

Goldman Sachs Exchanges Top of Mind

Trump's tariffs: Big talk or big action?

**Jeff Gerrish, Former Deputy, US Trade Representative for
Asia, Europe, the Middle East, and Industrial
Competitiveness**

Allison Nathan, Senior Strategist, Goldman Sachs Research

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Allison Nathan: President Trump has announced several tariffs in just the short time since his inauguration, and there are signs that bigger and broader tariffs could still be ahead.

So, is this mostly talk – or does Trump really intend to usher in a new era for international trade?

Jeff Gerrish: *I think everyone needs to really buckle up here because things are just getting started and it's likely to be even more unpredictable than the first term.*

Allison Nathan: I'm Allison Nathan and this is Goldman Sachs Exchanges. Each month, I speak with investors, policymakers, and academics about the most pressing, market-moving issues for our Top of Mind report from Goldman Sachs Research.

In late February, I spoke to Jeff Gerrish to get an insider's perspective at what's driving Trump's tariff policy, and what could be ahead. Jeff served as Deputy US Trade Representative for Asia, Europe, the Middle East, and Industrial Competitiveness during

Trump's first term. He's currently a partner at Schagrin Associates, a law firm that focuses on international trade law.

I started by asking Jeff what Trump is ultimately trying to accomplish with his tariff policy.

Jeff Gerrish: The president really has several goals with respect to his trade and tariff policies. The first of those is to use tariffs to address unfair trade practices and correct significant trade imbalances with other countries. You hear the President talking a lot about how other countries treat us unfairly and about the big trade deficits that we have on a bilateral basis with other countries as well as with the world as a whole. So, he wants to use his trade and tariff policy to address those problems that he sees.

The second goal that he has is to rebuild US manufacturing and grow jobs, particularly in that sector. Again, you hear the president talking a lot about the need to use tariffs to bring manufacturing back to the United States and bring the jobs back as well.

The third goal that he has is to use tariffs and the trade actions that he takes to protect national security. There's a real concern that the president has and his team has that we're over-reliant on imports. Particularly in certain key strategic sectors, things like semiconductors and pharmaceuticals. We also saw during the pandemic, the fact that we were completely reliant on imports and other countries, particularly China for PPE, which was obviously a real problem and a strategic vulnerability for the United States. And also, there's a real concern that he has and his team has about

China's use of its industrial policy to dominate strategic sectors of the global economy, and he wants to use his tariffs and trade policy to counteract that.

The fourth goal that he uses tariffs for quite a bit is to gain leverage for negotiations. We saw that in first term with his use of tariffs to get the phase one trade agreement with China as well as the threat of auto tariffs to get a trade agreement with Japan as well. And, to a more limited degree, the use of tariffs in the USMCA negotiations.

The final two goals are ones that are a shift from the first term to the current term.

And one of those is the use of tariffs to address what I would call non-trade, non-economic foreign policy or geopolitical issues. We've seen that with the threat of tariffs against Colombia on immigration issues, the tariffs on Canada, Mexico, and China relating to border security and fentanyl trafficking and the potential use of tariffs or threat of tariffs against Denmark relating to Greenland.

The other area, which has been a shift, is the greater focus on using tariffs to raise revenue. I don't think anyone thinks that we're gonna replace the income tax as a basis for our revenue through tariffs. But the tariff revenue can help to offset some of the tax cuts that the president would like to implement.

Allison Nathan: Thanks for laying that out. What do you think is most misunderstood about this approach to trade policy?

Jeff Gerrish: I think the first thing that's misunderstood is the fact that there is a plan and that there is a strategy, and the strategy really is to achieve the goals that we just talked about.

Even though it appears to the people outside the administration that this looks erratic or haphazard, the President is showing that he is not going to go softly here. He's gonna go at this in a really hard way and go as close to the deadline as possible to get action and then if the action isn't taken that he wants, he will move forward with those tariffs.

And even if he pulls it back, it's because there have been actions taken to address the concerns, or at least enough done to postpone the action to make sure that other actions are taken.

Allison Nathan: One of the biggest surprises I think to the market was the announcements around our major allies and trading partners like Canada, Mexico. But given everything that you know and the goals that you had laid out does it feel to you like this is more in the camp of negotiating tactics or tariffs that he really wants to see put in place?

Jeff Gerrish: I think it's more in the realm of negotiating tactics. I really do. He's, again, he's looking to take big action on the border and on the fentanyl crisis, and I think he's just looking to get as much as he can done on that and declare victory. And I do think the Canadians and Mexicans are really doing their best to try to meet those goals in terms of giving him enough that he can declare

victory on that, and that would be a big win for the president early on in his administration.

But it's been unclear I think to many people as to what exactly Canada and Mexico need to do to satisfy the President. Right now, I think it's very uncertain what's going to happen.

Allison Nathan: 25% tariff on autos has been an area of focus. Do you think that goes in the camp of negotiating tactic or more likely to be implemented?

Jeff Gerrish: I think it likely goes more into the camp of a negotiating tactic. He used it very effectively in the first term to bring more investment into the United States in auto manufacturing. So, I can see him doing that in this context as well, and I think it fits also into what he's gonna try to do through the USMCA negotiations, which I think one of the focuses there is going to be on how we make sure that we keep as much of the auto manufacturing here in North America, but particularly in the United States. And they're going to want to, as part of those negotiations, tighten up the rules of origin to make sure that happens. But I think he's using it primarily as a negotiating tactic. Now, if he's not getting the kinds of traction and results that he's seeking, then he could potentially move forward on that and he was ready to move forward in the first term, so I could very well see him wanting to move forward, but I think primarily at this point it's a negotiating tactic.

Allison Nathan: When it comes to things like steel, how committed do you think he is to actually implementing those tariffs?

Jeff Gerrish: Oh, I think he's very committed to that. I think there is a real recognition, and certainly in the first term of the importance of the steel and aluminum industries in the United States for national security reasons and the real threat that the influx of imports of those products, the impact that had on the steel and aluminum industries at the time that the original action went into place.

There had been a flood of imports coming in from around the world. And the US industry was really doing quite poorly. There were losses in the industry. Capacity utilization in the industry was very low. And those tariffs really did have a major impact in really helping the industry, both the steel and aluminum industry, leading to additional investments in the industry.

Again, we're back in a situation where steel companies are suffering losses. The aluminum industry is in a difficult spot as well.

So, I think he's very much committed to taking strong action, as you saw with the announcement, he's removing exclusions, removing country exemptions. He wants to try to do this in a way which removes the limitations on the impact of the tariffs.

Now, I think he's gonna get a lot of pushback on that, not only from downstream industries, including those who will argue that

they cannot get certain products from the US industry, and then also from Capitol Hill. Because those companies also will be talking to their members, and there's gonna be I think likely some pushback there and requests to put in place an exclusion system of some sort.

So that's gonna be interesting to watch. But right now, the president is very much focused on being strong and extending those tariffs, of course, he's extended them to derivative products as well.

Allison Nathan: How likely do you think blanket tariffs will be on a broader range of products and what is that most likely to encompass?

Jeff Gerrish: So I think the president is looking to go bold and broad with respect to tariffs. He's looking to address the overall problem that we have with the global trade imbalance. Now, we've seen a decline in the trade deficit that we have with China following the imposition of the Section 301 tariffs.

But with that decline that we've seen with the trade deficit with China, the trade deficit with other economies like the EU, Mexico, Vietnam, India, Thailand, and other countries has exploded. So, he's already showing that he wants to take expansive actions to bring down our overall trade deficit.

Now he could do that a few different ways. We've of course heard him talk a lot about the global baseline tariff. He talked about that

during the campaign quite a bit. Global baseline tariff of 10 to 20%. That would be, you know, minimum across the board tariffs on all products from all countries, many of which currently have zero or very low tariff rates.

And the more recent announcement he made was on potentially putting in place a reciprocal tariff system. That's under consideration. That would be a major, I would even say fundamental change to the global trading system. It's a little unclear at this point whether if he did go forward with reciprocal tariffs, if that would take the place of the global baseline tariff that he's talked quite a bit about. That may very well be the case, but I do think the President is looking to really take strong action across the board.

Allison Nathan: So, it sounds like you think there is a high chance of either a broad reciprocal tariff and or a universal tariff.

Jeff Gerrish: Yes, I agree with that.

Allison Nathan: A lot of our clients are very focused on whether VAT is included. There's different ways to calculate the reciprocal tariff. If you had to wager which direction he was gonna go, a broader implementation of a reciprocal tariff seems more likely to you?

Jeff Gerrish: It does seem more likely to me, and I think the President and his team see that the unfair treatment of the United States in the trade context is not just based on tariffs. It certainly

is, you know, reflected in the different tariff rates that are set by countries around the world. But there's also the problem with non-tariff barriers, which can be in certain instances, just as big of a problem as the tariffs themselves. So, I think he will want to try to address that. Now, it is going to be complicated, trying to measure how to put a tariff at a level that reflects the non-tariff barriers that are in place in certain countries, particularly systems that are fairly opaque with respect to those matters, that's gonna be somewhat difficult and challenging. But I think that is something they are going to try to address.

Allison Nathan: So, it sounds like you think Trump is going to do something very big on tariffs, but the market hasn't seemed to believe that. What do you think the market isn't believing or why is that at this point?

Jeff Gerrish: I think it's just such a radical change. And I think the market may not expect that the President would be willing to take such an action. But I think that's a miscalculation, because the President, especially in the trade and tariff realm, tends to do what he says he's going to do.

And he has people in the administration who very much are trade hawks and will want to take bold action with him. Now, as with the first term, there's a range of different perspectives in the administration. You know, certainly I would put Jamieson Greer and Peter Navarro and probably Howard Lutnick in the trade hawk camp. But there are others, including Treasury Secretary Bessent and some of the other economic officials who are less hawkish on

those issues. But even if you look at past Treasury secretaries, I think Bessent tends to lean more in favor of tariffs than many of them have in the past. So, I think the market may be miscalculating on this.

Allison Nathan: What would your key message be to investors who are trying to understand what's next on tariff and trade policy?

Jeff Gerrish: I am confident that the bulk of the tariff developments still lie ahead. I think what we've seen so far is really just the beginning and I think the President is just getting started at this point.

I think something that I'm really watching closely is the outcomes of the various studies and reports that will be issued on April 1st pursuant to the America First trade policy memo that was issued on inauguration day. In that memo, the President directed his trade team to conduct a comprehensive review of a number of different trade and tariff actions that could be taken, and to report back on that of course on April 1st. I think those reports could lead to a whole host of tariff actions. So, I think there's a lot still to come. I think everyone needs to really buckle up here because things are just getting started and it's likely to be even more unpredictable than the first term.

Allison Nathan: But Trump is a business guy and he understands business and he knows that business does not like uncertainty. Does that weigh on his mind at all?

Jeff Gerrish: They know it and they embrace it because they think that it will bring back more manufacturing, bring back more companies, bring back more jobs to the United States. The only way to gain certainty is by doing that, and they wanna push that as much as they possibly can.

So, I think they are embracing the uncertainty. They are fully aware of it, but I think they think it's helpful to achieve the goals that they ultimately wanna achieve.

Allison Nathan: So, some valuable insights from Jeff Gerrish on how Trump is thinking about tariffs and what that could mean for what's to come.

Now, there is another question here, which is the legality of all of these tariffs. But when I spoke to Tim Brightbill, Co-Chair of Wiley Rein's International Trade practice, he told me that while Trump's tariff actions will likely face legal challenges, the tariffs announced so far are arguably within the president's authority – which could mean that most of these challenges will likely fail.

Let's leave it there. Thank you for listening to this episode of Goldman Sachs Exchanges. I'm Allison Nathan.

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