



By: Daniel Lacalle

Trump's Trade Deals Reshape Global Trade



After the latest trade agreements signed by the Trump administration, the ridiculous narrative that tariffs are paid for by U.S. consumers has been **dismantled**.

That mantra was repeated because it ignored two essential factors: the high level of overcapacity among exporting producers and the complexity and efficiency of global supply chains.

Some biased analyses incorrectly assumed that price transmission occurs in a simple producer-to-buyer chain, when there are many more links.

Tariffs can be criticised for many reasons, but it's a mistake to claim they cause inflation since they don't create more units of currency in the system nor increase the velocity of money.

In fact, if global exporters truly believed that American consumers would shoulder the tariffs, they wouldn't have panicked and rushed to negotiate immediately.

Trump had three aces up his sleeve: the enormous overcapacity of global exporters, the fallacy that they can replace American consumers with another market, and, as a negotiator, the knowledge that exporting countries lacked leverage to threaten the United States, facing "death by working capital."

Everyone knew that their trade surpluses were not the result of spontaneous cooperation among free companies but the outcome of years of obstacles placed in the path of U.S. firms and barriers to pick winners and losers.

Higher tariffs over barrier removal

Many countries have preferred higher tariffs rather than removing their own trade barriers. Why? It's simple. Many countries want to keep their tariffs and barriers because they give power to their government.

The Trump administration has **reached** important deals with major powers such as Japan and strategic Asian countries, setting the stage for an imminent agreement with the European Union.

The historic deal between the United States and Japan is a clear example, both for its scale and its symbolism.

Japan will direct \$550 billion in investments into the United States, implying a very positive increase in jobs and exports for both countries

Japanese products will have a 15% tariff, lower than the threatened 25% but higher than the previous average of 10%.

Although Japan agreed to import American trucks, rice, and agricultural goods, easing its import system, it preferred to keep part of its barriers and thus accepted 15% tariffs.

Japan will direct \$550 billion in investments into the United States, primarily in sectors such as pharmaceuticals, semiconductors, and strategic mineral extraction. All this implies a very positive increase in jobs and exports for both countries.

We do not live in a world of free trade

The most relevant aspect is that these agreements limit the possibility for China to resort to "origin washing" and channel products through Vietnam and other countries.

Indonesia is **removing** 99% of its tariff barriers on American exports, unlocking access to minerals such as nickel and guaranteeing openness to industrial and agricultural goods.

The Philippines accepts a 19% tariff on its products, while American products are exempt from tariffs.



After closing the deal with Japan, global attention is now focused on the European Union - Daniel Lacalle

Meanwhile, Trump **achieved** a historic agreement with China, which now, along with the deals with Vietnam, Japan, and the Philippines, as well as with Australia, makes global trade freer and, above all, fairer.

After closing the deal with Japan, global attention is now focused on the European Union.

The European Union had the easiest deal of all, as it only had to follow the recommendations of the Draghi **report** and remove its trade barriers.

However, EU negotiators have been waiting, thinking that historic agreements like those with the UK or Japan would not materialise.

The European Union cannot afford to sabotage a deal because Japan or the UK would seize the opportunity to capture market share from European exporters.

These agreements have reminded us that we didn't live in a world of free trade, that tariffs and trade barriers were the global norm, and that now we're approaching an environment where trade balances will have more to do with the spontaneous cooperation of businesses and less with the barriers of global statism.