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# FINANCIAL FOCUS

||| OBJECTIVE  
WEALTH

## More on Tariffs

*"Tariffs are the greatest!"*

- Donald Trump, July 24, 2018, Twitter

The idea of tariffs on foreign goods, and particularly those from China, is nothing new in a Donald Trump administration. The initial round of tariffs in 2018 ranged from 10% to 25% on \$550 billion worth of Chinese goods, as compared to the latest 10% universal tariff up to 145% on Chinese goods.

There was no tangible positive in that initial foray in 2018, with the Dow Jones falling 2.9% on March 22nd 2018, and trade tensions increasing. Then what followed were negotiations between the US and China, resulting in the 'Phase One Trade Agreement' in January 2020, where a lot of tariffs were reduced. The immediate result was the S&P 500 index reaching record highs, and then Covid hit. It is difficult to gauge whether this episode, although it is clear that the impact of the tariffs did not deliver the kind of economic changes that Trump had hoped for. And this is probably why we now have round two in the second time in office.

**THIS MONTH'S  
FEATURED  
ARTICLE**

More on Tariffs



With the recent, more aggressive tariffs, the market reaction has been more exaggerated than in 2018, and there are renewed fears of a recession. In both cases, the consumers in the States have been immediately impacted, and it is the consumer who may yet have a part to play in how this latest round ends.

Sixteen years before Trump's birth in 1930, Herbert Hoover signed the Smoot-Hawley Tariff Act. Hoover was not the main advocate of tariffs then, but he signed the agreement believing it could stabilise US agriculture and industry. Despite the intentions, the tariff act is now seen as a major miscalculation. Even at the time, over 1,000 economists signed a petition urging Hoover not to sign it, warning it would worsen the Depression, which it arguably did.

The Smoot-Hawley Act saw the effect of exports falling from \$5.2 billion pre-tariffs to \$1.7 billion post-tariffs. Globally, trade fell by 66% between 1929 and 1934.

Clearly, Trump does not consider historical context too deeply, as his decisions seem to be on the hoof. That said, this, in some ways, should bring comfort in that he is willing to make changes and provide concessions when it suits to do so. Launching the tariff policy earlier in this administration than in his last, where he waited a year from coming into office in 2017, means that there is more time to see how this plays out before another election. There are sure to be many twists and turns along the way, and maybe there is an opportunity for those exiled markets to collude and break the monopolistic behaviour of the US tech sector.

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*...there are renewed fears of a recession.*

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The US tech sector may not be a monopoly in the strictest sense of the word, but it displays platform dominance and market concentration. Just look at the following 5 of the 'Magnificent 7' US tech companies:

- Google (Alphabet) – ~90% of global search market
- Apple – Dominates mobile OS (iOS) in the U.S. and controls its App Store ecosystem
- Amazon – Largest e-commerce retailer and major player in cloud computing (AWS)
- Meta (Facebook, Instagram, WhatsApp) – Huge control over social networking and advertising
- Microsoft – Dominates enterprise software and cloud infrastructure

The US Department of Justice filed an antitrust lawsuit in 2024 against Apple over the App Store dominance, and the Federal Trade Commission filed a lawsuit over Amazon's marketplace practices.

Consider the rival tech powerhouse of Taiwan and, in particular, TSMC - Taiwan Semiconductor Manufacturing Company. The dominance of TSMC in global chip manufacture cannot be overstated and also represents something of a monopoly. China considers Taiwan part of its territory and has not ruled out military action to assert further control. Trade between the two nations has continued, not stifled by the threat of war, but rather by the US control over TSMC. Chinese tech company Huawei is already a client of TSMC, so you wonder how trade will develop outside of that with the US following Trump's protectionist tariffs.

Overlay tariffs on domestic lawsuits and a desire to break the US tech dominance, and you could have the scenario that changes the Magnificent 7 dominance of the last 5 years. DeepSeek, the Chinese AI app flapping its wings in January of this year, may yet have the butterfly effect that we considered might.

John Wheatley

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*...the consumers in the States have been immediately impacted...*

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