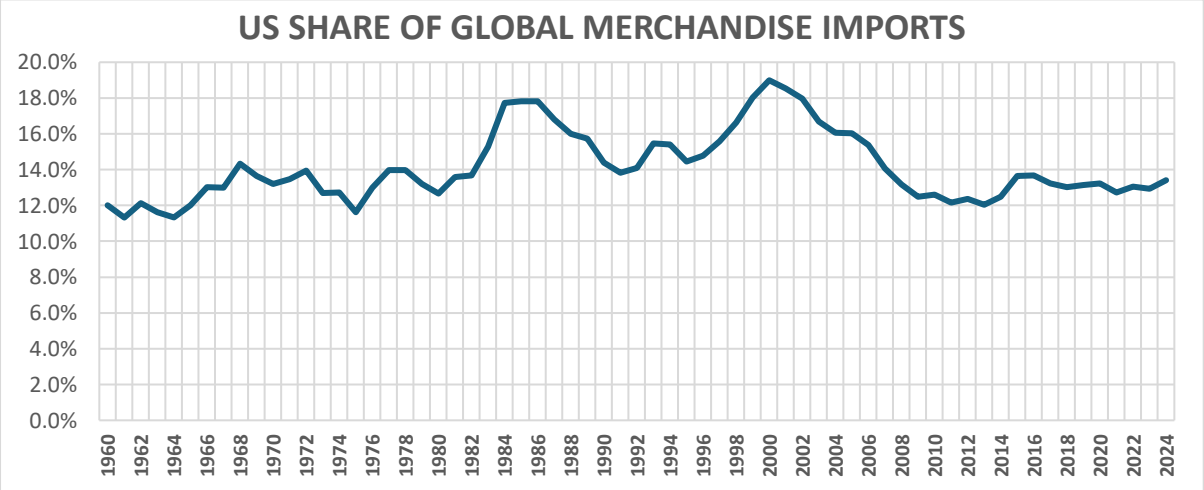
TARIFFS AND DOWRIES

Trump has managed to choral Japan with tariffs while receiving a $550 billion dowry. His next target is the EU, and more elusively, China.

Global Merchandise Trade in 2024 amounted to $24.43 trillion measured by exports. Imports on the other hand amounted to $24.83 trillion due to re-invoicing through offshore entities to minimise tax. US imports in 2024 amounted to $3.295 billion or 13.3% of the global total.

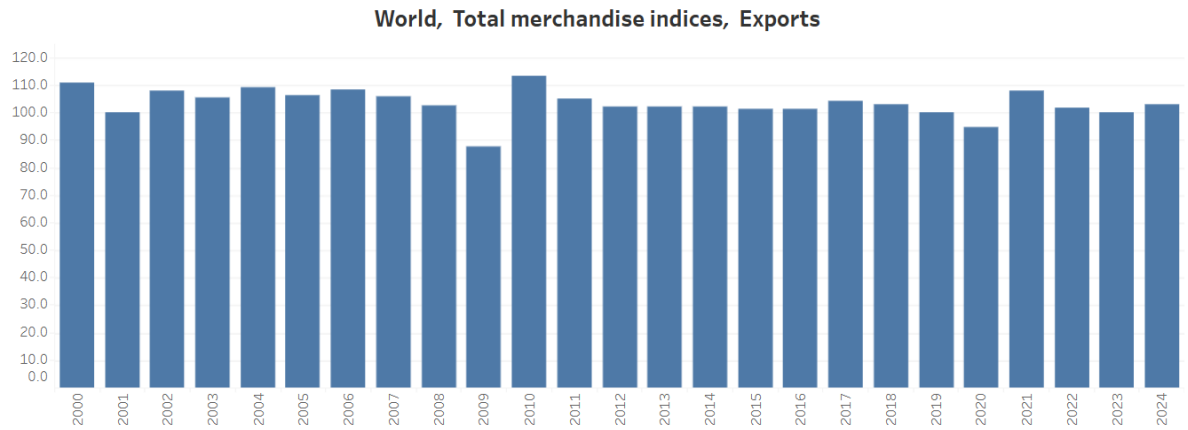
Graph 1 below shows US imports over time. The first hump coincides with the *rust-belt* deindustrialisation in the early 1980's amidst a surge of Japanese imports which was then killed off by the Plaza accords and the subsequent curbs on Japanese tech imports into the USA. The second hump after 1996 represents the beginnings of globalisation proper, and the resulting surge of imports primarily from China. Contrary to Trumpian mythology, the US has not been drowning in imports or being taken advantage of, as the current range of around 13% is not measurably higher than the late sixties and seventies and below the 14.1% average over the 64-year period.

Graph 1.



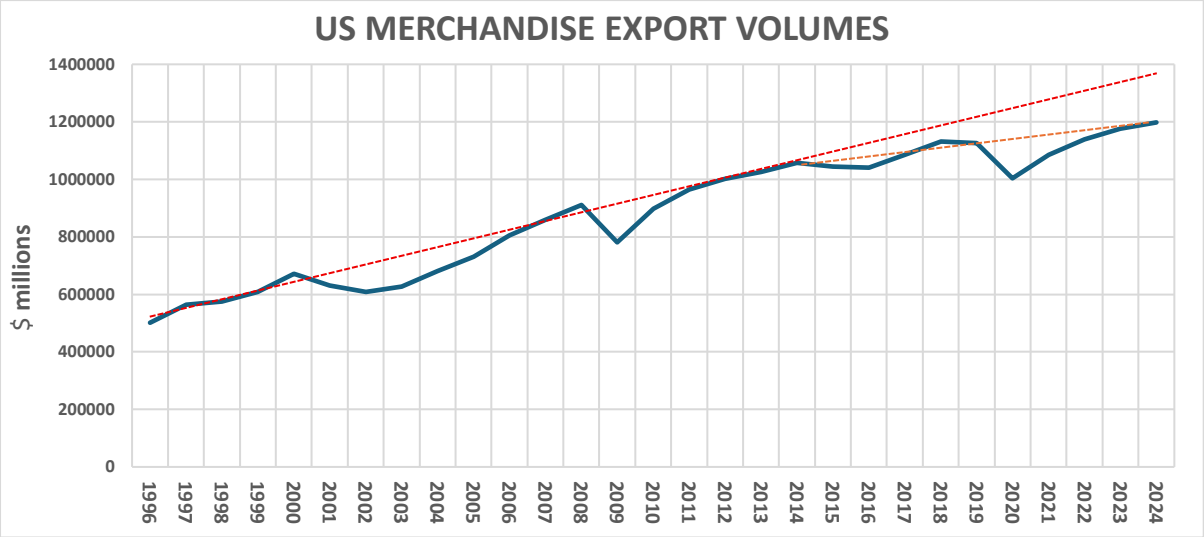
Nor according to World Trade Organisation has the volume of merchandise exports soared globally. With the exception of the dips in 2009 and 2020, they have traded within a 10% range.

Graph 2.



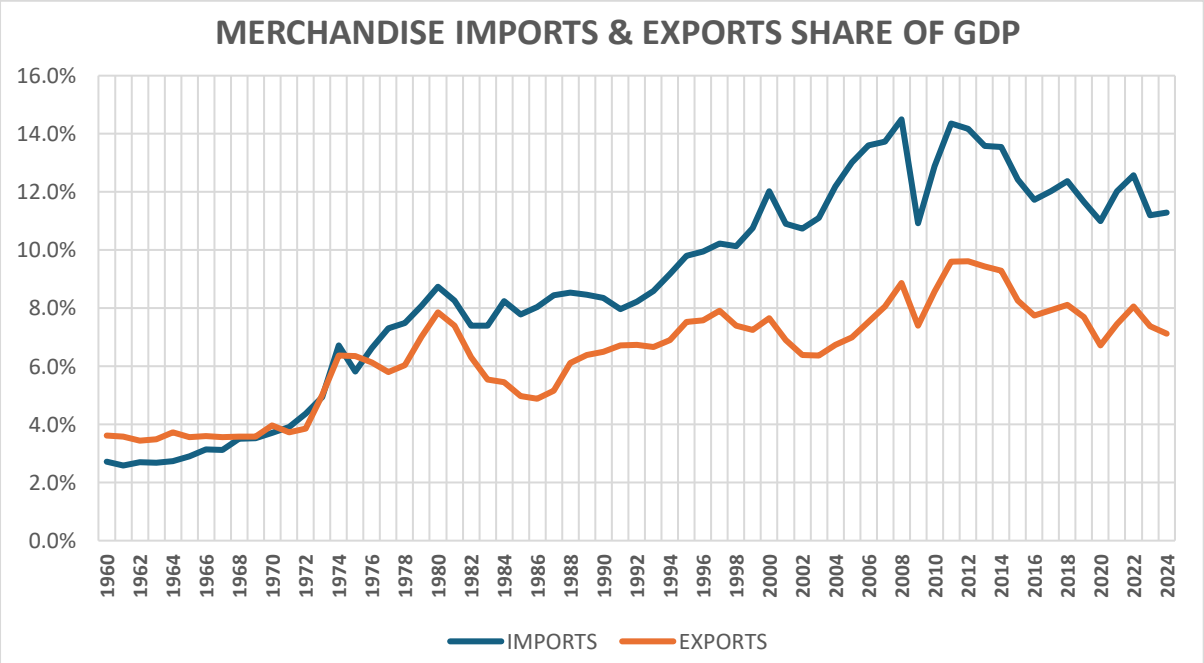
No, the real problem behind the trade deficit is entirely due to US exports being uncompetitive, not because the US is being swamped by imports. Annual US export growth in real terms increased 11.3% p.a. between 1996 and 2014, but only by 1.3% p.a. between 2014 and 2024. This can be observed in the graph below.

Graph 3.



Finally, how big a share of the US economy are merchandise imports and exports when measured by GDP. Imports peaked at over 14% in 2012 falling to 11.3% today. Thus, currently despite the pandemic they represent a shrinking share of the economy. Similarly with exports. The main reason for the relative decline is the growth of the service sector in the US which is much less international.

Graph 4.

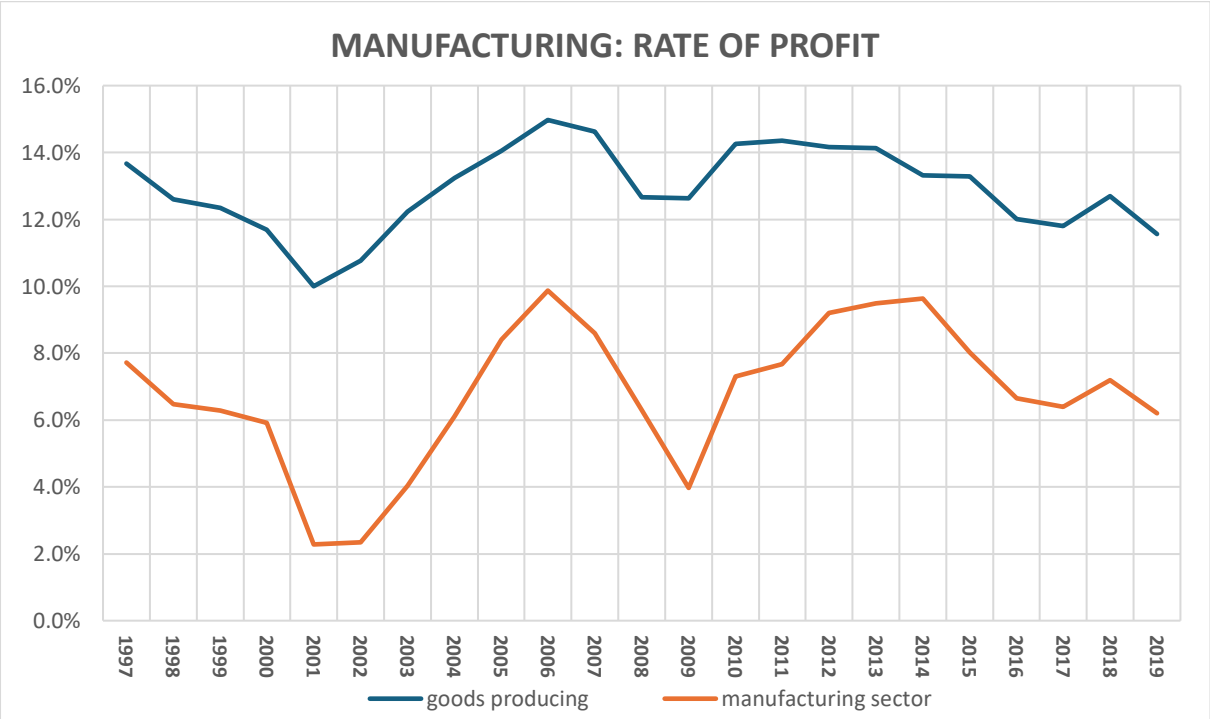


What about tariffs, how much will they bring in. According to Yale University's Budget Lab, *"Consumers face an overall average effective tariff rate of 17.6%, the highest since 1934. After consumption shifts,*

the average tariff rate will be 16.5%, the highest since 1936." Assuming this 16.5% minus the 2.4% rate before the Trump Tariffs (2024), the additional 14.1% would be equal to 1.7% of GDP. A fall of 1.7% in the fiscal deficit should reduce it by roughly a quarter. Thus, if all the tariffs were collected, and with everything else being equal, the deficit would fall to 4.4% of GDP equal to the 2019 deficit. But if we add in the expected annual reduction in taxation of $240 billion due to Trump's 'Big Beautiful Spending Bill', that rises to 5.0%, still historically high.

We can see that far from the picture painted by Trump, merchandise trade represents a smaller share of the economy, not a bigger share. Instead, the real issue is investment, which has fallen. It's cause; falling profitability, because capitalists only invest to make profits. This declining profitability can be seen in the two graphs below. Both graphs are based on profit divided by fixed and circulating capital the most accurate measure of profitability available. I have provided two graphs. One ends in 2019, the second in 2024. The reason for two graphs is to show the trend unaffected by the Pandemic and then as effected by the pandemic. The important graph is the brown graph which represents the *enterprise rate of profit*, the one which determines investment.

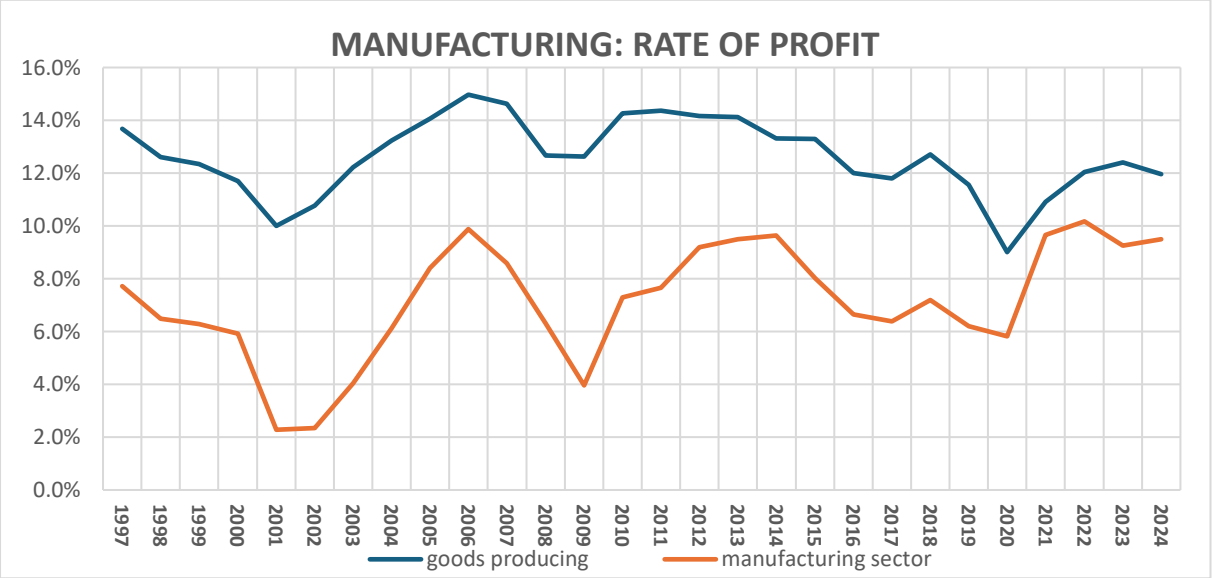
Graph 4.



We note that the enterprise rate of profit has fallen by 35% between 2014 and 2019. Much of this was due to the ebbing of globalisation as it was originally structured, that is the division of labour in which China produced lower value goods while the West focused on higher value more intellectually dense goods. As a result of this division there was a significant flow of surplus value from China to the West, which began to ebb around 2014.

Normally a fall in profitability of this magnitude would precipitate a recession but this was cut off by the Pandemic and the subsequent funds pumped into the economy raising the rate of profit. This can be seen in the graph below. My own estimate that the rate of profit will fall from 9.5% to around 8% in 2025. The estimate for the net surplus rate of profit should also decline to under 10%.

Graph 5.



The question is whether Trump's tariffs and increased inward investment will improve profitability.

TSMC Arizona's FAB plant is instructive here. Chips made in the US are more expensive than those imported from Taiwan. "*AMD CEO Lia Su said that chips made in TSMC's Arizona facility are more expensive than those made in a comparable facility in Taiwan. Dr. Su said that U.S.-made chips cost 'more than 5% but less than 20%' higher*." The consensus is 10%.

Why is focusing on Chip Production so important? Microchip production is one of the most automated production processes in the world where labour costs amount to only one fifth of the production costs. If 10% is the absolute floor, then the ceiling can be as high as 40%. Clearly this reduces profit margins.

But there is another element at work, the Dollar Exchange rate. Any fall in the exchange rate will add to the burden of tariffs. If we were to assume a medium-term 20% devaluation of the Dollar which is reasonable based on the geopolitical assumptions, then the burden on consumer and corporate pockets would be 34.5%. At 34.5% this combined tariff devaluation effect becomes significant eroding a significant amount of the competitive disadvantage found in many US industries but at the price of more expensive production at home. The path of the Dollar can be seen in the graph below.

Graph 6.

The graph shows a fall of 10% so far this year as the disruption caused by Trump and his unpredictable tariffs has taken a toll on the US's safe haven status. A dollar devaluation, however, is not the same as a tariff hike which affects only imports, a dollar devaluation affects exports as well as inward investment. As the dollar falls, US exports become more competitive while inward investment becomes cheaper reducing capital costs.

At the same time imports become more expensive. This together with tariffs is inflationary. But this inflation due to devaluation has a darker secret. A weaker dollar reduces the flow of surplus value from other countries including China. Previously when the dollar was at its zenith more local currency was needed to buy each dollar, or conversely a dollar bought more local currency. Now less foreign currency is needed to buy each dollar. Or put another way, more local currency is retained once it has been converted into dollars. This means a reduced transfer of value.

The sixty-four-million-dollar question is whether a weaker dollar and with it a reduced transfer of surplus value will exceed transfers via tariffs when they are borne by exporting countries and their exporters? (When the US importer and therefore the US taxpayer bears the cost of tariffs, then there is no transfer of value.)

From the latest data published in the Financial Times it appears that US importers are already paying a significant share of the tariffs. "*At the same time US revenues from customs duties hit a record high of $64bn in the second quarter — $47bn more than over the same period last year, according to data published by the US Treasury on Friday."* Annualised this would be $188 billion equal to 6% of imports. If all the tariffs were paid in the USA, it would amount to $517 billion. The CBO July Monthly Report reveals that in June alone, customs duties rose by an annualised figure of $216 billion or 7% of imports, nearly half the average rate of 16.5%.

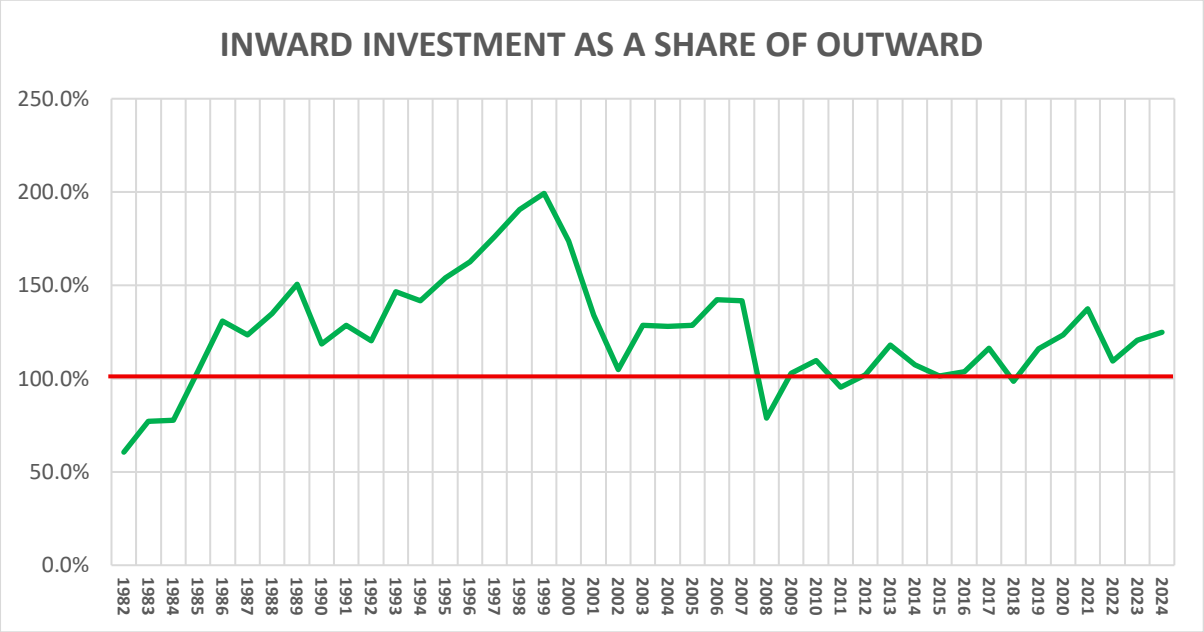
On the other hand, it would only take a 10% devaluation of the dollar to match that figure. ($517 billion less $216 billion) Therefore, we may conclude that a sustained devaluation would cost the US economy more than the rise in tariffs. More specifically this loss of transferred value will reduce profit margins in corporate America as it elevates cost prices.

This applies to production relocated to the US itself. The much touted $550 billion in loan and bank guarantees to underwrite Japanese inward investment into the USA is based on 90% of the resulting profits being remitted back to Japan, not so much a dowry as a Trojan Horse. However, the split is less important than the profitability of these investments. Profitable corporations can afford splits even unbalanced ones; unprofitable corporations cannot afford splits even balanced ones.

There is one final consideration. That is the question of direct investment both inward and outward. By most measures the US is a creditor nation. This applies to direct investment as well. As the BEA's International Investment Position shows, foreign investors invest more into the USA than US investors invest into foreign countries. There were only a few years when outward investment exceeded inward investment. So much for foreign countries taking advantage of the US by withholding investment into the USA.

According to the BEA the financial flows (actual remittances of profits and interest payments) into the USA compared to outflows was in surplus to the tune of $300 billion in 2024. This surplus is reducing as investment builds up in the USA. However, this is not a significant figure as a 10% devaluation would only yield an additional $30 billion inflow.

Graph 7.



Conclusion.

The fact of the matter is that reshoring will always be more expensive with or without tariffs and devaluations. Prior to the disruption of existing supply chains, the international division of labour ensured that corporations and importers could exercise least cost options around the world. They could buy from the cheapest sources without having to put security of supply first. The original just in time global production chains were rationalised and economies of scale maximised, but they are now being replaced by duplicated supply chains and the subsequent loss of these economies of scale. In 2025 the scale of these added costs will make themselves felt.

The tariffs may reduce the budget deficit but at the cost of diverting taxation away from the poor to the rich who will be paying a disproportionate amount of the tariff tax. At present Wall Street is in a buoyant mood believing that the US will emerge as the victor in the tariff war, that it has the economic muscle to prevail. But there are never any victors in a trade war only losers, and what the US gains it will more than lose.

Of course everything is in limbo held there by the AI bubble. Michael Roberts has written a useful article on the fragility of this bubble, with expectations far exceeding returns. What the article omits is the red swan. What Deep Seek did for software, the coming EUV lithography machine from Huawei and SMIC will do for hardware. Trump appears to have pulled victory from the jaws of defeat with recent deals, but this will be short-lived, eclipsed by the presence of the tariffs themselves bearing down on a debt-ridden fragile economy.

Brian Green, 27th July 2025.