffs of their own on the U.S. China escalated its tariffs numerous times and restricted the export of rare earth minerals, many of which are crucial for tech (e.g., AI, renewable energy). The European Union placed \$22 billion of tariffs, albeit more targeted, on products like soybeans and motorcycles.⁶

4. Estimated Economic Impact of Tariffs

Looking ahead, economists have predicted a number of key risks, including a 0.3% drop in global GDP by 2028 and 0.49% for the U.S. specifically.⁷ U.S. consumers will likely face higher prices if importers pass along increased costs (**Figure 4**). Some estimates have suggested this could be as much as \$3,800 annually to the typical U.S. middle-class household, the highest drop of all countries.⁸ It is important to note that many of these economic risks and forecasts are based on tariffs remaining in place. That could change. Regardless, what is perhaps most clear is that economic alliances, overall global relationships, and trust is now strained with or without tariffs.

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Figure 4: Estimated Tariff Costs To Households

| Country/Region | Percent | US\$ billion | US\$ per household ▲ |
|--------------------|---------------|-----------------|-------------------------|
| US | -1.45% | -\$438.4 | -\$3,487 |
| Canada | -1.65% | -\$38.5 | -\$2,467 |
| Mexico | -2.24% | -\$40.7 | -\$1,192 |
| Switzerland | -0.32% | -\$3.2 | -\$818 |
| Vietnam | -0.99% | -\$5.0 | -\$196 |
| Taiwan | -0.20% | -\$1.6 | -\$172 |
| China | -0.27% | -\$53.1 | -\$110 |
| Japan | -0.06% | -\$2.5 | -\$46 |
| India | -0.19% | -\$8.2 | -\$28 |
| Thailand | -0.09% | -\$0.5 | -\$27 |
| Indonesia | -0.05% | -\$0.7 | -\$11 |
| United Kingdom | 0.00% | -\$0.2 | -\$5 |
| European Union | 0.05% | \$10.4 | \$53 |
| Brazil | 0.28% | \$6.4 | \$100 |
| Australia | 0.07% | \$1.4 | \$134 |
| Korea, Republic of | 0.21% | \$4.1 | \$173 |
| New Zealand | 0.29% | \$0.8 | \$397 |
| World | -0.43% | -\$500.2 | -\$210 |

Source: [The Conversation](#)

5. Conclusion

Not even one full day lasted with tariffs in effect – on 9 April, the Trump Administration soon announced a 90-day pause. President Trump claimed 75 countries came forward to negotiate, and accordingly, this pause would give space for negotiations. China has largely been exempted from this pause, although interestingly a number of countries who *did* in fact retaliate (or intend to retaliate) with additional tariffs of their own were not.

Canada and Mexico seemed to be shielded from much of Liberation Day's crosshairs, although they have been subject to a number of tariffs in weeks prior. Next year, the USMCA free trade agreement will be renegotiated – or, left to expire – compounding the potential end to a multilateral free trade regime largely driven by the U.S. and a recognition of comparative advantage in foreign policy.

The health of the global trade system will likely hinge upon the success of negotiations over the next three months, which we will discuss in future research. Financial markets seem to have been acting in accordance with this view, at least partly. As for the health of U.S. multilateral alliances in general and the impact to consumers, that remains uncertain.

NOTES

¹ Harithas, Barath. "Liberation Day" Tariffs Explained. CSIS. 3 April 2025. <https://www.csis.org/analysis/liberation-day-tariffs-explained>

² White House. Fact Sheet: President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security, The White House, 2 April 2025. <https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/>

³ *Ibid.*

⁴ Davies, Richard et al. *Liberation day*. Economics Observatory. 7 April 2025. <https://www.economicsobservatory.com/liberation-day>

⁵ *Highlights: Trump Imposes Vast Global Tariffs*. The New York Times. 10 April 2025. <https://www.nytimes.com/live/2025/04/02/business/trump-tariffs-liberation-day>

⁶ Picchi, Aimee. *China hikes tariffs on U.S. goods to 84%, as EU also retaliates against Trump tariffs*. CBS News. 9 April 2025. <https://www.cbsnews.com/news/china-tariffs-84-percent-retaliatory-tariff-us-products-trump-104/>

⁷ Winchester, Niven. *New modelling reveals full impact of Trump's 'Liberation Day' tariffs – with the US hit hardest*. The Conversation. 2 April 2025. <https://theconversation.com/new-modelling-reveals-full-impact-of-trumps-liberation-day-tariffs-with-the-us-hit-hardest-253320>

⁸ *Ibid.*