Letter n°139

Trump's trade deals: An initial assessment. Overbearing with his allies and outmanoeuvred by autocrats.

"The end is in the beginning and yet you go on." Beckett.

The tariff policy makes little sense; it may well be struck down by the Supreme Court, and Trump is already considering compensatory measures. But, as Hamm says in Beckett's Endgame, he goes on all the same.

Before taking stock, there are four preliminary remarks:

1. US tariffs are at their highest level since the 1930s: At that time, the Smoot-Hawley Act imposed tariffs of up to 50%, and the global economy was in recession. Many countries responded to US tariffs by devaluing their currencies. The result was the shrinking of international trade volume by 60% in three years, and many countries falling into recession. Nothing like this is happening today, because apart from China, countries are not retaliating against US tariffs.

2. A shift in the international order is underway: In the post-war world, the United States protected its allies, but in return, they used the dollar, invested in the US, and purchased American military equipment. Today, not only is American protection no longer guaranteed, but Trump demands very large investments on US soil and attempts to undermine democracies by supporting far-right parties.

3. A decline in foreign direct investment (FDI) is observed: According to the UN, FDI had already dropped 11% to $1.5 trillion by 2024, illustrating a slowdown in globalisation. The United States remains the top destination, with a 20% increase to $280 billion (the effect of the Biden IRA plan), while Europe fell to $220 billion. China declined again by 29%, receiving only $116 billion.

4. International trade has never represented such a high share of global GDP: 30% today compared with 12% in 1970, of which 7% is agricultural commodities, 16% manufactured goods, and 7% services. In 1970, it was 4% raw materials, 5% manufactured goods, and 3% services. Chinese exports to the US are decreasing, but other trade routes are developing.

To make an initial assessment of tariffs, three aspects must be considered: the impact on the US economy, the impact on relations with allied countries, and the impact on relations with China.

Impact of tariffs on the US economy:

Looking back at the period 1945–2010, a period of trade liberalisation, tariff reductions, and strong growth, a new era is dawning and raises at least five questions: What will be the extent of US inflation generated by these tariffs? Will the US trade deficit be reduced? Can a recession be avoided? What will be the impact on American consumer incomes? How significant will potential reshoring to the US be?

Through the implementation of his tariff policy, Trump pursues the goals of reindustrialisation and reducing the budget deficit. But is this realistic?

- ***Impact on the budget deficit:*** The inconsistency.

According to Trump's advisors, tariffs should generate $300 billion per year, preventing the budget deficit from exceeding 6%, even though Trump's BBB Act has reduced revenues. However, this is questionable, because Trump, worried about a slowdown in growth, is considering giving $2,000 to every American, at a cost of $600 billion, or at least to the poor and middle class. These pay-outs would exceed tariff revenues and worsen the deficit.

- ***Impact on reindustrialisation:***

Tariffs alone will not be enough to justify reshoring to the United States. To what extent will the Japanese invest $550 billion in the US and Europeans $600 billion? The commitments are vague, as they were made by governments but would need to be implemented by private companies.

In recent decades, the US share of global industrial production has declined. It is now 15% compared with 30% for China, and the prospects for reindustrialisation are uncertain, as are job creations in the context of automation in production lines. China's manufacturing trade surplus is at $1.9 trillion, while the US runs a chronic deficit.

Manufacturing employment accounted for 22% of total employment in 1979; today it is only 9%, and there is no turning back. The average American wage is 15 to 16 times higher than in Vietnam and 10 to 11 times higher than in Mexico. Moreover, the US faces a labour shortage. Many job openings remain unfilled, and the deportation of migrants, already 100,000 in the first six months, exacerbates the shortage.

According to research from the University of California, Trump's first experiment with increased steel tariffs in 2017 created only 1,000 jobs in the steel sector while causing the loss of 75,000 jobs in industries using more expensive steel.

- ***Impact on consumption and growth:***

The key question is: who will bear the cost of the tariffs? American consumers, US companies, or foreign exporters? According to numerous estimates, more than half of the burden will fall on consumers, nearly a quarter on businesses, and a small percentage on foreign firms.

At the beginning of the tariff increases, companies did not pass on the costs because they had built up inventory in advance. Over time, however, tariffs will be passed on to consumers, which is expected to slow growth.

Consumption in the second quarter slowed significantly to 1.4%. The same goes for GDP growth, which reached 1.2% in the first half of the year, half the growth rate of the previous year. Core US inflation stands at 3%, while it barely exceeds 2% in Europe.

The result of a 50% tariff on Brazilian beef was a 15% increase in the price of ground beef and angered consumers toward Trump. To offset this, he decided to reduce tariffs on essential goods and increase imports of Argentine beef, but this upset part of his electoral base, namely domestic ranchers.

It is too early to draw conclusions about the likelihood of a recession or a renewed rise in inflation, as imports account for less than 15% of US GDP. Tariffs of 15% do not translate into 15% price increases, because from producer to consumer there are many intermediaries capable of compressing their margins.

- ***What to make of the proposal to tax US exports?***

This is one of Trump's recent ideas, implemented on exports of Nvidia and Intel products to China.

There are precedents in emerging countries with their raw materials, for example, Argentina in the early 2000s and Russia around 2015. The key condition for success is inelastic demand, where buyers have no alternatives.

Given a trade deficit of $1.3 trillion over the past 12 months, the impact in terms of revenue would be modest. The risk would be a reduction in US exports. Furthermore, such taxes could encourage American companies to relocate their production units, while simultaneously giving foreign competitors a boost in competitiveness, thereby producing the opposite effect of what Trump intends!

Impact on relations with allied countries:

- ***With the United Kingdom:***

A historic partner, the UK is one of the few countries running a trade deficit with the United States. Yet, despite this privileged relationship, it faces a 10% tariff, to which must be added 4.8% corresponding to the Most-Favored-Nation clause, although this 4.8% is already included in the 15% imposed on the European Union. In effect, the result is equivalent.

- ***With the EU***:

The leading European exporters to the United States are Germany with €161 billion (10% of its exports), Ireland €73 billion (32% of its exports), Italy €65 billion (10% of its exports), and France €47 billion (8% of its exports).

For some, the signing of the EU-US agreement is reminiscent of the Treaty of Nanking imposed on China in 1842 after the Opium War – a capitulation, and even a humiliation. Paul Krugman, Nobel Prize-winning economist, did not hesitate to call the United States a "rogue nation".

While the European Union is the world's largest trading bloc, Ursula von der Leyen chose not to play hardball or invoke the anti-coercion instrument, fearing the loss of potential US protection in a tense geopolitical context. Tariffs now stand at 15% (including automobiles, wine, and pharmaceuticals), compared with 2% before Trump's return. This is far from the stated target of 0%. Combined with the Euro's appreciation, the overall difference is around 30%. The asymmetry is stark.

In services, Europe recorded a deficit of €148 billion in 2024 (imports €480 billion, exports €334 billion) but failed to assert its interests.

This is an unequal agreement: the US taxes Europe, but Europe does not tax the US (0% tariffs on US industrial goods such as airplanes, generic pharmaceuticals, certain agricultural products, and the list could be extended). For steel and aluminium, quotas remain under negotiation, but tariffs stand at 50%.

The commitment to purchase $750 billion in US energy products is largely symbolic. Europe already buys 70% of US LNG exports, yet the US cannot supply that amount. In 2024, according to the European Commission, Europe's energy imports totalled €375 billion, of which €76 billion came from the US (including €42 billion in oil, €15 billion in gas, €10 billion in refined products, and nearly €3 billion in coal). To meet the $750 billion commitment at current prices, US exports would need to rise from 20% today to nearly 70% of European imports. But it is unclear whether the US has the capacity to do so, as current US exports of oil, gas, and coal total only $170 billion.

Moreover, how can Europe justify buying huge quantities of fossil energy from the US while promoting carbon neutrality and renewable energy?

The commitment to invest $600 billion in the US is not as binding as it seems, as it roughly corresponds to the amount European companies already planned to invest independently of Trump.

However, how can Europe commit to $600 billion in US investments when the Draghi report encourages channelling European savings into domestic investments? How can Europe consider buying large quantities of US weapons while the goal is to develop European production?

Early effects of the tariffs are visible: EU exports to the US fell 22% year-on-year in September, and the trade surplus was reduced to €6.5 billion. At the same time, the EU's trade deficit with China is worsening, as China tries to offset the decline in its US sales. In response, the European Commission is tightening its stance on Chinese investments and demanding greater technology transfers from China to Europe. For example, the planned CATL battery plant in Hungary has been scaled down.

- *With Latin America*:

Donald Trump is damaging the United States' traditional relationships. Mexico, for example, has little choice, as 80% of its exports go to the US; Panama is also under pressure. But other countries are resisting and moving closer to China. The best example is Brazil, and we can also note China's construction of a giant port in Peru.

- *In summary, a racket against allied countries*:

Trump demands a lot from his allies, forcing them to raise defence budgets to 5% of GDP while giving nothing in return. He has closed the chapter on a time when Europeans not only benefited from the American security umbrella but also saved on defence spending and accumulated trade surpluses in the US market.

On paper, the United Arab Emirates has pledged to invest $1.4 trillion, Saudi Arabia $1 trillion, the European Union $600 billion, Japan $550 billion, South Korea $350 billion, and Qatar more than $200 billion.

For now, these historic allies are bending to the pressure, accepting unfair tariffs and committing to significant US investments. But this could eventually backfire on the United States. The only viable path for the US, as Obama pursued in his time, is not to extort allies but to strengthen ties, develop relationships with Southeast Asian countries, prevent them from gradually falling into China's orbit, and focus on innovation. This approach is more sustainable and productive than a tariff-based policy.

Impact on relations with China: Trump's lost showdown.

- *The lesson of 2017:*

After the negative experience of 2017, China has strengthened its independence. Previously, two-thirds of China's soybean imports came from the United States; today, only 20% comes from the US, while 70% comes from Brazil, and China no longer buys oil or gas from the United States.

Chinese industry is becoming less dependent on the US and increasingly self-sufficient every day, and Chinese companies are clearly leaders in many future-oriented sectors. In semiconductors, Huawei has made substantial investments. While Americans have no short-term alternatives for rare earths, China is making breakthroughs in electrical equipment, telecommunications equipment, chemicals, automotive, pharmaceuticals, and not least the energy transition.

The recent five-year plan aims for greater strategic industrial autonomy and pays little attention to increasing purchases from the United States.

- *The lesson of 2025:*

This year, despite prohibitive US tariffs, China's overall exports continued to grow. China's trade surplus is expected to reach $1.2 trillion, up 20% year-on-year, not including Chinese exports routed through other countries such as Vietnam.

The agreement reached a few weeks ago between Trump and Xi is the first sign of a new international order. It is a one-year agreement, with the understanding that, over time, the two countries will limit their interdependence.

The United States imposes tariffs of 47% on Chinese products, while US exports to China are taxed at 32%.

Trump secured the suspension of tariffs on soybeans and the removal of exceptional increases on many US products, but he clearly appears in a weak position. Unlike 2018, there is no Chinese commitment to purchase more US products to supply their domestic market and reduce the US trade deficit, no commitment to reduce public subsidies to industry, no progress on TikTok, and, of course, no political concession from China, meaning no liberalisation of the regime.

In other words, this can be seen as a temporary, tactical de-escalation, a ceasefire rather than a peace agreement, without any strategic accord between the two countries. Moreover, Trump's policies have pushed Brazil and India closer to China.

***Conclusion: "There is no obstacle which cannot be broken down by wills sufficiently keyed up," Bergson*.**

We can draw three key points of conclusion from this phrase by Bergson, taken from his book *The Two Sources of Morality and Religion*, because Trump will neither succeed in eliminating the US trade deficit nor in changing the face of the world:

- ***Do not be misled***:

The US trade deficit is one aspect of the privilege associated with the dollar as an international currency. It allows Americans to live beyond their means, consuming with the help of a portion of international savings. There is no reason to expect a reduction in the trade deficit. It depends on the US savings rate, which remains low, and on public spending, which remains high.

Trump makes the mistake of focusing on manufacturing production, while trade in services is growing faster and the United States has an undeniable advantage there. Should declining industries be subsidised, hence the very high tariffs on steel or aluminium, or should the emphasis be on the industries of the future?

- ***Do not overdramatise***:

Although the United States accounts for one-quarter of global GDP, it represents only 13% of world imports, which puts the impact of tariffs into perspective. Moreover, even if average import tariffs approach 20%, imports themselves account for only 14% of US GDP.

If the United States erects trade barriers, the rest of the world is actively expanding free trade agreements. Examples include the UK with India, likely by the end of the year, India with the European Union, Mercosur with the EU, and China with African countries, offering free access to the Chinese market.

Trade routes between China and Europe and between East Asia and North America remain the most heavily trafficked, but in response to Trump's tariffs, they are evolving. South-South trade is developing, particularly between Southeast Asia and Latin America, and between Africa and East Asia. US imports from China fell 20% in the first nine months, while imports from Vietnam rose over 40% and those from Thailand over 30%. Although Chinese exports to the US have declined, they are partially offset by increases in exports to European countries.

Investment promises to the United States are made in the name of private companies, but there is no guarantee they will be realised. In 2017, China had agreed to large increases in imports from the US over several years, yet it did nothing.

Without the tariff increases, economic growth in 2025 would have been 0.2 points higher, but the IMF has revised upward global trade growth to 2.6% in 2025, an increase of 0.9 points.

The Supreme Court could invalidate Trump's tariff policy on the grounds that tariffs can be considered taxes paid by households and therefore must be approved by Congress, which holds the authority to levy taxes.

- ***Expect nothing***:

The US trade deficit has hardly decreased despite the tariffs. In the second quarter, it stood at $250 billion, compared with $285 billion in Q2 2024 and $230 billion in Q2 2023.

From a budgetary perspective, partly thanks to the tariffs, the deficit fell slightly between 2024 and 2025, from 6.3% of GDP to 5.9%. Tariffs generated $30 billion in revenue in September, compared with a total of $80 billion for the entire 2024.

In the short term, tariff revenues could help slightly reduce the budget deficit, but in the longer term the opposite effect will occur. Compression of corporate margins will reduce tax revenues, and the economic slowdown will lead to lower imports, and thus lower tariff revenues.

To discuss the effectiveness of tariffs is also to ask whether the money collected from consumers or companies will be used better or worse by the collecting government.

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