Nested agendas beyond tariffs

CAPITAL CONTOURS

BY RAY CHOY

Tariffs reflect deeper structural issues in the global economy and a broader strategic agenda. Focusing narrowly on tariff negotiations risks overlooking the fact that these measures are part of a larger, systemic challenge that cannot be addressed through isolated, incremental solutions.

It is important to begin by situating tariffs within the broader hierarchy of economic policy: They represent a specific instrument of protectionism, which in turn constitutes a component of the wider global resurgence of economic nationalism. These definitions are not merely taxonomic; they illuminate how what is casually labelled a "trade war" or "Trump's tariffs" may, in fact, be early manifestations of more profound structural and geopolitical realignments. For such a reconfiguration to take place, it is unlikely that the trade war will conclude this year, or even by 2026, and it may well persist beyond that time frame.

As such, the 90-day suspension of reciprocal tariffs constitutes little more than a temporary diversion within the context of a broader and more enduring US strategic agenda in the global political economy. Therefore, taking a longer-term view, trade wars exhibit a cyclical pattern, intensifying and receding depending on global economic and political conditions. The rise in US economic nationalism is, in part, attributable to its declining share of global economic output, a shift from commanding nearly 45% of global gross domestic product in the immediate aftermath of World War II to approximately 15% as at 2024. This relative decline, even if not an absolute economic weakening, has altered the strategic calculus of US policymakers, who increasingly view global trade as a domain of vulnerability requiring defensive strategies.

The US has long occupied a dominant position in trade conflicts and in the formulation of global trade policy — a role grounded in its foundational influence as one of the principal architects of the contemporary global political economy. The US remains intent on preserving this dominance, even as other economies grow increasingly cautious and pursue strategies to reduce their exposure to American economic and geopolitical influence.

In the 1930s, the US enacted the Smoot-Hawley Tariff Act, triggering widespread global retaliation and deepening the Great Depression. In the post-World War II order, it emerged as the principal architect of the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO), while simultaneously reserving the unilateral right to define and enforce its own interpretation of "fair trade" through instruments such as Section 301 and anti-dumping duties. During the 1980s, the US imposed so-called "voluntary" export restraints and managed bilateral trade agreements, particularly targeting Japan, in response to what it viewed as structural trade imbalances — namely, the déjà vu of persistent deficits. In the 21st century, with the rise of China and other surplus-driven emerging markets, and following China's accession to the WTO, the US adopted an increasingly critical stance toward perceived unfair trade practices. This marked a shift toward unilateralism, in direct tension with the multilateralism it once championed as the foundation of open global trade. More recently, while China has remained the primary focus of US trade confrontation, other surplus economies have also come under scrutiny. Rapidly growing and large emerging economies are likely to emerge as future targets of American trade policy recalibration. Whether one credits or discredits US President Donald Trump for the trade war, his approach largely draws from the long-established playbook of US global political economy policy, albeit with today's more overt and sensationalised application.

While tariffs are commonly known as taxes on physical goods, the sphere of protectionism will increasingly encapsulate other tools and widen the economic impacts of the trade war. For example, Trump's recent announcement of the levy on foreign films has the potential to encroach on services spending, beyond physical goods. Higher costs on movies will impact the associated food and beverage industry, movie paraphernalia and subscription model streaming services. Tariffs and trade barriers can affect intangible assets too, including royalties, licensing fees and brand-related income. In another example, China has taken retaliatory actions against US trademarks, weakening brand-related intellectual property rights and revenues. In 2023, President Joe Biden signed an executive order to screen outbound investments, slowing foreign direct investment (FDI) flows, and diminishing international economic opportunities. As such, the Trump administration has followed up to advance its "America First Investment Policy", which proposes to revise US inbound and outbound investment screening, to facilitate investment involving US allies while hampering investments linked to China and other US adversaries.

It is important to note that when the US launched reciprocal tariffs in April, currency manipulation was also mentioned as part of its calculations on tariff rates. The definition and clarity of this calculation remain shrouded in mystery, but the central issue is that a strong US dollar was making US products pricier. Therefore, bundled into the tariff negotiations is the intended outcome for US products to be more attractive in price terms through the channel of exchange rates.

Due to the apparent separation of powers between the US Federal Reserve and the government, the Trump administration has pursued an exchange rate agenda through trade negotiations, thereby amplifying its influence over exchange rates at the expense of the role played by interest rates. Furthermore, Trump has pressured the Federal Reserve to lower interest rates and publicly criticised the Fed, creating tension over monetary independence. Again, the debate about what is "right" or "wrong" policy from the lens of economic logic can provide few answers because clearly, Trump's actions are towards dollar weakness. Hence, an important component of scenario planning within today's context is for the consideration of geopolitical policy ascendance over traditional economic outcomes. For example, during the present trade war, one would have thought that higher inflation in the US would maintain elevated US interest rates and dent global economic growth, causing a depreciation of emerging market currencies. However, year to date, emerging market currencies have generally appreciated against the US dollar, and that broad trend remains.

Trade protectionism and populist rhetoric, as has been the case historically, are inextricably woven into the fabric of economic nationalism through spurious justifications such as national security and job creation. The "China versus US" grand narrative being bandied about provides traction for creating a caricature that Trump can rally his voters against. Nonetheless, global supply chain diversification has been steadily progressing since the onset of the Covid-19 pandemic, and the notion of a bipolar world order hardly reflects the complex reality. In its attempt to reshape global trade according to Trump's vision, the US has alienated numerous countries and regional trade blocs, inadvertently reinforcing a multipolar world order and fostering greater internal cohesion within trading arrangements that seek to insulate against the vicissitudes of US trade policy. Attempts at recreating the bipolar world order reminiscent of the Cold War are likely to fail. Trade partners and supply chains between countries are much more heterogeneous today, and it would be naïve to imagine that commercial entities have longings for economic nationalism above and beyond the profit motive. Conversely, one should not underestimate US foreign policy or dismiss the actions of an antagonistic Trump as merely misguided; instead, strategic ambiguity appears poised to remain a defining feature, reflected in the oscillation of US trade policy.

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