COUNCIL on FOREIGN RELATIONS

Backgrounder

What Are Tariffs?

U.S. Presidents Trump and Biden have both turned to tariffs to support local industries amid economic confrontation with China. Here’s how these taxes work and how they’ve been used historically.

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Summary

Tariffs are a form of tax applied on imports from other countries. Economists say the costs are largely passed on to consumers.

Countries have used them to protect domestic industries, such as agriculture and renewable energy, as well as to retaliate against other states’ unfair trade practices.

U.S. President Trump wielded tariffs more than any recent American president, particularly against China. President Biden has largely left these levies in place while imposing his own.

Introduction

Countries around the world have long used tariffs, a tax on imports, to prop up homegrown industries by inducing citizens to buy goods produced domestically. After World War II, however, tariffs largely fell out of favor in advanced economies because they often lead to reduced trade, higher prices for consumers, and retaliation from abroad.

President Donald Trump broke with this economic orthodoxy and imposed tariffs on hundr of billions of dollars worth of imported goods from China and other countries in an effort to combat alleged unfair trade practices, reduce the U.S. trade deficit, and boost domestic manufacturing in the name of national security and U.S. economic competitiveness. Preside Joe Biden has left these tariffs in place, leading some experts to fear that they will become a permanent part of the U.S. trade landscape.

What is a tariff?

A tariff is a tax imposed on foreign-made goods, paid by the importing business to its home country's government. The most common kind of tariffs are ad valorem, which are levied as fixed percentage of the value of the imports. There are also "specific tariffs," which are charg as a fixed amount on each imported good (for example, $2 per shirt) and "tariff-rate quotas," which are tariffs that kick in or rise significantly after a certain amount of imports is reache (e.g., fifty thousand tons of sugar).

Tariffs can serve several goals. Like all taxes, they provide a modest source of government revenue. Several countries have also used tariffs to help fledgling industries at home, hoping shelter local firms from foreign competitors. Some tariffs are also meant to address unfair practices that other countries have used to make their exports artificially cheap.

Who uses tariffs?

Almost every country imposes some tariffs. In general, wealthy countries maintain low tariff compared to developing countries. There are several reasons why: developing countries migh have more fragile industries that they wish to protect, or they might have fewer sources of government revenue. The United States, for instance, maintained high tariffs for decades, un income taxes supplanted tariffs as the most important source of revenue in the 1930s. After World War II, tariffs continued to decline as the United States emphasized trade expansion a central plank of its global strategy.

Low-Income Countries Levy Higher Tariffs

Median tariff rate for each income group, 2021

High-income countries	1.4%
Upper-middle-income countries	3.2%
Lower-middle-income countries	7.2%
Low-income countries	8.5%

Note: Values are a weighted average of applied tariff rates for all products. Where 2021 data is not available, most recent data is substituted.

Source: World Bank.

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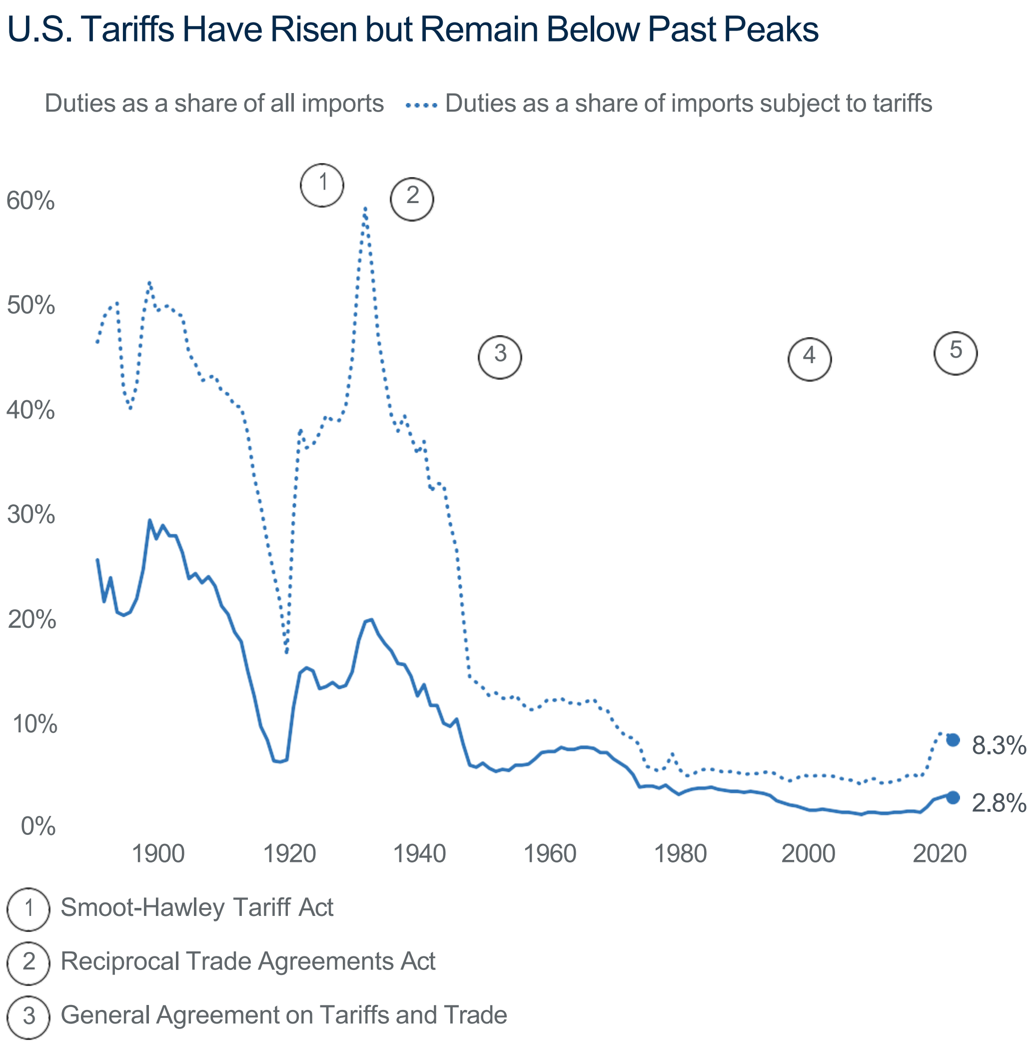
Who authorizes tariffs in the United States?

The Constitution grants Congress the power "to regulate commerce with foreign nations, an among the several states," which it used for more than a century to impose tariffs. Perhaps m infamously, Congress raised close to nine hundred separate tariffs with the 1930 Smoot-Haw Tariff Act, which many economists say worsened the Great Depression. But over the past nin years, Congress has delegated more and more trade authority to the executive branch, in par response to Smoot-Hawley.

Several pieces of legislation underline this trend. The Reciprocal Trade Agreements Act of 1 gave President Franklin D. Roosevelt the power to negotiate tariff-cutting trade deals with o countries. This was followed by the Trade Expansion Act of 1962, which granted the presiden authority to negotiate tariff reductions of up to 80 percent. The Trade Act of 1974 [PDF] allowed the executive branch to strike trade deals—with negotiating objectives set by Congr —that were then subject to an unamendable up-or-down vote, known as fast-tracking. Both Democratic and Republican presidents have used this authority to lower tariffs and enter in range of trade deals, including the agreement establishing the World Trade Organization (WTO).



These laws give the president the power to raise tariffs if foreign countries are found to be engaged in unfair trading practices, or if imported goods are deemed to be threatening critic domestic industries and thus harming national security. They also allow the president to imp tariffs if domestic industries are "seriously injured" by import competition, even if there is n alleged foul play. Many presidents have exercised these powers, though Trump did so to a fa greater extent than most of his predecessors, imposing tariffs affecting hundreds of billions o dollars worth of goods from China and some U.S. allies, including members of the European Union (EU). Biden has maintained most of Trump's tariffs on China and introduced several o his own. However, he has reined in tariffs on EU member countries.

Additionally, the WTO sets limits on the tariffs that countries can impose. WTO members ar supposed to keep their tariffs below an agreed level, or bound rate, which varies among countries. (Developing countries are generally permitted to have higher tariffs.) When a country wins a dispute at the WTO, it is often allowed to impose retaliatory tariffs to pressur the losing country to change its policies. Many experts say that the organization's credibility been damaged by Trump's—and now Biden's—decisions to bypass the WTO and unilaterally impose tariffs.

What are the aims of tariffs?

Tariffs are intended to protect local industries by making imports more expensive and drivin consumers to domestic producers. In the United States, several politically sensitive industrie benefit from such tariffs: sugar producers have been protected by tariffs since 1789—two ye after the signing of the U.S. constitution—and the auto industry has benefited from the so-called chicken tax since 1964, which places 25 percent tariffs on some pickup trucks. Additionally, tariffs are used to shield domestic industries from foreign countries' unfair trad practices and, in some cases, for national security purposes. They can also be a tool of indust policy.

Unfair trading practices. Some tariffs are meant to counteract specific measures taken by fore countries or firms. For instance, the United States applies "countervailing duties" when anot country subsidizes a domestic industry—allowing its exporters to sell products at a lower pri than they would otherwise be able to in a free market—and thereby undercuts U.S. produce "Antidumping" tariffs are applied when a U.S. firm proves that a foreign firm is selling produ in the United States at lower prices than they charge at home, often in an attempt to drive competitors out of an industry before raising prices. In both of these cases, tariffs are meant penalty that allows domestic producers to compete as if the market had not been distorted. Critics, however, claim that even these tariffs are often disguised protectionist policies.

In 2018, under the auspices of Section 301 of the Trade Act of 1974, the Office of the U.S. Tra Representative (USTR) issued a report [PDF] detailing how China's intellectual property (IP practices were "unreasonable or discriminatory, and burden or restrict U.S. commerce." Thes included pressuring American companies to hand over their IP as a condition for doing busi in China, known as forced technology transfer. On the basis of the report, Trump imposed a slew of tariffs, ultimately covering roughly $360 billion worth of imports from China. The Bi administration has mostly kept these tariffs in place.

Biden has also used Section 301 to impose tariffs. In May 2024, he used the authority to targ $18 billion worth of Chinese goods, including steel and aluminum, semiconductors, and elec vehicles and other green technologies—sectors that CFR expert Brad W. Setser says are view as "critical for America's economic future." Analysts say the administration imposed these tar to protect the United States' burgeoning green energy industry from a glut of subsidized Chinese products.

National security. In some strategic industries, often for goods with military uses, tariffs can used to ensure a country does not rely on trade for its supply of critical products. Most nota Section 232 of the Trade Expansion Act of 1962 allows the president to raise tariffs on certai goods for national security reasons.

In an effort to curb China's massive steel production, Trump used this law to raise tariffs on steel and aluminum imports from China, as well as from allies including Canada and the EU leading to accusations that national security was being used as a pretext for protectionism. (Tariffs on Canada and Mexico were later dropped as part of the U.S.-Mexico-Canada Agreement, and Biden lifted tariffs on EU member countries.) The use of Section 232 is particularly controversial, experts say, because it exploits an exception to WTO rules for acti taken in the name of national security.

Economic competitiveness. Some support for tariffs stems from a grand vision for how to buil an economy. Alexander Hamilton, the nation's first treasury secretary, asserted that tariffs ar necessary, at least temporarily, to nourish "infant industries" in the United States until they grow strong enough to compete abroad, at which point the taxes can be removed. Variations this argument have been advanced throughout U.S. history. They have gained credence agai recent years, especially after high-profile supply-chain failures during the COVID-19 pandem Both Trump and Biden have cited tariffs as an effective tool for reducing the U.S. trade defic and bringing manufacturing jobs back to the United States.

Major Tariffs Imposed by Trump and Biden

Tariff action	Tariff rate	Value of trade imp
Trump Section 301 tariffs	7.5% to 25%	$360 billion (2021)
Trump Section 232 tariffs on steel and aluminum	10% for aluminum products, 25% for steel products	$13 billion (2021)
Biden Section 301 tariffs on green technologies and other “critical” goods	25% to 100%	$18 billion (2024)

*Country agreed to a quota limit in lieu of tariffs.

Sources: Congressional Research Service; CFR research.

Who pays?

Importers pay tariffs to their home government, but most economists find that the bulk of t costs are passed on to consumers. This is particularly true for industries with small profit margins, such as retail. Critics say poor Americans are hit the hardest, and recent research [P has found that U.S. consumers have indeed “borne the brunt” of the tariffs on Chinese goods through higher prices. Still other studies have pointed to different costs for consumers: with tariffs on their foreign competitors, domestic producers can safely raise their prices. Ultimat consumers share the burden with importers.

At the same time, tariffs can harm exporters, who may cut prices to hold on to their market share. If exporters do not cut prices, their products can become relatively more expensive, causing sales to slump. Both cutting and maintaining prices can cause profits to fall and potentially damage the exporting country's economy.

The effect is particularly worrisome for countries whose economies are export-driven, includ many of those in Asia. China became the world's largest exporter in 2009, and Vietnam has become a hub for low-cost manufacturing exports. Some high-income countries, such as Germany, also rely on exports to support their growth. Companies in countries that depend exports for growth can lose customers when hit with tariffs, resulting in strong economic headwinds. Some research has shown that U.S. tariffs have led to modest contractions in Chi economic growth, though the effects are difficult to measure since growth was already slowi before the tariffs took effect.

What is the impact on tariff-wielding countries?

Many experts challenge the logic behind tariffs and argue that they hurt more industries tha they help, saying that tariffs act as an economic drag in the countries using them. When consumers pay the bulk of tariff costs, it makes them effectively poorer because prices are higher.

According to this view, firms that use domestic products as inputs also see their purchasing power shrink, as tariffs allow domestic producers to raise prices. For example, as automakers pay more for steel, economists suggest they are likely to shed more workers than steel mills hire. A 2020 study by economists at Harvard University and the University of California, Dav found that tariffs on steel and aluminum had likely resulted in seventy-five thousand fewer manufacturing jobs in steel-using industries while creating just one thousand jobs in steel production.

Other experts contend that tariffs shrink the economy: the Tax Foundation, which is general skeptical of tariffs, estimates that tariffs will slash U.S. gross domestic product (GDP) by 0.21 percent and reduce employment by more than 166,000 jobs.

Tariff critics also warn about retaliatory tariffs. These place the country that first levied tarif on the other side of the equation and ensure that both its consumers and its export industri will be hit. China responded to Trump's tariffs in kind, while U.S. allies, including Canada an the EU, retaliated against the levies on steel and aluminum products. Countries often target sensitive U.S. agriculture sector, which is reliant on exports.

Still, economists and politicians on both the left and the right increasingly favor tariffs. A 20 analysis by economists at the Economic Policy Institute, a pro-labor think tank, found that Trump's tariffs helped "reshore" supply chains in strategic industries, and that reducing them "would have only a minimal and transitory impact" on U.S. price levels. Republican strategis generally argue that tariffs create good jobs, increase economic growth, and decrease trade deficits. Biden and many other Democrats agree that tariffs are good for American workers; Biden administration has also contended that tariffs are necessary to build up the U.S. green energy industry, which it argues will be integral to slowing climate change. In February 2024 Republican Senator Josh Hawley (R-MO) introduced legislation to increase tariffs on U.S. imports of Chinese cars to 100 percent; Biden raised tariffs on Chinese electric vehicles to th level three months later.

What can countries do to mitigate the effects of tariffs?

The most common way for countries to fight back against tariffs—aside from levying retalia tariffs—is to subsidize the domestic industries that have been hit. The Tarump administratio countered tariffs on agricultural products by providing farmers with tens of billions of dollar aid to make up for lost exports. Many economists criticized this strategy as counterproductiv and wasteful. Some fear that recipients come to rely on such assistance programs, making th difficult to end.

Some experts suggest that export-dependent countries could let their currencies depreciate i the face of tariffs. This would effectively cheapen exports and make them competitive despi tariffs. But it would also make consumers in that country poorer, as the local currency would have less purchasing power. Another remedy is to find alternative markets for imports and exports. Trump encouraged this, suggesting that companies facing tariffs on imports from C turn to Vietnam and other countries for their products. However, in testimony to the USTR' office, many U.S. businesses complained that they were unable to quickly shift to sourcing products from outside of China, given the country's dominance in manufacturing consumer products, and were therefore forced to pay the tariffs.

Ultimately, it might not be possible to reverse their effects. Once imposed, tariffs are difficul remove because companies become used to the new environment and lobby against lifting them, experts say. The chicken tax on pickup trucks, for example, was imposed during a trad spat with the EU in 1964, yet has remained in place. If tariffs lead trading partners to find ne buyers and sellers, those new relationships can endure.

Recommended Resources

This timeline by the Peterson Institute for International Economics tracked Trump's major actions on trade.

CFR experts Matthew P. Goodman, Zongyuan Zoe Liu, and Brad W. Setser discuss Biden's China tariffs in this media briefing.

Dartmouth College economist Douglas A. Irwin traces the history of U.S. trade policy in his book *Clashing Over Commerce*.

The Economist examines the changing global trade landscape in this special report.

For *Foreign Affairs*, former U.S. Trade Representative Robert E. Lighthizer defends the Trump administration's approach to trade.

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