

DECODING TRUMP TARIFFS: POSSIBLE MOTIVES

March 2025

The Trump administration’s back and forth with tariffs has left investors’ heads swiveling. To assess possible end-game scenarios, it’s important to understand the underlying motives behind the administration’s tariff moves. We believe there are three possible reasons for the tariffs and tariff threats.

1 Tariffs are viewed as a significant source of tax revenue paid by other countries, which will fund tax cuts for US citizens.

2 Tariffs are viewed as a negotiation tool to extract concessions from other countries (such as greater investment in border security, increased consumption of US exports and additional defense spending from NATO partners).

3 A combination of the first two hypotheses, where the aim is to raise more tax revenue, while also seeking negotiated concessions.

We view the third hypothesis as the most likely and consistent with the evidence seen so far.

Additional tariffs on China, a country seen as an adversary by the US, have been implemented without demands provided. In contrast, tariffs have been used to extract concessions from other countries, such as from Panama or Colombia. The threat of reciprocal tariffs makes us worried, as it signals a broadening in the trade conflict.

US tariffs by the numbers

At the start of 2025, the effective tariff rate on US imports stood at ~2.7%.¹ The 10% tariff on all imports from China, which took effect at the start of February, raised the effective tariff rate by ~1.3 percentage points (pp), to ~4%.

In early March, the administration imposed another 10% in tariffs on China and said it plans to implement 25% tariffs on Mexico and Canada in April. This set of tariffs together would bring the effective tariff rate to ~11.8%, up by more than 9pp from the start of the year.

How much more (or less)?

In our view, an upper bound estimate for the tariff “end game” could be provided by assuming that tariffs will increase by the amount required to cover additional fiscal stimulus by the US administration.

We estimate additional fiscal stimulus to be around \$430bn/year (vs. what is in the law today). This could be covered by an increase of the effective tariff rate by at least 13pp from where it was at the start of the year, to ~15.7% (under the strong assumption that trade flows would not fall). Aggressive reciprocal tariffs, or a 60% tariff on China and 10% on the rest of the world, would increase the effective tariff rate by 16–17pp from where it was at the start of the year, to an effective tariff rate of ~18.7–19.7%.

¹ The effective tariff rate is tariff revenue divided by total imports.

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A more benign assumption is that the US intends to use tariffs only to finance the ~\$115bn/year of new stimulus excluding the renewal of the Tax Cuts and Jobs Act (TJCA). In this case, the effective tariff rate would need to increase by 3.5pp, to only ~5.7%, implying a potential rollback of some currently announced policies.

The situation remains highly fluid and BNY Investments will continue to monitor the situation.

LEARN MORE

For more, see our full report:
[Q&A: US Tariff Risks](#)

The report includes potential Federal Reserve moves and an analysis of countries most at risk.

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