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How Tariffs May Start a New American Industrialization
April 2025

The U.S. has embraced tariffs as a tool to either protect domestic industries from foreign competition or raise revenue, going as far back as the 1789 Tariff Act. Following the Morrill Tariff in 1861 to fund the Civil War, there were global trade wars. In 1922 and 1930, import tariffs became severe enough to foster trading nations to retaliate with their own, which some have argued worsened the Great Depression. By 1934, under the Reciprocal Trade Agreements Act, the U.S. began reducing tariffs with major trading nations to promote global economic activity. Following the end of World War II, more agreements went forward to promote peaceful world economic growth. This trend continued with the Kennedy Round (1960) and the Tokyo Round (1970). To promote more trade between Canada, Mexico, and the U.S. the North American Free Trade Agreement (NAFTA), negotiated by President George H.W. Bush, was signed by President Bill Clinton (1994). China became a member of the World Trade Organization in 2001, marking the beginning of their rise to become the world's second largest economy, ahead of Germany and Japan. As a result, world trade and economic expansion has grown since the end of World War II, along with ever increasing industrial and manufacturing investment outside of the U.S.

The wealth of the U.S. has driven trade imbalances with Europe and Asia. Americans are the largest global consumers per capita of global manufacturing (United Nations). This imbalance has only expanded since the 1960s through expanding national and consumer debt. Meanwhile, investments in U.S. manufacturing infrastructure have declined.

With a national debt approaching $40 trillion, the U.S. Treasury needs cash. Instead of raising taxes, tariffs are seemingly a quick fix. In addition, the U.S. had significant trade deficit imbalances of $918 billion in 2024, with goods representing $1.2 trillion and the difference being a services surplus (WSJ). The top five trading countries with a surplus in their favor are China, Mexico, Vietnam, Japan, and Canada (WSJ).

The U.S. has negotiated trading arrangements with many countries that appear outdated, as the U.S. attempts to pivot away from economic globalization. This changed on April 2 when President Trump announced 50% reciprocal import tariffs with few exceptions. Under the United States-Mexico-Canada Agreement (USMCA) which replaced NAFTA in July 2020, the Trump administration secured more automobile parts manufacturing in the U.S. and higher Mexican worker wages. Canada eased restrictions on U.S. food imports. With the exception of the 25% tariff on autos and metals, most of Mexico and Canada's exports to the U.S. are already covered under USMCA.

Tariffs have been a significant source of U.S. Government funding infrastructure. For example, tariffs revenue funded land grants and the building of the Transcontinental Railroad, completed following the Civil War in 1869. Reciprocal tariffs could be a pathway to encourage countries to rebuild U.S. manufacturing infrastructure. The administration wants the windfall of planned tariffs to jump start this process. Numerous companies have announced large investments being planned in the U.S. in response to the threat of tariffs. Hyundai is planning a $21 billion investment in the U.S., which includes a $5.8 billion steel plant in Louisiana, Taiwan Semiconductor announced a $100 billion expansion in Arizona. Johnson & Johnson plans to spend $55 billion that includes a $2 billion facility in North Carolina, and Siemens AG plans to spend $10 billion for AI manufacturing.

A de-coupling of America's commitment to globalization is underway, the purpose of which is to pivot industrial manufacturing capital back to the U.S. to levels not witnessed since the 1950s-1970s.