US Treasury Secretary issues threat in tariff negotiations

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Amid financial market hopes that the Trump tariff war, if not over, is at least under control, US treasury secretary Scott Bessent has threatened that the April 2 “reciprocal tariffs,” directed against a range of countries, but now suspended to allow negotiations, could be re-imposed.

Bessent, who has been depicted as being attuned to the concerns of the market and a counterbalance to trade war hawks within the administration, in particular Peter Navarro, made the threat in a television interview on Sunday.

He said countries that did not negotiate in “good faith” would have full tariffs imposed on them.

Bessent’s remarks came after comments made by Trump last Friday in a meeting with business executives in the United Arab Emirates that tariffs would be imposed on a wide range of countries “over the next two to three weeks.”

He said there were 150 countries that wanted to do deals with the US but “it’s not possible to meet the number of people that want to see us.” He said Bessent and Commerce Secretary Howard Lutnick would be sending out letters to people telling them what “they’ll be paying to do business in the United States.”

This means that many smaller, poorer countries, not considered to be of great importance to US economic relations, but which were hit by heavy tariffs, will get a letter reimposing the April 2 measures.

Two examples of such countries are Sri Lanka, hit with a tariff of 44 percent, and the impoverished African nation of Lesotho, a country Trump has said “nobody has heard of,” slapped with a 50 percent hike.

In his NBC interview, Bessent said the administration was focused on its 18 most important trading relations and warned that countries that did not negotiate in good faith would receive a letter from him.

“This means that they’re not negotiating in good faith. They are going to get a letter saying, ‘Here is the rate.’ So I would expect that everyone would come and negotiate in good faith.”

Those countries that received a letter would see their tariff rates return to the levels set on April 2. In the case of Southeast Asian countries those levels include 49 percent for Cambodia, Laos 48 percent and Vietnam 46 percent.

Bessent did not specify what he meant by “good faith.” But given that the thrust of the tariff war is directed against China and what emerged in the deal with the UK, it is not hard to discern. The US is demanding that targeted countries will only get a concession on their “reciprocal tariffs” provided they align themselves with US “national security” interests.

This means they must close off markets for Chinese goods and not allow Chinese companies to rebadge their products in the name of another country.

The US-UK deal stated it was based on our “shared national security priorities” and that Britain would “work promptly to meet US requirements on the security of supply chains in steel and aluminium products intended for export to the United States” and on “the nature of the ownership of relevant production facilities.”

Beijing immediately recognised the thrust of these clauses as seeking to shift China out of any supply chains. A statement from the foreign ministry declared it was a “basic principle” that agreements between countries should not target others.

Vietnam, which has become a major manufacturing centre in part because of attempts by Chinese firms to avoid previous tariffs imposed by the US, is coming under intense pressure to take action against this rerouting of Chinese goods destined for the US markets.

According to a report in the *Financial Times* last week, officials and trade experts have said that the practice of trans-shipment has become a "critical issue in negotiations with the US." The Trump administration is demanding a "crackdown" if countries in Southeast Asia are to secure relief from the high reciprocal tariff rate.

Last month Chinese exports to the region rose more than 20 percent as US-China trade fell, leading to accusations by the Trump administration these countries were assisting China to avoid US tariffs.

Vietnam, the FT reported, has come under the most scrutiny, with the third highest trade surplus with the US after China and Mexico, and has been singled out by the US on the trans-shipment issue.

However, more is involved than trade flows. Vietnam, Indonesia and other Southeast Asian countries have sought to maintain a balancing acting between China and the US.

According to an anonymous Southeast Asian government official involved in the trade talks with the US and cited by the FT, "rules of origin is a big deal for the US." But the official went on to make clear it is bound up with geo-political objectives.

Vietnam and Indonesia would like to project a non-aligned foreign policy, but some countries were "bound to have to make choices."

This view was echoed by Sharon Seah, coordinator of the ASEAN studies centre at the Iseas-Yusof Ishak Institute in Singapore, who told the newspaper that while Southeast Asian countries would like to project neutrality rather than "take sides," they may have to "where a particular industry is worth protecting for their own national interest."

In other words, what is involved is not negotiations by the US but the issuing of a diktat that they align themselves politically with the US against China or face losing critical industries.

While the US appears to be in a stronger position with regard to the economies of Southeast Asia, it is confronting difficulties with Japan. Tokyo was one of the first to seek negotiations with the US on tariffs.

But Prime Minister Shigeru Ishiba is now reported to be coming under pressure from businesses and sections of the ruling Liberal Democratic Party fearful that any deal which hits the auto industry or domestic farmers will impact on the LDP's electoral standing.

The official position is the elimination of all new US tariffs, including the 25 percent levy on auto, steel and aluminium as well as the 24 percent "reciprocal tariff" imposed on Japan.

The impact on the auto industry alone is estimated to be around $13.7 billion for the current financial year that ends next March, under conditions where the Japanese economy is largely stagnant.

Ishiba has told parliament he will not sacrifice the domestic farming industry to secure concessions for auto exports. He faces a political crisis, because the general election last October saw the LDP lose its lower house parliamentary majority for the first time since 2009.

Nicholas Smith, a Japan analyst at the global financial firm CLSA, told the FT: "Japan's position has hardened. Shigeru Ishiba is fighting for his—and his party's—political life. He can't just roll over. Autos accounted for 81 percent of Japan's trade surplus with the US in 2024. If PM Ishiba fails to get tariff relief in the autos sector, he's on a conveyor belt towards rotating knives."

On the other side, if the US appears to make concessions to Japan, this will deal a blow to its efforts to use its economic power to politically align Southeast Asian countries increasingly against China.

Bessent's threat that countries which do not bow to the US demands for "good faith" negotiations will receive a letter is an indication that far from fading away, as financial markets may have hoped, the tariff war is set to intensify.