Opinion **Trade Secrets**

The hot air of Trump's tariffs is approaching a ceiling of cold reality

Even before their full effect has hit, the duties are doing real damage

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US President Donald Trump and Chinese leader Xi Jinping arrive for talks in South Korea last month. The meeting is beginning to look a lot like an inflection point © Andrew Caballero-Reynolds/AFP/Getty Images

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It wasn't all that long ago that multinational companies and foreign governments were in a permanent state of hyper-vigilance for another Donald Trump outburst on social media threatening a new barrage of tariffs.

These days there's a steady procession of news events the other way. The meeting in October with Chinese President Xi Jinping, in which Trump backed down after threatening a massive escalation of tariffs, now looks a lot like an inflection point.

Last week, having remained composed in the face of Trumpian invective against the criminal prosecution of his coup-fomenting predecessor, Brazil's President Luiz Inácio Lula da Silva, was rewarded with massive cuts in US tariffs on food. Fellow Central and South American countries Argentina, Ecuador, Guatemala and El Salvador got similar relief, and so probably will the EU.

Canada has yet to be clobbered with the additional 10 per cent tariffs Trump threatened for the heinous crime of accurately quoting Ronald Reagan in a TV ad. Reports suggest he will soften or shelve forthcoming tariffs on semiconductors. There's a Supreme Court ruling coming up too that might force him to reconstruct the tariff wall at high speed using other legal instruments, drawing more attention to a policy that's already unpopular with the public and businesses.

In this context, Trump's continued pro-tariff ramblings in an attempt to turn round hostile public opinion have a slightly pathetic air. Reality has let him down, and railing at it won't help.

In fact, there's probably worse to come. The effects that economists predicted have so far only partially come through, not least because the big swath of tariffs promised on April's so-called "liberation day" didn't arrive until August and because the president has been forced to punch holes in them to relieve particular industries. Tariff revenue relative to import values remains just below 10 per cent — and that tax take is nothing close to enough to fund the supposed "tariff dividend" handout of $2,000 Trump has promised to voters.

Not much of the increase in consumer prices has yet arrived. Inventory-building and other agile corporate strategies have ensured that neither have the threatened empty shelves or rationing of dolls for American children happened so far.

Tariffs have been annoying but not catastrophic. The "Factory Asia" production network of toys and electronics constructed during the 1990s, after all, was built despite average tariffs among participating countries remaining in (low) double digits.

But there's very likely to be more economic and political trouble ahead if prices rise and trade is seriously interrupted. Manufacturing output and employment have already been sliding throughout Trump's presidency, and companies complain they can't get imported inputs.

Trump's tariff retreat may have to accelerate. The cuts in food duties reflect renewed concern about the cost of living, something for which his predecessor Joe Biden was also blamed. Trump dishonestly promised not just to bring down the rate of inflation — the increase in the price level — but prices themselves. Biden suffered somewhat unfairly from a public inability to grasp the difference between price changes and levels; the disappointment at Trump is his own fault. His administration is reduced to simply lying about the price of groceries.

Trump has discovered that the world, and the economics of trade and growth, are simply not as he believed. Even if tariffs worked to protect industry, they wouldn't help the US much. America is a rich country dominated by the consumption of domestic services and with a relatively small traded-goods sector, not a middle-income east Asian economy reliant on manufacturing exports.

It was in fact reasonable enough for the Canadian campaign ad to claim Reagan was a free trader, certainly compared with Trump. As that now-famous ad suggests, Reagan used targeted protection for voluble sectors like steel and autos to create political space for a more general pursuit of lower duties. He also vetoed restrictive import quotas on clothes and shoes, and talked about the effect on consumers as well as companies.

As for tariffs as a tool of global economic management, it's a long time since anyone in the administration made a sustained pitch for the risible "Mar-a-Lago accord" — the idea that the US could use trade restrictions to coerce the world into a sustained weakening of the dollar. We're a long way from the delusions of Treasury secretary Scott Bessent, who opined in October last year that Washington could force other countries into remaking their economies to benefit the US.

True, governments such as Malaysia's have recently signed deals supposedly allowing the US to dictate their export controls and the like. But I for one am highly sceptical that the US will be prepared to damage its own economy enough to threaten to use them as leverage.

Facts are stubborn things. The world is not as Trump imagined it. It would be brave to call the top of his tariff campaign; he is too volatile for that. But one of his favourite tools is turning out to be far less effective and far more injurious to its user than he imagined. We did, of course, tell him so.

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