Daily Dose of Macro & Markets, 8th July 2025: **"Reciprocal Tariffs are Back!"**

The 'Daily Dose of Macro & Markets' is our new publication designed to speak to the key global macro debates that matter for markets (with a chart and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Tariff quotes –> 7th July 2025

"Trump says 25% tariff on South Korea effective Aug 1st"; "Trump to impose 25% tariffs on goods from Japan"; "US to impose 25% tariff on imports from Kazakhstan"; "US to impose 40% tariff on Laos imports"; "Trump to impose 30% tariff on goods from South Africa"; "Trump to impose 32% tariff on goods from Indonesia"; "Trump to impose 35% tariff on goods form Bangladesh"; "Trump to impose 36% tariffs on goods from Thailand, Cambodia", and so on

"White House's Leavitt said several other letters will go out today with more to come throughout the week; announced 9-Jul deadline extended to 1-Aug, but stressed administration wants the best deals possible and is moving deliberately and appropriately."

Source: Bloomberg headlines, 7th July 2025

And so it begins, as Trump's Administration issues a plethora of letters to either minor trading partners, or ones that haven't been able to get a negotiated settlement over the finishing line by the July deadline (e.g. Japan). This represents the largest change to the global trading system in decades.

Sadly, though, it's being actioned off the back of a misdiagnosis of the problem. Many have sympathy with the point that 'unfair trade practices', 'IP theft' and 'dumping' by certain countries has occurred repeatedly over the past 20+ years. What is disputed, though, is the idea that the trade deficit is a 'scorecard', and deficits reflect America being 'ripped off' (in the words of the US President).

As we wrote about in two 'Longview on Friday' publications earlier this year, there are multiple other factors at work, including:

1. **America's freer consumer credit culture**, which is replicated in other Anglo Saxon economies, like the UK and Australia (which are two other countries which have run similarly high current account deficits, almost constantly for the past 50 years):

   "Freer credit culture drives overconsumption relative to those countries which don't have that structural setup. Simply put, if I can borrow, I can consume more than I earn. If that happens for the whole economy, it generates current account deficits."

   Source: Longview on Friday, 21st March 2025

2. The **US's 'Exorbitant Privilege'**: Despite the US running a net international investment position which is 88% of GDP (i.e. in deficit, such that overseas owners of US assets outnumber US owners of non-US assets, by 88% of GDP – and rising), its **primary income is in balance** (NB primary income is the income earnt on those assets).

This is an **'exorbitant privilege'** and is, in many ways, remarkable. The US earns the same amount of income on $35.9 trillion of assets, as the rest of the world earnings on $62.1 trillion of US assets (charts 1, 2 & 3 below). The main reason for that is because of America's reserve currency status, the rest of the world needs to own a lot of US government debt (which because of its safe haven status is low yielding), while the US doesn't need to own overseas government debt (and therefore buys better/higher yielding, more profitable, assets).

"the dollar's reserve currency status enables the US to run constant trade deficits whilst maintaining balance on the primary income flows (i.e. related to the net stock of US owned overseas assets less foreign owned US ones). If that is maintained, then whilst the stock of assets owned by overseas investors will likely continue to grow, if the primary income remains balanced, America's better investing overseas (than foreigners into the US) acts as a counterweight to the growing NIIP (i.e. it means it shouldn't matter)."

Source: Longview on Friday, 25th April 2025

Pushing ahead with an wieldy unwinding of the international trading system, though, which contributes to an undermining of trust in the hegemonic state (including by some allies), risks undermining and chipping away at America's 'exorbitant privilege' (and therefore heightens the risk of current account deficits becoming an issue).

In that sense, large indiscriminate tariffs are unhelpful, a misdiagnosis of the trade deficit issue, and start to undermine (in the long term) the dollar's reserve currency status.

Please email research@longvieweconomics.com for copies of either/both of the 'Longview on Friday' publications mentioned above.

Chart of the Day 1: US 'Net International Investment Position (NIIP)' ($tn, & as % of GDP)

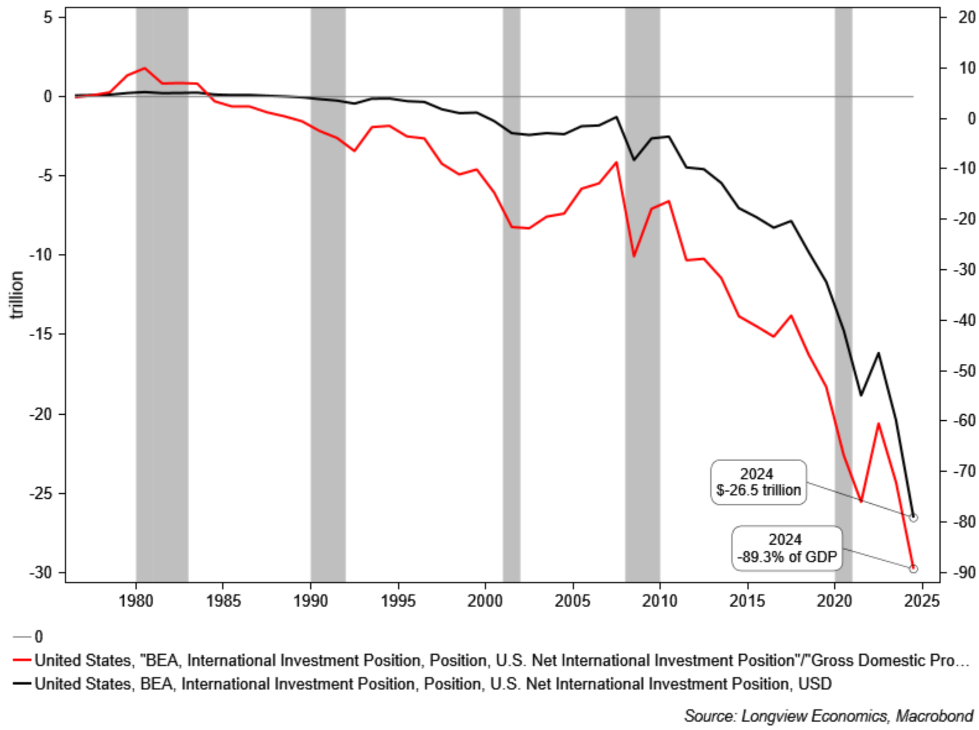


Chart of the Day 2: US international investment position: Total US 'Assets' and 'Liabilities' (US$tn)

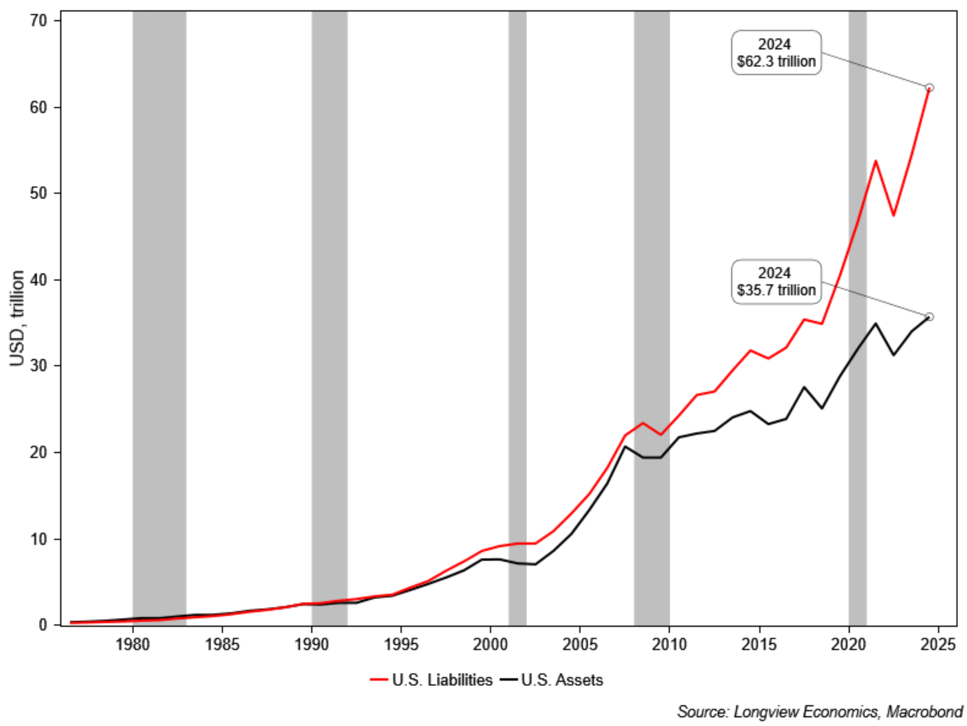
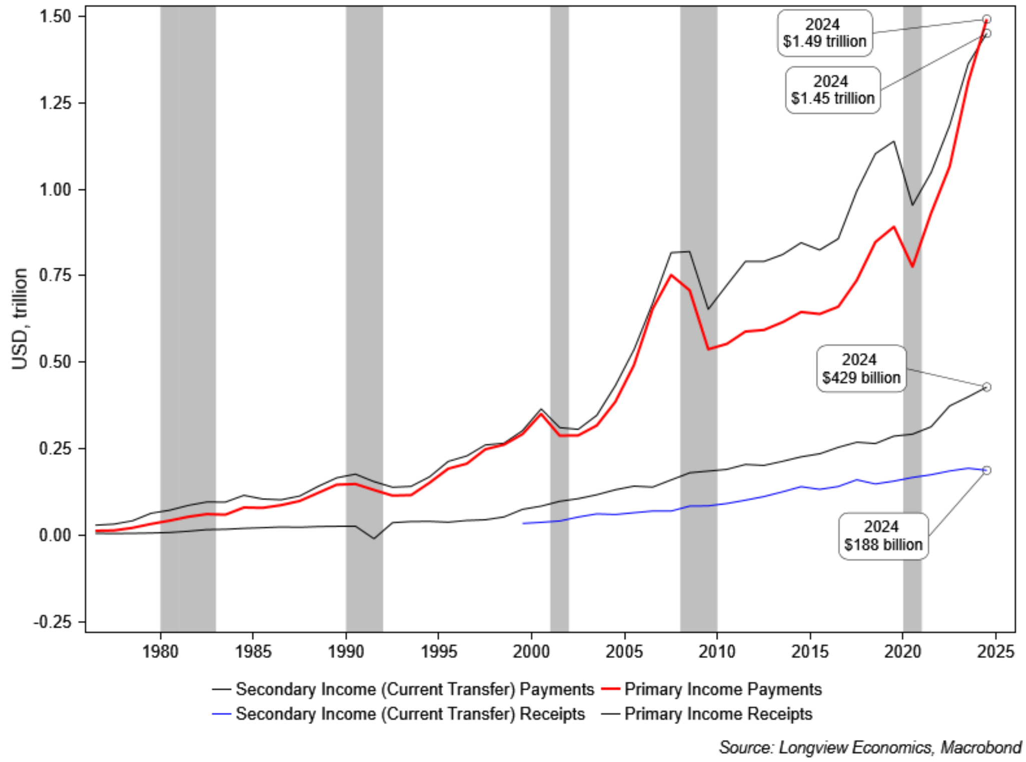


Chart of the Day 3: US balance of payments – primary and secondary* income paid and received (US$tn)



*NB There are other things happening here, but they are more minor (less significant in size). It's also the case that there is a 'secondary income' deficit. That is, an outflow every year of approximately $200 billion. Some of this is government related (including Aid etc – and may, therefore, fall given Trump's recent changes etc).