CENTRAL BANK OF TRINIDAD & TOBAGO

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TARIFFS AND INTERNATIONAL TRADE

On April 2, 2025, the US authorities announced the implementation of a "reciprocal tariff" scheme, applicable to over 180 countries. This notification created a lot of uncertainty worldwide, and in fact was a major talking point at the April Meetings of the International Monetary Fund (IMF) and World Bank. But why all the fuss? This Note seeks to explain what tariffs are, how their use evolved and the potential implications of the still-evolving US actions. It is the seventh in the Public Education Series introduced by the Central Bank of Trinidad and Tobago, geared at explaining important economic issues and monetary policy developments to the public in simple, nontechnical terms. The Central Bank looks forward to comments, feedback, and topic suggestions for upcoming Notes at info@central-bank.org.tt.

What is a tariff?

Tariffs are a tax on the value of imports charged by a country's customs authority. Typically, the tariff rates are guided by bilateral, regional and multilateral agreements which countries have negotiated and can differ between products and country of origin. Tariffs may be used as a form of protectionism for several reasons, including to assist emerging sectors in the domestic economy to become competitive vis-à-vis foreign products, protection for the local agricultural sector with a focus on food security, and for national security reasons. For some countries, the income from tariffs can form a significant source of revenue. In addition, tariffs are often applied when there is evidence of "dumping" - where imports are sold at a price lower than that which exists in the domestic market. The application of a tariff can and has resulted in affected countries retaliating by imposing their own tariffs, giving effect to a trade war, an example of which is the US *Smoot–Hawley Tariff Act* of 1930, which resulted in the implementation of reciprocal tariffs by affected countries.

How has the application of tariffs evolved?

Prior to the mid-twentieth century, tariffs were a popular tool for many countries. After the Second World War, at the multilateral level there was a push towards reducing tariffs with the signing of the *General Agreement on Tariffs and Trade* in 1947, which evolved into the *World Trade Organization* (WTO) in 1995. This multilateral agreement has been complemented by what has been described as a *'spaghetti bowl'* of bilateral and regional trade agreements seeking to foster trade through the lowering of tariffs and non-tariff barriers. These regional agreements offer the opportunity to lower tariffs to rates below those which were agreed to at the WTO, as market access is limited to specific countries and products. There are also non-reciprocal trade agreements such as the US's *Caribbean Basin Initiative* and Canada's *CARIBCAN*, which grant preferential access to selected Caribbean goods entering the respective markets without the Caribbean countries having to offer similar access to American and Canadian goods.

How can tariffs affect consumers?

For consumers, the imposition of a tariff on goods imported into a country may result in higher prices for imported goods. The exact impact, though, would depend on the size of the tariff and the ability and willingness of the importer to absorb part or all of the additional cost of the tariff. A key issue is how people respond to an increase in the price of the good. For some goods, a price increase leads to a significant fall in demand for the product; for other goods, demand hardly changes. Other factors which can influence the effect of a tariff are whether there are substitutes being produced domestically or being imported from other countries (whose goods are not subject to the tariff). In general, over the long term, tariffs can result in higher domestic prices, as imported inputs into the domestic production process become more expensive, and in some cases, less efficient industries flourish due to limited competition from abroad. Carefully targeted tariffs can allow infant industries to become globally competitive.

Does Trinidad and Tobago apply tariffs to imports?

Trinidad and Tobago applies tariffs to a wide range of products entering its domestic market. These typically range from 0 to 40 per cent. The applied rates are guided by the *Common External Tariff (CET) of the Caribbean Community* (CARICOM), which outlines the tariff to be applied to imports from outside the CARICOM region. Exemptions to the CET are granted by the Council for Trade and Economic Development (COTED). For example, Trinidad and Tobago was granted permission to suspend tariffs on selected basic food items, public health supplies and industrial safety products during 2024. Most recently, the tariff on Other Hydraulic Cements was reduced to 0 per cent. Trade between CARICOM members is generally duty-free. The various trade and partial scope agreements which the country has signed allow for rates different to those outlined in the CET.

What is the possible impact on Trinidad and Tobago of the US tariffs?

For Trinidad and Tobago, the US remains the single most important export market. Initially, the impact of the 10 per cent tariff may be limited, given that it is the lowest level of the proposed tariffs, leaving the country at the same level or even at an advantage over several other countries that are faced with a higher tariff rate. The longer-term impact of the tariff, however, is uncertain as it depends on various factors such as US consumer demand, the substitutability of Trinidad and Tobago made products, and potential trade agreements with the US.

What are the other possible impacts of the US tariffs?

The evolving trade policy by the US administration and the countermeasures by other countries have impacted the global growth prospects, with the *IMF forecasting lower US and global growth for 2025 and 2026*. This is likely to result in slower international trade and higher inflation, while constraining affected businesses.

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