



THE PENINSULA

How the Trump administration views reciprocal tariffs

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The concept of reciprocity has garnered significant attention since the inauguration of U.S. President Donald Trump on January 20. One of his first actions was signing the [America First Trade Policy](#) executive order, which tasked the secretary of commerce with investigating the causes of the United States' large and persistent trade deficit in goods and recommending appropriate actions with the support of the secretary of the treasury and the U.S. trade representative. Three weeks later, on February 13, Trump singled out the lack of reciprocity as a source of U.S. trade deficits in his [Reciprocal Trade and Tariffs](#) executive order.

Traditionally, trade liberalization rests on principles codified by the General Agreement on Trade and Tariffs (GATT) and, subsequently, the World Trade Organization (WTO). Within this context and in line with the Most Favored Nation (MFN) principle, [the concept of reciprocity](#) in trade stipulates that nations participating in free trade must levy the same tariff levels against all signatories as they do toward the trading partners benefiting from the lowest tariff levels. This is also referred to as "[diffuse reciprocity](#)," where a nation must treat all other nations equally; it does not require that each nation levy the same tariff levels against each other.

Trump's actions as president follow a different interpretation of trade reciprocity. He appears to believe that tariffs are reciprocal when the United States and any given trading partner levy the same levels of tariffs against one another—known as "[strict](#)

reciprocity.” According to this principle, trading partners should expect higher tariffs from the United States to match their respective tariff rates. However, this can also be viewed in two ways, potentially yielding different outcomes.

First, the United States could match tariffs category-by-category. For example, if South Korea levies 5 percent duties on U.S. beef, the United States would apply the same 5 percent tariffs against beef imports from South Korea. However, two nations often import different goods from each other: South Korea imports lots of soybeans from the United States but not vice versa. If the United States matched tariffs by category, it could have a relatively limited impact on overall tariffs.

Alternatively, the United States can set tariffs to match the average effective tariff of a given trading partner. South Korean government officials estimate the overall South Korean effective tariff to be 0.79 percent. The United States could set tariffs against any set of product categories, such as automobiles and steel—both of which are important South Korean exports—so that the average effective U.S. tariff level against South Korea reaches 0.79 percent.

The United States will also rely on tariff estimates the Department of Commerce is scheduled to publish on April 2. The method and data used by the Department of Commerce will determine its estimate of effective tariffs on South Korean imports from the United States and, thus, how much the United States may increase tariffs to match those of South Korea.

A more complex view of reciprocity links the national trade balance to investments or non-economic demands. Secretary of Commerce Howard Lutnick has alluded to significant foreign direct investment (FDI) by trading partners as a way of compensating for trade imbalances, achieving reciprocity, and thereby receiving preferential treatment.

Similarly, Trump has repeatedly linked military aid or border control issues with tariffs. Tariffs were used to elicit a response on border control or drug enforcement with Canada and Mexico. During his latest speech to Congress Trump even mentioned the issue of military aid to South Korea while claiming South Korea charges “four times” the tariffs that the United States does to South Korea. This is the most flexible definition of reciprocity that goes beyond trade and economic exchange to encompass a broader range of possibilities with respect to bringing the relationship into a better balance.

Trump deviates from the traditional understanding of reciprocity in the context of trade. Given that the United States currently applies lower tariffs against many of its trading partners, including South Korea, than they do on imports from the United States, higher U.S. tariffs should be expected.

The administration’s method of defining and imposing reciprocal tariffs will have different implications for trading partners. With respect to South Korea’s agricultural tariffs, reciprocal tariffs—in the strictest sense—will have a limited impact. However, if the United States targets key categories of South Korean exports, including automobiles and steel, to achieve an effective tariff rate that may exceed current effective tariffs on U.S. agricultural exports to South Korea, pending the Department of Commerce’s upcoming assessments of South Korean tariffs, the effects could be

significant. To make matters more complex, Trump also leaves open the possibility of imposing tariffs to address other issues in the bilateral relationship, such as immigration and military support.

Moving forward, Trump's tariff saber-rattling is an opportunity to creatively redefine the U.S.-South Korea bilateral relationship in a manner that also advances South Korea's national interest. In Trump's view, the United States is being taken advantage of. Recognizing that South Korea has a lot to offer the United States, combined with Trump's eagerness to make deals and couple together issues, could position South Korea to gain a preferential standing in the trading system.

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