

Despite Trump's "deals," confusion reigns over tariffs

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Despite the announcement of a series of deals, most notably with the European Union, Japan and South Korea, together with a truce between the US and China until November, the chaos caused by President Trump's tariff remains and is even increasing.

One of the reasons is that the measures are being imposed under two different pieces of legislation. The broad so-called "reciprocal tariff" against countries, covering all their exports and ranging from 10 to more than 40 percent in some cases, has been imposed under the International Emergency Economic Powers Act. Trump has claimed this gives him the power to impose tariffs because a "national emergency" had been created by the large trade deficits of the US.

In May the International Court of Trade ruled that the president had exceeded his powers because there was no such emergency.

The decision has gone to a federal appeals court where the administration is arguing that overturning the tariffs would cause a depression akin to that of the 1930s, making it clear it will proceed whatever the courts may decide.

Tariffs on individual commodities, rather than countries, are being carried out under Section 232 of the Trade Expansion Act of 1962 which gives the president to impose them if their importation is considered a threat to "national security."

Unlike other trade agreements, the deals done by Trump did not contain details but left these to be worked out subsequently by officials. Unresolved questions over the tariffs imposed on goods under Section 232, the threatened tariffs on computer chips and pharmaceuticals, and what will or will not apply under the framework of the broader deal, have generated considerable confusion.

On top of this there is the insistence by the Trump

administration that what it calls "non-tariff barriers" imposed by the EU in relation to the operations of US digital giants have to be removed.

EU officials have said that disagreement over language to be included in this area have held up the issuing of a joint statement following the capitulation by EU Commission president Ursula von der Leyen to the broad framework of US demands at the meeting with Trump at his golf course in Turnberry, Scotland, on July 27.

The EU has said that relaxing the rules under its Digital Services Act is a red line. If changes are made it would be a significant escalation of the economic war because it would represent a direct intervention by the US into the internal economic policies of the EU.

But according to an unnamed US official, cited by the *Financial Times* (FT): "We continue to address digital trade barriers in conversations with our trading partners and the EU agreed to address these barriers when our initial agreement was struck."

Confusion appears to be greatest on the issue of auto tariffs of 25 percent imposed under Section 232 which impact most heavily on Germany, South Korea and Japan.

Japan and the US announced an agreement on July 25 that lowered overall tariffs to 15 percent. The broad duties have been implemented but the 25 percent on autos remains. Nearly a month after the agreement was announced Japanese officials have yet to see an executive order from Trump that the 15 percent is not on top of the auto duties.

Japan's chief trade negotiator, Ryosei Akazawa said last Friday: "We're continuing to see damage—the bleeding hasn't stopped. We want the US to sign the executive order as soon as possible."

The "bleeding" is significant with Akazawa claiming

that at least one car company is losing \$680,000 every hour as a result of tariffs.

South Korea has had a 15 percent overall tariff imposed but the 25 percent levy on autos remains. Trade data shows that its car exports to the US fell nearly 17 percent in value in the first half of the year with steel exports, also subject to a Section 232 impost, down by 11 percent.

When the deal was signed in Turnberry, the EU believed that a 15 percent ceiling would apply to autos. But so far that does not appear to be the case.

The German Association of the Automotive Industry, VDA, is pressing for a quick resolution because its members are being hammered.

In a statement to Bloomberg last week VDA president Hildegard Müller, said: “The deal between the EU and the US has not yet brought any clarity or improvement for the German automotive industry. The costs incurred run into the billions and continue to rise.”

Cecilia Malmström, the former EU chief trade negotiator, told Bloomberg the delays might be administrative but if nothing happened there would be pressure from carmakers for the EU to take retaliatory action.

An anonymous US official, cited by the FT, outlined the reasons for the hold-up.

“Actions that adjust any tariff rate, such as Section 232 tariffs, will follow the finalisation of joint statements with trading partners that we have reached agreements with,” the official said.

But it may be some time before a final statement with the EU and others is made.

And then there is the issue of Section 232 tariffs which are scheduled to come.

There are now nine investigations being carried out into commodities which the Trump administration is considering to subject to tariffs on “national security” grounds. Chief among them are computer chips, one of the most important commodities in the modern-day global economy.

Trump said last week that the tariff rate on chips would be “approximately 100 percent” but that it would not apply to companies that were building production facilities in the US.

Apple seems to have obtained a carve-out after it made a pledge to lift US investments from \$100 billion

to \$600 billion. But Apple is supplied by other firms which have no capacity to shift operations to the US.

Major chipmaking firms are having difficulty in determining what they must do to obtain concessions.

An unnamed executive of a chipmaking firm with production capacity in the US told the FT: “We are having a useful dialogue with [the Department of Commerce], but they don’t know what is going to happen. It is unpredictable because Trump decides, he conducts policy extortion, and he is ad hoc transactional.”

Meanwhile the tariff truce with China continues to hold—it has been extended by three months to November—but there must be questions about how long it might hold given that the Trump administration has made clear that China is the central target.

China has used its monopoly on the manufacture of rare earths—it processes 90 percent of the world supply and 94 percent of permanent magnets which use rare earths to retain their force in high temperatures such as those encountered in auto and fighter jet engines—to push back against the US.

According to a report in the FT last week, Beijing has warned foreign companies not to hoard rare earths, or they will be cut off.

Despite the truce, the supply of rare earths has not been increased to the levels which existed before April 2 when Trump unleashed his tariff war. China exported 3,188 tonnes of permanent magnets in June, more than double its exports in May, but this was down 38 percent from a year earlier.



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