

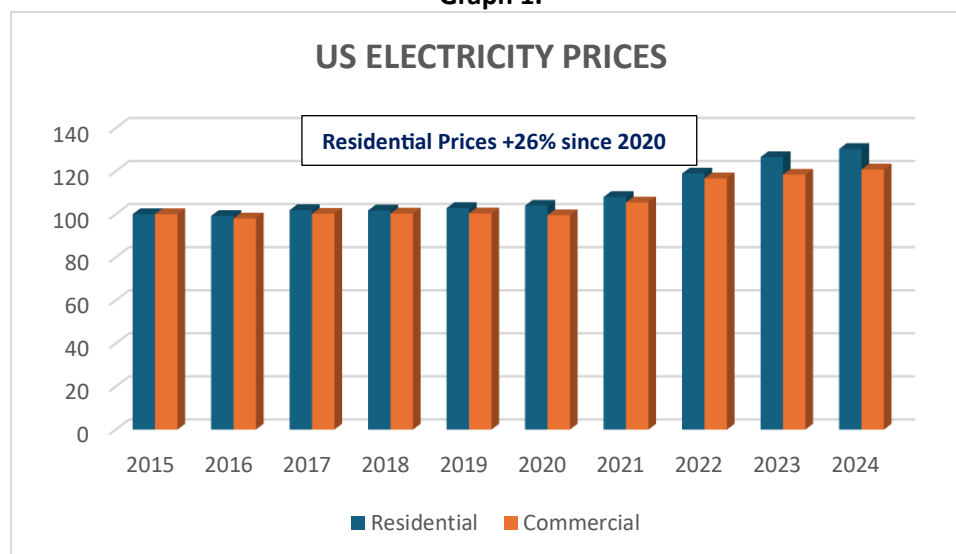
# WHO IS WINNING THE TARIFF WAR, CHINA OR THE USA?

*There is beginning to be sufficient evidence to draw tentative estimates of who is winning the war. This article examines the initial results. The real difficulty lies with Trump himself because he changes his positions virtually daily making commenting on developments awkward.*

Let's begin with posing the question, what would a level headed and rational President have done to reverse the deindustrialization of the US economy. Firstly, such a President would have been patient recognizing it could not be done overnight. Secondly, that it needed to be targeted, bit by bit, particularly key industrial inputs. Thirdly, that before any tariffs are introduced there would have to be support for the targeted industry to bring down its operating costs. Fourthly the physical infrastructure would need to be improved to reduce cost prices. Fifthly there would need to be an improvement in the human infrastructure through improving education and training. Sixthly, the Whitehouse, Congress and the FED would have to work closely to ensure money remained cheap. Finally, a recognition that tax increases would be needed to fund an industrial policy, to reduce the deficit and keep a lid on interest rates. Only then could tariffs be applied step by step.

So what has Trump done? Exactly the opposite. This overconfident, reckless and impatient President has tried to do everything overnight. His version of shock and awe. Nothing targeted and nothing gradual but all at once. No preparatory work has gone into modernizing and expanding infrastructure a failure which will cause prices to rise rather than fall as demand for say electricity increases, in this case already from data centers. (See Graph 1) Instead of putting money into education DOGE is ransacking the Education Department trying to sniff or snuff out any Wokeism or shall we say trying to stupefy it. Then instead of inviting the FED Chair for coffee at the Whitehouse Trump has thrown his cup at the Chair by calling for his immediate termination. And finally Trump and his dopey Congress stooges are intent on tax cuts, increasing the deficit, limiting the room to maneuver by the FED and robbing the Administration of any funds to re-industrialise the US economy.

**Graph 1.**



(Source: [US Energy Information Administration](#))

Instead of being productive Trump has been destructive. The fiasco he has unleashed will not make it easier to re-industrialise it will make it harder. In contrast the [Chinese Peasants](#) have been doing the opposite. Patiently preparing to be cut off by the US while taking advantage of the US market for as long as possible.

### **Why the urgency?**

Most analysts attribute psychological and personality traits for Trump's clumsy overnightness. While there is some merit in this there is an additional factor, there is an objective urgency. Time is running out for the USA. The Oval Office has been turned into a Panic Room. Up to now nothing has worked for the USA. It has not been able to restrain China's rise with embargoes and mild tariffs as well as sanctions. All it has done is slow down China's technical advances but at the cost of forcing China to produce its own equivalents. In other words, and ironically, it has forced China to further industrialise at the expense of the USA.

Microchips exemplifies this transformation. While some Marxists laud the all-knowing interventionist Chinese State, the chip industry in 2018 proves the opposite. Then China was caught with its pants down. Until the first Trump embargoes of Huawei, the state support for the Chinese chip industry was sporadic, patchy and unfocused. Chinese companies like Huawei were happy to rely on cheaper and more advanced foreign chips shunning Chinese Chips where they were available. It was only with the emergence of embargoes on foreign tech that the Chinese state woke up and assembled an industrial and financial armada aimed at self-sufficiency, something they should have initiated a decade earlier to build up momentum for just such a moment.

Since then the results have been impressive. In 2026 China should have its first [EUV lithography machine](#) being produced in scale. When that happens China will do to the chip industry what it did to the car industry, dominate it globally. It wouldn't even be far fetched to say, that a Taiwan buffeted by Trump tariffs and Chinese technical advances, will not so much resist China militarily as in time welcome its interventionist financial support.

I can only repeat myself by saying that if the US cannot restrain China's Technical Advancement up the value chain, breaking the US monopoly, then war beckons because the US has everything to gain from a war, including preserving the Dollar's reserve function. The US in electing Trump already showed it was a semi-failed state, losing the Dollar and the finances it enables will turn it into a failed state. And Trump knows that. The stakes could not be bigger.

Historically, no failing Hegemon has been so dependent industrially on its adversary, than has been the USA. To fight a war the US needs to decouple from China. Matters have moved beyond mere competition. This means either moving strategic industries back to the USA, or conversely, constructing supply chains with reliable allies should this fail, a plan A and a plan B. The only advantage of blanket tariffs is that Trump can dangle the US market in front of countries with an industrial base in order to solicit their support. If the Chinese response to this is anything to go by, Plan B is being executed. China's Commerce Department issued the following warning: *"China firmly opposes any party reaching a deal at the expense of China's*

*interests. If this happens, China will never accept it and will resolutely take countermeasures in a reciprocal manner. China is determined and capable of safeguarding its own rights and interests.”*

Despite the urgency by Trump, the failure to reach agreement last week with the Japanese delegation, despite the lead negotiator being given a signed cap by Trump, shows that trade negotiations are protracted as the [Japanese Times](#) reported. Trade deals take years not 90 days, and no largish country likes being bullied into supporting a declining economy at the expense of its own economy, especially when confidence in the US itself is declining.

### **This week could be more turbulent.**

It is clear that Trump is picking a fight with the FED especially its chair Powell. And as usual he has made it personal. This is not a legal issue to be decided in court, this is an economic issue which will be decided in the markets. And the markets don't like it. Once again Trump has roiled the markets. Which is why on Tuesday Trump blinked and rolled back his threat.

For Trump the issue is simple, lower interest rates will encourage consumption, investment and the housing market. What he forgets is that the FED only controls short term interest rates. The rates which affect investment together with the housing market are long term rates, the ones tied to the future outlook for the economy. So once again Trump is achieving the opposite, it is he, not Powell, who is driving up interest rates with his capricious behaviour. The key ten year rate has once again risen sharply as this [F.T. graph](#) shows. Nor is it likely that yields will fall soon. Since the spat took place [10-year swaps](#) has risen from 4.03% to 4.11% a relative rise of 2%.

**Graph 2.**



The US Treasury market has increased in volume as the US deficit has grown. Amid the recent turmoil, daily trades have averaged [\\$900 billion](#) compared to \$645 billion in 2023. This has not made the market

more liquid but more fragile because of the reduced amount of intermediation as banks pulled back due to tighter capital standards and risk management practices following the financial crash. And the banks don't like turmoil as it raises risk. In any case, this reduction in intermediation has removed buffers which could absorb shocks. Adding to the problem, more price sensitive and short-termist actors now play a larger role with money market funds, mutual funds, and hedge funds now holding 27% of bonds compared to longer-termist and less speculative foreign investors holding only 30% down from 50% in 2015.

For the first time since the height of the Pandemic commentary is being heard that the FED may need to move in to stabilize the bond markets. However, Trump's repulsive behaviour is once again making intervention more difficult rather than easier. But besides Trump's interference, the FED is caught in a cleft stick as lower interest rates would weaken the Dollar and increase the outflow of funds importing inflation, while higher interest rates will attract investors but add to the discomfort caused by tariffs.

Pushback by the markets is to be expected as investors offload no-longer-safe US instruments. However, what is lamentable is the lack of pushback by the large corporations. The CEO's of the large corporations who lined up to stroke Trump's back during his inauguration appear to be still intimidated by this orange midget despite him costing them tens of billions of Dollars. Perhaps they are still clinging onto the belief that tax cuts and deregulations will outweigh the pain of tariffs and economic mismanagement. Or maybe these economic titans are simply political cowards.

### **The Dollar.**

It is often said that Trump wants to see a weaker Dollar to encourage US exports and discourage imports. He is playing with fire by sacrificing the golden goose. The overvalued Dollar represents a wealth transfer to the USA. He will lose that. Profits will decline. Living standards will fall in the USA as everything gets more expensive, while rising in the rest of the world as things get cheaper in local currencies. And given how much trade is denominated in Dollars the effect will be widespread. It will be reminiscent of the shock in 1973 when the Dollar left the gold standard allowing the Dollar to depreciate. There is one caveat, then the US imported much of its oil whereas today it is the world's biggest producer, and this change will mitigate the shock.

In short the world has been overpaying for US assets and exports and for the use of the Dollar. Now it will be the case that the same unit of foreign currency will buy more Dollars, making a global shortage of Dollars likely (not due to the trade deficit as many think). Should the Dollar fall by up to 40% as it should, it will make many imports more expensive and unobtainable with or without tariffs added on. ([Economists](#) see an eventual fall of only 20%) On the other hand US exports will become cheaper to buy.

A deep Dollar Depreciation would cost foreign investors already invested in the US part of their investment, but it will encourage new foreign investment as the Dollar cost of that investment falls. In other words it will discourage financial investment while encouraging industrial investment. Some of this, to Trump's chagrin, will involve buying existing US corporations based in the US on the cheap.

Of course it will play havoc with the [smaller corporations](#) sailing close to the financial wind. The strong Dollar acted as a subsidy to them by reducing their import prices and hence their cost prices. Most of them

are more dependent on imports than they are on their exports, so the gain from cheaper exports is unavailable to them.

The quantity and therefore the cost of industrial imports should not be underestimated. In Q4, 2024 on an annualised basis, the [US imported \\$1.632 trillion](#) worth of industrial inputs and capital goods. Translate that from import prices into final selling prices and that would rise to well over \$2 trillion or nearly 10% of GDP. More to the point that is two thirds the gross output of manufacturing in the USA. Of that amount one eighth comes from China. And of course up to half comes from US affiliates abroad, which would encourage them to locate back to the US, but at a substantial cost to their bottom line.

Here lies the US nightmare. Given its depleted industrial base and its overvalued currency it has become highly dependent on imported industrial materials, components and equipment. The tariffs will make these much more expensive. Already reports are coming in revealing the severity of the disruption to global trade and supply chains. [This podcast](#) contains the best analysis I have found detailing the scale of the disruption and the growing bottlenecks.

There is a final consideration. Productivity. You know the thing which the bosses obsess over even as they declare the growth of the economy is due to their entrepreneurial abilities and managerial skills. The overvalued Dollar has made it appear that US workers are more productive internationally than they actually are. This has been further distorted by the fact that US GDP has been inflated above the average. Secondly, and something often overlooked, is that some of this US productivity is imported. That is to say many industrial imported inputs are underpriced because of the strong Dollar and buying power, and then repriced in the USA when sold on. For example it is estimated that the \$600 billion in consumer goods imported from China have an actual final resale value of \$2,000 billion (its in one of the links above). This price difference, which increases the value of output once realised, appears to increase productivity as well

In any case it was obvious that the productivity data and comparisons were distorted. If the average productivity in the US was so high then why was so much of its economy internationally uncompetitive. In a couple of years when the Dollar has reached 'fair value' then and only then will we be able to compare relative productivities.

Turning back to China. The People's Bank of China treats the Yuan from the perspective of an emerging economy dependent on its trade flows rather than capital flows. In other words the Bank strives to keep the Yuan competitive which is why its exchange rate has remained constant in Dollar terms over the last two years. In fact, in terms of emerging market currencies, the Dollar has not depreciated. It has mainly depreciated in terms of the Euro, the Swiss Franc, the Yen and the Pound.

As [this report](#) shows the Chinese current account surplus and its capital account deficit are more or less evenly matched in terms of Dollars, at +\$1.476 billion vs -\$1.381 billion for the first 9 months of 2024. The difference is 6.5%. Now if the Yuan or Renminbi was allowed to appreciate, the Dollar outflow would decrease because a stronger Yuan would buy more Dollars and the Dollar trade surplus would also rise if volumes were maintained. This would be due to China paying less for its imports while receiving more for

its exports. In addition, an appreciating Yen would discourage capital outflows and encourage capital inflows as holding Yuan would become increasingly attractive.

In other words, the point is being reached where China's one-sided approach to its currency must change. As long as China treats its currency as a trade currency it will underpin the Dollar's reserve status.

### The Stock Market.

Investors must be suffering whiplash. On Monday the Dow Jones was down then it was up on Tuesday as this graph shows. The reason: the Scott Bessent the Treasury Secretary went on the air to declare the trade war with China was unsustainable and that the two countries would strike a deal at some point. This was followed by Trump puffing in more air to the markets by saying he had no intention of firing FED Chair Powell. As expected, and in concert the value of the Dollar rose 0.7%.

Graph 3.



See saws are not only fun for children, but they are also fun for bank traders, as well as being highly profitable. In the first quarter of 2025, after Trump's inauguration, the major banks booked \$37 billion in speculative gains, the most for ten years. But of course when the banks gain everyone else loses, and these gyrations are impoverishing and distressing all those who depend on income from shares and bonds such as pensioners. And when one includes the uncertainty and disincentives being generated in Main Street, they effect everyone else which is why Bessent and Trump are currently feeding the markets with good news.

If this good news does not materialize and so far there has been no response from the Chinese, this will once again tank the markets. Leaks from the Whitehouse says Trump may be willing to drop tariffs back to between 50 and 60% as though this would incentivize Xi to pick up the phone to Donald. Racist Trump simply does not understand that the Chinese are a cultured, proud and resourceful people who have made clear they will not be intimidated by the paper tigers stalking around in the Whitehouse.

As I said in my first article on Tariffs (Trump Creates a Tarrified World) *For a market rout to happen three things need to be in place. Firstly, that these tariffs are seen to be serious and enduring, not merely a bargaining chip to be rolled back once negotiations take place. Secondly, the retaliation together with its scale by competitor nations needs to be seen and felt. Finally, when the economy itself shows signs of real and undeniable distress including and especially insolvencies breaking out in both the regulated and unregulated financial markets especially in private equity and hedge funds, in short a financial crisis.* So far only the first two factors are in play with the second yet to be fully felt. The real test will come with the third development, actual fissures in the real economy, which is now weeks away.

### **The outlook for both economies.**

The first quarter [GDP in China](#) surprised on the upside at 5.4%, within that manufacturing grew at 6.8%. This was primarily due to the spike in exports to beat the tariffs. Therefore it is unlikely that China will ever again be able to stick its GDP head above 5.0%. I will wait for the profit data for March due shortly before commenting further on China as the [Jan-Feb data was very weak.](#)

In the US the [GDPNow](#) estimate for GDP growth despite the upfront-buying is for a contraction of 0.1%. This makes a 5.5% difference in growth rates, more or less wiping out the faster growth in Dollar GDP by the US since the pandemic due to a stronger Dollar. The latest composite [PMI Index from S&P Global](#) fell from 53.5 to 51.2 a 16 month low while future expectations fell to a 22 month low. The regional FED surveys amplify that reality as future orders fell to historic lows, particularly for the key [Philadelphia Index](#), where orders fell to their lowest level since the beginning of the Pandemic in April 2020.

The only positive is the number of large corporations promising to invest in the USA the latest being the Swiss giant Roche with its pledge of \$50 billion. This brings the pledges up to over \$1 trillion. Whether these are Trumpian promises, meaning they may never materialize, is unknown at this stage. But whatever the case, from promise to actual production takes years, by which time it may be far too late to make a difference.

The US housing market remains weak and precarious as mortgage rates remain elevated. The Big 5 house builders accounting for one third of all homes sold, reported a combined fall in sales of 6.6% in Q4 compared to Q4 2024, while [Zillow](#) reported a smaller fall of 0.1% in Metro areas. In contrast the [Census Bureau](#) just reported an increase in unadjusted quarterly sales of 1.7%. Once again the official data is inflated and at variance with market reports. One piece of bad news sums up the distressed state of housing; 60% of sellers are exiting the housing market because they are finding homeownership unaffordable. This compares to normal levels of around 10%.

All the indications are that the US is losing the fight against China. Trump keeps getting a reality check on how complex it is to rearrange supply chains and how long it will take. (Again the podcast linked above

goes into detail on this question.) Time is therefore not on the side of the US. Within production key components are already in short supply or non-existent due to Chinese targeting, while in retail the shelves will be emptied within weeks. Hence Bessent's panicked press appearance before the Whitehouse.

And of course foreign investors continue to offload US investments, both bonds and shares. Here again China's withdrawal of funds is targeted. China is focusing its selling in that most vulnerable of sectors - [private equity](#). As and when the financial crisis breaks out it is likely to be in the unregulated financial sector: private equity and hedge funds.

### **Conclusion.**

For the time being China is gaining the advantage in the trade war hence Trump's U-turns compared to Chinese stoicism. The US is more reliant on China than China is on the USA. The red swan is whether or not the US can lever countries away from China in the Pacific and Global south and isolate China that way. So far the omens are not good for the USA as many leaders find Trump repulsive and untrustworthy.

It is likely that it will be Trump rather than Xi who will pick up the phone to obtain relief. The same applies in the Ukraine and Iran theatres where Trump is once again getting wake up calls. My next article will be on the geopolitical situation focusing on Ukraine, the Pacific and Western Asia (The Middle East). The situation as always remains fluid, turbulent and unpredictable.

Brian Green, 23<sup>rd</sup> April 2025.