

## Why Trump loves import duties

*Armissan, April 23, 2025 | Dieter Wermuth*

The American president is obviously worried that his country is de-industrializing, [and that the process needs to be stopped](#) – by pulling up the drawbridges in the form of prohibitive import duties. Without a manufacturing base, the country cannot produce, in sufficient quantities, high-tech goods and military hardware such as satellites, ships, planes, tanks, drones and missiles, and thus will fall back further behind China which is already the world's powerhouse in industrial goods. China has become a virtual monopolist in electric vehicles, solar panels, electric batteries, rare earths and high-speed trains, with more sectors to follow. In the final global military showdown, the availability of hardware will be the decisive factor. The COVID crisis has shown that international supply chains are unreliable in a genuine crisis and must therefore be shortened or eliminated.

But is the United States really losing its industrial base? Since the beginning of the millennium, manufacturing output has grown at an average annual rate of about 0.4%. This is much less than real GDP growth in that period (2.2% p. a.), but the real value-added of manufacturing has expanded at an average rate of 1.8%. The share of services in overall production continues to increase, as in any rich and mature economy, but the production of goods is not declining. Simple and standardized goods are outsourced to low-cost countries, but sophisticated high value-added products have largely kept their base in the U.S. The international division of labor continues to work for everybody's benefit. That's how it should be.

If China's economy can maintain its present growth momentum, the gap vis-à-vis America's manufacturing capacities will keep widening – unless there is a major crisis at some point in the future which throws China off course, such as a revolution or a persistent devaluation of property assets or equities. But all previous crises have been managed well so far, and it would be irresponsible to base economic strategies on something like a coming Chinese depression. For the foreseeable future, if a war between China and the U.S. can be avoided, China's advantage in the production of goods will continue to grow. The regime is aware that over time it is mostly the quantity and quality of human capital which determines real GDP growth and welfare and adjusts its strategies accordingly. Chinese scientists and engineers are already world-beating.

In other words, on present trends, the United States cannot win against China. The old adage that you have to join someone whom you cannot beat also holds for U.S. economic policies (and, incidentally, for European policies as well). Cooperation will yield better results

than (military) confrontation. Trump does not yet see things this way. His answer to Chinese manufacturing prowess is to slap prohibitive duties on imports from there. This new trade barrier is supposed to shield American industry against the superior competitor. Economic autarky is now the official trade policy.

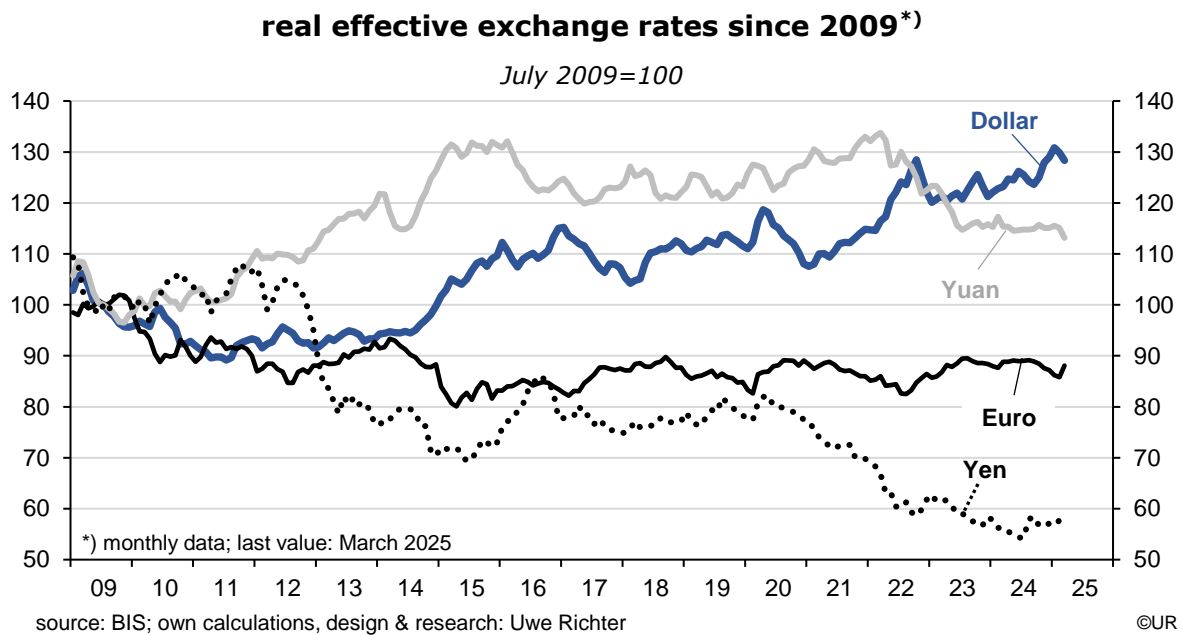
The introduction of import duties has the following effects on the U.S., assuming (unrealistically, in a first round) that there won't be retaliatory import duties by other countries:

- U.S. import duties keep out some, or even all foreign products
- the balance on trade improves
- domestic producers face less competition in the home market
- which pushes up inflation and employment
- there will be excess supplies in other countries (because the U.S. imports less)
- and downward pressure on their price levels, ie, deflationary effects
- the Fed will be less likely to cut interest rates
- while foreign central banks, faced with unemployment risks and downward pressure on inflation, have more room for rate cuts
- US bond markets will do less well than foreign ones
- whereas US corporate profits and stock markets would gain.

In such a scenario the dollar's exchange rate would strengthen, due to relative restrictive Fed policies and rising demand for dollars from the improvement of the U.S. balance of trade. This leads to a deterioration of international price competitiveness. But why would foreign countries sit still and accept that they lose part or all of their American markets? Big ones like the European Union and China can and will hit back, erect trade barriers against U.S. products – which then leads to a global trade war. China in particular is already retaliating massively. What will happen in such a case?

- U.S. goods exports decrease
- which leads to a reduction of capacity utilization, higher unemployment, slower wage growth and downward pressure on U.S. inflation
- profits slump, stock markets fall
- negative wealth effects from this reduce consumption, the most important component of overall demand
- increasing the likelihood of a U.S. recession and rising government budget deficits
- in which case the Fed will turn expansionist: cut policy rates and boost money supply
- the international division of labor will suffer which in turn slows productivity growth
- general welfare will therefore stagnate or decline
- the exchange rate of the dollar falls, not least because U.S. stock markets become less attractive, and because the trade deficit rises again.

On most counts the dollar is still significantly overvalued which would be corrected in an all-out trade war. To be sure, a depreciation of the exchange rate means a deterioration of the terms of trade and a reduction of America's disposable income.



In an escalating trade war, no one can win. The IMF has just released its World Economic Outlook; it reflects the negative effects on the global economy of the trade war that has been launched by Donald Trump. Compared to the Fund's Outlook of one year ago, or to the pre-Trump era, growth forecasts have been reduced by about half a percentage point more or less across the board. This is anything but a catastrophe. Global GDP growth is still expected in the order of 3%, while the slowdown of international trade will lead to less competition and thus to higher inflation. On the other hand, however, output gaps will widen, which in turn makes it more difficult to raise prices. China was already well on its road to deflation before the trade war: real GDP growth in the order of 4 to 5% may be high in comparison to growth rates in the OECD region (of which the U.S. is a member), but it is not high compared to growth several years ago – the output gap kept widening even so.

Apart from the economic autonomy aspect there has not been any compelling argument that would justify America's attempt to break the existing world order in trade and finance. The well-established system had actually been rather advantageous for the U.S. To issue the world's main reserve currency meant that the country could invest more than its own savings, ie, grow its capital stock on the basis of external finance. The mechanism at work here were the huge and persistent net inflows into America's capital markets, not only into equities and bonds but also into private markets, all of them well-regulated and very liquid. For the American population it meant that they could consume more and save less than they might have done otherwise. Foreign investors also did not mind, so far at least, that U.S. government budget deficits and debt began to reach levels that are usually associated with spend-thrift Mediterranean countries of the so-called Club Med.

The main drawback of this policy stance is that foreigners hold an increasingly large share of U.S. assets. If they lose their confidence in those assets they may start to sell them – even though this would be largely self-defeating.

**real GDP, inflation, current account and productivity trends  
– an international comparison –**

	US	China	euro area	Japan	South Korea	UK	Switzerland
<b>real GDP (y/y, %)</b>							
1999-2009	2.2	10.1	1.5	0.4	5.5	1.8	1.9
2010-2024	2.4	6.7	1.3	0.9	3.0	1.6	1.9
<b>consumer prices (y/y, %)</b>							
1999-2009	2.5	1.6	2.1	-0.3	2.9	1.9	0.9
2010-2024	2.6	2.1	2.2	0.9	2.1	2.8	0.4
<b>balance on current account (% of GDP)</b>							
1999-2009	-4.4	4.6	-0.3	3.1	1.6	-2.5	8.6
2010-2024	-2.7	1.9	1.9	2.9	4.0	-3.3	6.8
<b>labor productivity<sup>*)</sup> (y/y, %)</b>							
1999-2009	2.3	-	0.9	1.2	-	1.4	1.0
2010-2024	1.1	-	0.7	1.0	2.5 <sup>**)</sup>	0.6	1.2

\*) real GDP per hour worked – \*\*) 2012-2023  
sources: IMF, OECD, AMECO, own calculations

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European-style austerity policies were never really an option for the administration and the Fed. The policy emphasis was on productivity and real GDP growth, not on keeping inflation down. As the little table shows, the U.S. has been able to pull away significantly from other rich countries in the OECD, thus cementing its role as the country that calls the shots.

To give up these advantages in order to achieve some sort of autarky and prepare for war against China does not make sense from an economic point of view. It borders on the idiotic.

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