The Protectionists!

TAX 245%

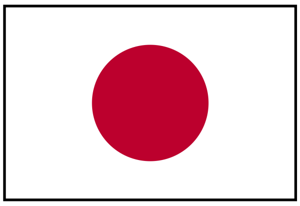
USA TAXES AGAINST CHINA

US says China faces up to 245% tariff due to retaliatory action

China now faces tariffs of 245 per cent on import of goods into the United States "as a result of its retaliatory actions", the White House said Tuesday afternoon (India time) as the trade war between the two countries appears to run further and further off road. The announcement came as President Donald Trump authorised an investigation into "national security risks posed by the US' reliance on imported, processed critical minerals and derived products", which includes cobalt, lithium, and nickel, and rare-earth metals used to manufacture smartphones and batteries (for electric vehicles), as well as military equipment.

TAX 420%

SRI LANKA TAXES AGAINST JAPAN



As of February 2025, importing a Japanese vehicle to Sri Lanka incurs several taxes based on the vehicle's CIF (Cost, Insurance, and Freight) value. These include a Customs Import Duty (CID) of 30%, a Port and Airport Development Levy (PAL) of 10%, and an Excise Duty ranging from 200% to 300% depending on engine capacity, fuel type, and motor power. Additionally, a Value Added Tax (VAT) of 18% is applied on the sum of CIF, CID, and PAL. If the CIF exceeds Rs. 5 million, a Luxury Tax of up to 120% may also apply. For example, a vehicle with a CIF of USD 20,000 could attract over USD 63,000 in taxes, bringing the total landed cost to over USD 83,000.

*Donald Trump's reciprocal tariff policy was grounded in the idea: **"If country X charges us 25% to sell our goods, we'll charge country X the same 25% when they sell to us."***

What If? Sri Lanka adopts Trump Style Reciprocal Tax (Case Study)

Country	Exports from SL (USD mn)	Imports to SL (USD mn)	Proposed Reciprocal Tax (%)
China	273	4,366	93.8%
India	884	3,870	77.2%
UAE	337	1,489	77.4%
USA	2,911	443	0.0%
UK	906	~50 (est.)	0.0%
Germany	629	~120 (est.)	80.9%
Japan	71	~250 (est.)	71.6%
Russia	~40 (est.)	545	92.6%
Pakistan	~60 (est.)	457	86.9%

Exports and imports based on 2024 data from CBSL Annual Economic Review 2024.

Notes:

- Reciprocal tax = (1–Exports/Imports) ×100

🧮 **Example (China Calculation)**

$$\text{Reciprocal Tariff} = \left(1 - \frac{273}{4366}\right) \times 100 \approx 93.8\%$$

- Where export data is not listed, estimates are used based on historical averages or left blank if negligible.
- **Massive trade deficits** with China and India justify reciprocal tariffs above 75%.
- **Trade surpluses** with the USA and UK mean no reciprocal tariffs should be levied—rather, trade should be encouraged.
- Applying such reciprocal tariffs would be **highly protectionist** and could violate WTO trade rules unless carefully negotiated under FTAs.

Key Exports and Imports of Sri Lanka 2024

(Values in USD million)

Category	Exports (USD mn)	Imports (USD mn)
Textiles and Garments	5,061.0	3,136.4 (fabric etc.)
Tea	1,435.9	—
Petroleum Products (Exports)	1,017.6	4,347.1 (fuel)
Rubber Products	975.6	316.5 (rubber goods)
Food, Beverages & Tobacco	651.5	1,914.3
Machinery & Equipment	485.5 (exports)	2,363.1
Chemical Products	234.1	1,143.0
Coconut Products	416.5	—
Spices	454.7	115.7
Gems, Diamonds & Jewellery	381.9	216.9
Seafood	233.0	118.8
Building Materials	—	927.2
Transport Equipment	—	154.8

According to the Central Bank of Sri Lanka Annual Economic Review 2024, the country's external trade saw a modest recovery despite global uncertainties. Total exports in 2024 amounted to **USD 12.77 billion**, reflecting an increase from **USD 11.91 billion** in 2023. This growth was largely driven by improved performance in the industrial exports sector, including textiles and garments, as well as agricultural products such as tea and spices. Meanwhile, imports increased to **USD 18.84 billion** from **USD 16.81 billion** in the previous year, mainly due to higher demand for intermediate goods and capital goods with the easing of import restrictions and recovering domestic demand. However, the **trade deficit widened** to **USD 6.07 billion** in 2024 compared to **USD 4.90 billion** in 2023. Despite this, the country's current account remained in surplus for the second consecutive year, supported by increased workers' remittances and a significant boost in tourism earnings, which helped strengthen external sector stability.

SUMMARY

The core objective of the **Trump Tariff policy** was to correct **unfair trade imbalances** by introducing **reciprocal tariffs** on countries that imposed high duties on U.S. exports. The approach was rooted in the belief that if a trading partner levies, for example, a 25% tariff on American goods, the U.S. should respond with a similar tariff on that country's exports. This strategy aimed to **protect domestic industries**, **reduce trade deficits**, and **pressurize countries into negotiating more favorable trade terms** for the U.S.

If Sri Lanka were to adopt a similar reciprocal tariff strategy, it could, in theory, help reduce its **persistent trade deficits**, particularly with countries like **China, India, and the UAE**, where imports heavily outweigh exports. By imposing higher tariffs on imports from such countries, Sri Lanka could **encourage domestic production**, **protect local industries**, and possibly **increase government revenue** through import duties.

However, there are significant reasons why Sri Lanka **should not fully adopt** the Trump-style tariff model. First, Sri Lanka is a **small, import-dependent, open economy** that relies heavily on **global supply chains**, particularly for fuel, machinery, raw materials, and consumer goods. Aggressive tariffs could **increase the cost of living**, **raise production costs**, and **trigger retaliation**, damaging critical export markets.

Moreover, such a strategy could **breach WTO commitments**, **undermine existing free trade agreements (like ISFTA and PSFTA)**, and disrupt investor confidence, all of which are crucial at a time when Sri Lanka is rebuilding its economy post-crisis. Instead of unilateral tariffs, Sri Lanka should pursue **balanced trade reforms**, **diversify export markets**, and invest in **strengthening competitiveness** to sustainably improve its external sector.