COUNCIL on FOREIGN RELATIONS

The Tariff Costs Are Worse Than You Think

Despite recent trade deals with China and the UK, U.S. companies and consumers will face significant tariffs, compliance costs, and uncertainty without a more significant pivot from the Trump administration.

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U.S. President Donald Trump holds a chart next to U.S. Secretary of Commerce Howard Lutnick as Trump delivers remarks on tariffs in the Rose Garden at the White House in Washington, D.C., U.S., April 2, 2025. REUTERS/Carlos Barria

The Donald Trump administration's recent bilateral trade deals are steps in the right direction, but they will not be enough to rescue American businesses and consumers from higher tariffs, compliance costs, and uncertainty.

Even if the raft of country-specific tariffs that the president announced on “Liberation Day” on April 2 were to be withdrawn completely, companies and consumers would still face significant duties and new costs that threaten to slow trade and disrupt supply chains.

The Trump administration should take advantage of the momentum created by recent trade discussions to double down on their dealmaking to encourage a production economy for the United States.

The Administration’s Sticky Tariffs

Many of the duties the administration has implemented or proposed appear designed to stay in place beyond whatever deals are reached with individual countries.

Even as bilateral deals are announced, the universal 10 percent tariff that was implemented as part of the Liberation Day announcement is set to remain in place on most goods from the United Kingdom and China. The president indicated that it could be higher for other trading partners.

Meanwhile, the administration continues to press ahead with substantial tariffs on specific sectors. Already, the Commerce Department has used the Section 232 national security process to impose 25 percent duties on steel, aluminum, autos, and auto parts, and is pursuing investigations on pharmaceuticals, lumber, critical minerals, aircraft, semiconductors, and other sectors that could lead to extensive new tariffs. While the United Kingdom has been promised some relief, those duties seem designed to stick around to encourage U.S. manufacturing.

President Trump is wielding those sectoral tariffs in an extraordinarily broad manner. Duties on steel and aluminum are being applied to a wide range of downstream products, from aerospace equipment parts to yoga mats with buckled straps. Recently, the administration slapped tariffs on aluminum-containing products that accounted for $103 billion in U.S. imports in 2024, dwarfing the $18 billion in imports covered by 2018 aluminum duties.

Ongoing investigations could result in new duties being applied to downstream products that include everything from data center components to furniture, cough syrup, and electric toothbrushes.

Additional Costs of Compliance

Companies also face additional costs of doing business from tariffs and other recent trade policy changes.

For example, to comply with 232 tariffs on downstream products (such as toasters), importers need to report the weight, value, and provenance of covered inputs (such as steel and aluminum). Obtaining this information has a cost, which becomes progressively difficult to determine the farther downstream the imported good is from the primary input. If the administration presses forward with new levies on downstream products that incorporate semiconductors, lumber, and critical minerals, among other inputs, the compliance burden will skyrocket for U.S. businesses.

New tariffs have been imposed on businesses in a matter of days without the time or guidance necessary to adjust or implement compliance systems. Importers and their customs brokers that once identified a single Harmonized Tariff Schedule classification on a product from China now need to correctly list at least four. Other cases require companies to file up to ten different codes to apply or exempt certain products from various tariffs. For companies, this means spending more time and money to assess and comply with an unnecessarily complex customs environment.

Those compliance costs and complications are poised to rise further. Tariff reductions on Chinese goods are likely to lead to an increase in imports, which will inflate freight shipping costs on the limited remaining voyages to the West Coast, where cargo arrivals have declined by over 40 percent. At the same time, the administration has restricted trade facilitation policies like de minimis treatment and duty drawback, which will result in additional fees and transaction costs for companies and could further slow entry of goods into the United States by taxing the capacity of U.S. customs officials, whose ranks are already short-staffed, to clear imports. Removing the de minimis treatment of small packages from China alone will result in an elevenfold increase in packages that U.S. officials need to clear through formal entry, which increases the workload for a static number of brokers and U.S. customs officials.

In addition, starting in October, the administration will use the Section 301 statute to begin charging new fees on most Chinese-built ships that bring goods to U.S. ports. Those fees may not show up on cargo import paperwork, but they will add to the cost of imports.

All of these increased costs are hard to quantify but are just as destabilizing for businesses as the tariffs themselves and threaten to affect the availability and prices of everything from back-to-school products and medications to seasonal agriculture products and cut flowers.

The Costs of Uncertainty

Uncertainty is also likely to continue so long as tariffs are seen as a hammer and every friction with U.S. trading partners a nail. The president has already used tariffs to punish lax enforcement of illicit drugs and has mused about deploying them to discourage imports of foreign films and European wine.

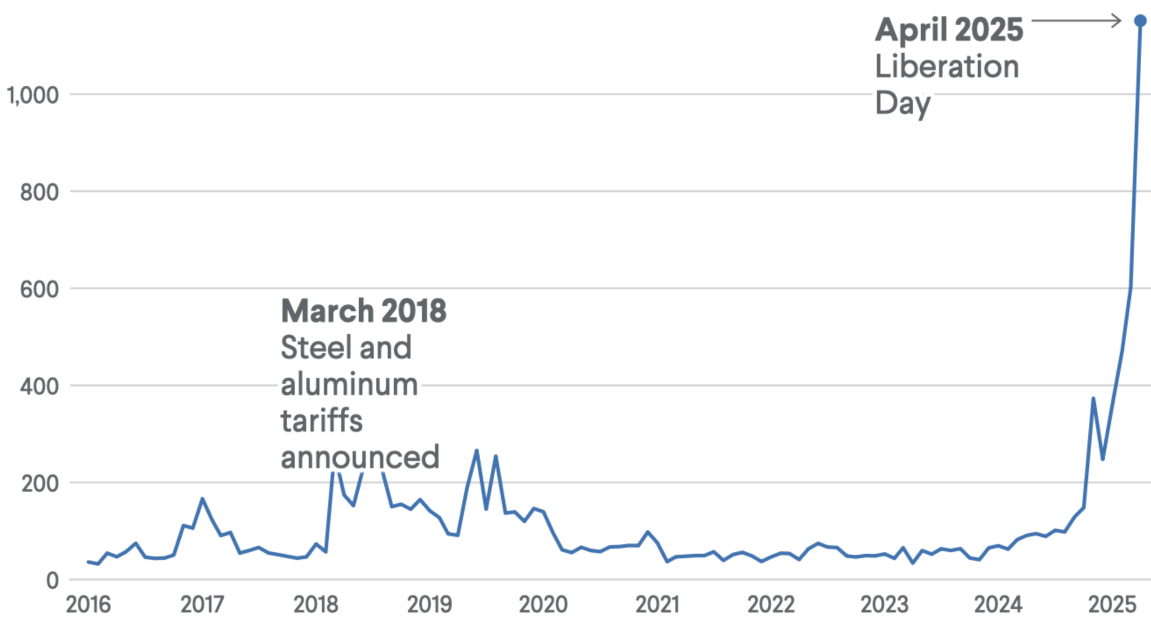
This uncertainty has real costs. During the first Trump administration, the Federal Reserve found that the negative impacts of trade uncertainty in slowing investment and hiring were greater than the direct effect of the president's steel and aluminum tariffs.

Worryingly, trade uncertainty has dramatically increased today compared to that period. From January 2016 to June 2019, the Fed's Trade Policy Uncertainty (TPU) Index rose nearly 60 percent following the imposition of tariffs. From January until April 2025, the TPU Index spiked a whopping 218 percent, which threatens to depress U.S. investment and job creation as the effects of the tariffs wind through the economy.

Dana Donofree, the founder and CEO of AnaOno, a Pennsylvania-based small business that specializes in intimates for those who have breast surgery, told me that, "since the tariff policies implemented earlier this year, the uncertainty around trade and financial planning has only increased, which makes it harder to plan for the future." She worries that "the current level of unpredictability is not sustainable for small businesses" such as hers.

Trade Policy Uncertainty Monthly Index

Frequency of joint mentions of trade policy and uncertainty terms across major newspapers



Note: A value of 100 on the index means 1 percent of surveyed news articles that month discussed trade policy uncertainty.

Source: Trade Policy Uncertainty (TPU) Index

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The Trump Administration's Competitiveness Opportunity

The business community shares the administration's desire to create a production economy to strengthen the United States' production of manufactured goods, agriculture, services, and knowledge, but locking in higher U.S. tariffs and additional trade compliance costs undercuts that objective.

Secretaries Scott Bessent (Treasury) and Howard Lutnick (Commerce) and U.S. Trade Representative Jamieson Greer should be commended for their efforts to stabilize the United States' trading relationships with the United Kingdom and China and to communicate that further adjustments are the way.

The Trump administration has an opportunity to build on their recent progress and double-down on their dealmaking to eliminate even more trade barriers and tariffs on a reciprocal basis while also reconsidering U.S. sectoral levies. Comprehensive free trade agreements with the United States' major trading partners that eliminate duties and barriers would be the ultimate reciprocal tariff deals and should serve as the administration's North Star.

At the same time, the Trump administration should continue to pursue other policies that support the production economy, including by working with Congress to pass a durable tax framework that American businesses need to thrive. Together, those steps would increase certainty, improve the competitiveness of U.S. businesses, keep products on the shelf, and secure the purchasing power of Americans.

Without additional relief, American businesses and consumers are poised to face a tariff winter of 10–15 percent average rates, which would amount to the highest duties on imports since at least the 1940s. Factor in the costs of uncertainty, compliance, slower supply chains, and likely retaliation by trading partners, and the real tab for the U.S. economy in terms of slowed investment and hiring will be even higher.

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