# As the end of the “pause” approaches, where to for Trump’s tariff war?

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What is going to happen when the pause in the implementation of Trump’s “reciprocal tariffs,” imposed at the beginning of April, comes to an end next Wednesday? That is the question hanging over the global economy and its financial markets.

The administration claimed the three-month delay was to allow negotiations to take place between the US and the dozens of countries hit with the reciprocal tariffs, on top of the 10 percent tariff imposed against the whole world.

But this was a cover for the real reason. Trump pulled back out of fear of the reaction to his “liberation day” announcement of April 2 on financial markets. Interest rates on US debt spiked and, contrary to what normally happens, the dollar fell in currency markets.

These events, which Trump described as the market getting “yippy,” were a warning bell that a financial crisis could have developed in a matter of days, if not hours, were there not a pullback.

Trade negotiations of any substance take months, sometimes years, and there was never a real plan to hold them—and certainly not with a range of countries considered to be of lesser importance to the US.

Last week, US Commerce Secretary Howard Lutnick said the US would make deals with around 10 of the “top” US trade partners, while others would simply get a letter telling them what the tariff level was going to be.

This week, Trump indicated his alignment with this approach when asked if he was considering extending the pause.

“No, I’m not thinking about extending the pause. I’ll be writing letters to a lot of countries,” he said.

There are negotiations going on, including with the European Union, Canada, Japan and India, as well as limited talks with some of the countries hardest hit, such as Thailand, Vietnam and Sri Lanka, where the tariff hikes threaten to bring economic devastation.

Yesterday, Trump announced that an agreement had been struck with Vietnam to cut the tariff on its exports to 20 percent, with a 40 percent tariff on those goods deemed to have been trans-shipped through Vietnam from other countries. Under the deal, US goods will be able to enter Vietnam with zero tariffs.

The character of the negotiations with some of the major powers was summed up by Ted Murphy, a trade lawyer, in a comment to the *Financial Times* on the discussions with the EU.

“The EU appears to be approaching this like a trade negotiation, which would be a colossal mistake,” he said. “From the US perspective this appears to be about negotiating the terms of surrender.”

The state of the talks between the EU and the US is somewhat opaque, not least because of divisions among the Europeans. Some favour a more retaliatory response, while others are looking to make concessions to the US.

The FT reported on Tuesday that the European position had hardened, with the demand that tariffs on EU goods be reduced immediately as part of any “framework deal” with the US under which talks would continue after the July 9 deadline.

It said that EU trade commissioner Maroš Šef?ovi?, who is to hold talks with US officials in Washington today, had been told to take a tougher line.

But as the report noted, EU members have “struggled to display a united front” during the nearly three months of negotiations. According to unnamed officials who spoke to the FT, all outcomes were possible including a collapse in talks that would result in the US either imposing the 20 percent tariff set in April, or the 50 percent level threatened in May.

Another person “briefed on the situation” said the EU was still divided on whether to retaliate.

Bloomberg, also citing unnamed sources, said the EU was willing to accept an agreement with the US that would include the 10 percent universal tariff imposed by the US, but wanted the US to lower tariffs on pharmaceuticals, alcohol, semiconductors and commercial aircraft.

One of the biggest issues is auto exports, on which the US has imposed a 25 percent tariff, separate from the reciprocal tariff framework. Last year, the EU exported €52.8 billion worth of cars and car parts to the US, much of it coming from Germany.

In a sign of the divisions with the bloc, the FT reported that German Chancellor Friedrich Merz has called for a swift deal that would reduce tariffs on cars, while the French finance minister said the deadline should be extended to get a better agreement.

The hostility of the US towards its supposed allies is nowhere more clearly illustrated than in its attitude to Japan. Its chief trade negotiator has made seven trips to Washington but so far has come up empty.

On the Japanese side, one of the main sticking points has been the US demand that it takes more of its rice in return for any concessions on cars and auto parts.

The issue has a significant political dimension. The Japanese rice sector, which is dominated by small farmers, has long been a protected area of the economy and many members of the ruling Liberal Democratic Party (LDP), including Prime Minister Shigeru Ishiba, rest on the farmers for electoral support.

It has assumed increased prominence because of the July 20 election for 125 seats in the 248-member upper house, in which the LDP needs to secure 50 seats to secure a majority.

Seeking to bolster the party’s position, the chief cabinet secretary Yoshimasa Hayashi said this week that farmers would not be sacrificed to secure concessions on cars and other exports.

“We are not thinking about doing anything that would sacrifice the farm sector,” he said.

Trump has denounced Japan for its refusal to take US rice, amid shortages that have seen prices double in the past year, and has hardened his stance more broadly.

He has described Japan as being “spoiled” and appears to have ruled out the possibility of an agreement being reached.

Speaking to reporters on Tuesday, he said: “We’ve dealt with Japan. I’m not sure we’re going to make a deal, I doubt it.

“I’ll write them a letter to say ‘we thank you very much, and we know you can’t do the kind of things that we need, and therefore you pay a 30 percent, 35 percent’ or whatever the number is that we determined. Because we also have a very big trade deficit.”

So far, the only agreement to be announced is with the UK. It was a preliminary deal to lower some mutual trade barriers, including reduced tariffs on British cars. But the UK is something of an outlier. It was not a target of reciprocal tariffs because the US has a trade surplus with it.

There is also a deal with China. This did not cover the impost announced in April, but only the subsequent Chinese restrictions on rare earth exports and some export controls introduced by the US.

Other deals, or framework agreements, may be announced in the next days. India is reported to be on the verge of making an interim agreement with the US to avoid the “liberation day” tariffs of 26 percent.

The reciprocal tariffs are the subject of ongoing legal argument. On May 28, the US International Court of Trade ruled they were illegal because the president had exceeded his authority under the 1977 International Emergency Economic Powers Act, as there was no “national economic emergency” which would have given him the power to act as he did.

But the following day, the US Court of Appeals for the Federal Circuit granted a stay on the trade court’s ruling, which allows the tariffs to remain in place while the appeal is considered.

The Trump administration is proceeding unconcerned with legality, as in so many other issues, because it is confident that if the issue goes as far as the Supreme Court, it has the numbers there to rule in its favour.

No one can say what will happen on July 9—Trump himself probably does not even know.

But one thing is certain. The entire post-war trading system has been shattered, never to return. In the complex and integrated global economy of today, this will have major consequences, if not immediately, then not too far into the future.