

## Deciphering Trump's Excuses Behind His Trade Deficits



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We are living in the craziest of times since 2020! Aren't we? First, it was China's bat problem, and now it is Trump's trade deficit problem. In this article, an attempt has been made to understand the "Trump's problem", who is responsible for it and what India could do about it.

So, the justifications provided by Trump behind the Executive Order 14257 issued for levying reciprocal tariffs are multiple. Let's check them one by one.

***Firstly, Trump claims that WTO contracting members have been levying higher tariffs on the USA while the USA levies lesser tariffs, which creates a lack of reciprocity.***

To gain a perspective on this problem, one may have to refer to the GATT, 1994 framework. Such a framework has divided the countries into two segments, viz. [1] developed countries and [2] developing countries.

The fundamental principle behind negotiations in WTO is that;

[1] developed countries would forgo their right to claim reciprocity, and the developing contracting parties should not be expected, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments. [See Part IV, Article XXXVI of GATT, 1994]; and

[2] In exchange for this, the developed countries would get, indirectly and inherently, some advantages in other non-tariff-based negotiations in the WTO.

Using the above fundamentals, developed countries, including the USA, have claimed various non-tariff advantages in the past. Some of such advantages are listed below;

- Developed countries had secured major concessions in the form of Stronger IP protection, an Enforcement mechanism and Trade remedies in the Uruguay Round of negotiations. In the same round of negotiations, developed countries were also favoured in TRIMS [investment framework of WTO].
- Developed countries benefited from the WTO accessions of China (2001) and Vietnam (2007) by gaining access to new markets, lower production costs through outsourcing, and increased global trade opportunities, while also benefiting from the removal of quotas on imports from these countries.
- In Agricultural negotiations, developed countries secured additional advantages by maintaining their domestic subsidies.
- In Information technology agreement, developed countries were favoured by liberalized tech tariff wherein they dominated through research, development and supply chain benefits and gained global market access for high value exports.
- In the Environmental Goods Agreement, mostly driven by developed nations, developed countries sought the elimination of tariffs on green technology, which is patent heavy and innovation-led, dominated by developed economies.
- In the past, developing countries were forced to adopt Voluntary Export Restraints (VERs) by developed countries.
- During the Multi Fibre Agreement, quotas were imposed on textile and apparel imports from developing countries by developed countries, which highly impacted export markets for developing countries.
- Developed countries, in exchange for their agreement of non-reciprocity, have been legitimizing their preferential trade schemes (e.g., GSP) under MFN rules.

Looking at the above incentives received by developed countries, including the USA, Trump's claim to reciprocity may not be justified, especially when the USA has agreed to work on a non-reciprocal basis.

Additionally, as per the GATT, 1994 framework, Article XXXVII, every developed country is refrained from increasing tariffs which could be detrimental to the interests of developing nations. In light of this, considering the fact that Trump's order could

potentially be a reason for the closure of various businesses, it is contrary to the GATT, 1994 framework.

Nevertheless, even if one contracting party has to ignore the GATT, 1994 framework for improving its balance of payments, trade deficits, reduced domestic manufacturing, etc., then, such a contracting party can take it up in discussion with other contracting parties. In contrast to the same, a direct imposition of a reciprocal tariff is against the GATT, 1994 framework.

***Secondly, Trump claims that USA has lowest tariff benefits on account of Most Favoured Nation (MFN) basis***

It is interesting to note that after World War II, the USA has been advocating a liberalised trade policy. Following this policy, it has signed multiple trade agreements and has given tariff concessions to gain an advantage in other non-tariff negotiations, as discussed above. Consequently, the lowest tariff benefits are a result of the USA's own policy and have nothing to do with the charging of higher tariffs by developing countries.

***Thirdly, Trump claims that USA is negatively impacted due to VAT and other policies of contracting parties***

It is apposite to note that a country's VAT policies and other related regulations are a result of its own economics. Blaming USA's trade deficits on them is not a reasonable approach.

Nevertheless, VAT is something, which is applicable on imported and indigenous goods at equal rates and it is creditable as well. Thus, it may not be a barrier for free trade since it is a value added tax essentially.

In response to the Trump's orders, many countries like China have imposed counter tariffs and some countries are also looking at using a more diplomatic approach by negotiations with USA, which, Trump, per the above order, is open to.

However, one thing is clear which is that, the world as a whole, may not sit quiet. As quoted in the Press Release dated 03 April 2025, the Government of India has hinted towards the resolution of reciprocal tariffs through a bilateral trade agreement.

Further, the contracting parties to the WTO may also approach appellate authorities to challenge the USA's move, which goes against the GATT, 1994 framework.

In all and all, it looks like the imposition of reciprocal tariffs against the WTO framework may not sit well in the broad picture. Nevertheless, for now, businesses may have to face

the heat on a temporary basis. What businesses should do about it is discussed in Part II of this article.

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