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A note from Dan

"Mercantilism with American characteristics"

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Sinophiles will be familiar with the term *Socialism with Chinese Characteristics*, introduced by paramount leader Deng Xiaoping in the early 1980s as part of China's reform and opening-up policies with its blend of one-party governance and a large role for the private sector.

In our view, the United States' newfound affection for tariffs, and other policy shifts, now means that we have *Mercantilism with American characteristics*."

This seems to represent a remarkable turn away from America's historic freewheeling capitalism and limited government ethos. The swing to modern mercantilism didn't begin with the United States or even the current administration.

China can be depicted as epitomising contemporary mercantilism featuring as it does:

- A large role for the state in configuring the economy to increase national wealth and strength.
- Measuring national wealth and prestige by trade surpluses and export prowess.
- Using industrial policy to promote self-reliance and defence capabilities.
- Supporting national champions to become global champions. Think of the government assistance that's underwritten China's dominance in the clean energy value chain, as well as leadership in electric vehicles and batteries.

The curiosity is that the United States seems to be buying into this thinking.

Over eight years, the first Trump administration, and then the Biden administration, chiselled away at the open global trading system by putting tariffs on Chinese imports, using export controls to limit China's access to advanced semiconductors, and pushing industrial policies like the Inflation Reduction Act — which amongst other things, encouraged clean energy investments via tax credits, grants, and loans, and the Chips Act — which offered tax credits to reduce US dependence on foreign chip manufacturing.¹

The second Trump administration has thrown out the Biden's administration's incentives via tax credits approach and opted for the bluntness of tariffs.

¹ We are all mercantilists now, <https://www.bridgewater.com/what-trumps-global-order-could-look-like>



Prioritising reindustrialisation

Critics are leaning on economic theory as well as real world evidence to stress that tariffs increase costs on businesses and households and thus are inflationary. Moreover, tariffs have a tendency to lower living standards, cost jobs, and rather than strengthening domestic industries, eventually result in weaker coddled industries.

The reply of the White House appears to be that economic purists’ anti-tariff thinking places consumer interests, in the form of cheaper goods, above all else in a way that is socially detrimental and indifferent to the national interest. Treasury Secretary Scott Bessent spoke to this when he remarked; “Access to cheap goods is not the essence of the American Dream.”²

From the Trump administration’s perspective, placing too much emphasis on low consumer prices can come at a national cost. In their view, free trade, while beneficial in some respects, is largely indifferent to whether broader societal and strategic interests are being served. A key motivation behind President Trump’s adoption of tariffs is the desire to revitalise American industry and stimulate domestic innovation.



The administration appears to regard tariffs as a mechanism to level the playing field for US manufacturers by shielding them from foreign competition within the domestic market. However, the White House recognises that tariffs alone are insufficient. For them to be effective, they must be part of a wider strategy aimed at lowering operational costs and enhancing productivity across the economy.

This thinking seems to inform a broader policy agenda that includes reforms in energy, deregulation, labour markets, taxation, and financial systems — all designed to strengthen the supply side of the economy and support businesses operating within the US. In the administration’s view, opponents of tariffs are preoccupied with immediate consumer savings and fail to appreciate the long-term national benefits of a resilient and competitive manufacturing sector.

² Bessent defends Trump tariffs: ‘Access to cheap goods’ is not the ‘American Dream’, <https://www.politico.com/news/2025/03/06/bessent-defends-trump-tariffs-00216320>



Loss of “economic complexity” diminishes countries

For this White House, a decline in manufacturing expertise can lead to a loss of economic complexity in addition to blunting innovation. The ‘economic complexity’ point is especially salient to the administration, and they cite Australia as a poster child for drawbacks associated with an unequivocal embrace of free trade and the theory of comparative advantage.³

Harvard University’s ranking of “Economic Complexity”, which compares the complexity of products and services produced by various countries, ranks Australia as the “105th most complex country in the Economic Complexity Index (ECI) ranking”,⁴ placing us between Senegal and Yemen!⁵

“Compared to a decade prior, Australia’ economy has become less complex, worsening 6 positions in the ECI ranking. Australia’s worsening complexity has been driven by a lack of diversification of exports.”⁶ From the Trump administration’s perspective, these outcomes support their contention that countries like Australia have paid too high a price by embracing free trade.



³ *Treating Trump as economic illiterate on tariffs is the wrong strategy*, <https://www.afr.com/policy/economy/treating-trump-as-economic-illiterate-on-tariffs-is-the-wrong-strategy-20250311-p5lili>

⁴ *The atlas of economic complexity*, <https://atlas.hks.harvard.edu/>

⁵ *Economic complexity by country 2025*, <https://worldpopulationreview.com/country-rankings/economic-complexity-by-country>

⁶ *The atlas of economic complexity*, <https://atlas.hks.harvard.edu/>



New sources of disquiet as interventions widen

Despite legitimate concerns about the efficacy of tariffs, the Trump administration's economic objectives — distinct from its implementation strategies — can be interpreted as a bid to reindustrialise and maintain US leadership in emerging technologies.

However, executive authority is being exercised in ways which seem to be raising concerns about institutional balance. For example:

- The Trump administration struck a deal requiring NVIDIA, and Advanced Micro Devices (AMD) to pay 15% of their revenue from AI chip sales to China directly to the US government.⁷ This was in exchange for export licenses to access the Chinese market, which had been restricted under previous rules.
- Semiconductor chip manufacturer, Intel, agreed to give the US government a 10% equity stake in the company.⁸
- The US government received a “golden share” in Nippon Steel's acquisition of US Steel, which gives it the power to veto board decisions.⁹
- The President stated that US companies should not pass tariff-related costs to consumers and instead requested they absorb most of the impact. A JP MorganChase analysis found US employers faced US\$82.3 billion in direct costs from tariffs¹⁰ and companies have responded with price hikes, job cuts, and profit margin reductions.
- Tariffs of 40% have been announced on Brazil¹¹ because former President Jair Bolsonaro, a Trump ally, is under house arrest and is to stand trial for his alleged role to overturn the 2022 Brazilian presidential election.
- Finally, an executive order imposed an additional 25% tariff on Indian imports, citing India's ongoing oil trade with Russia,¹² bringing the total tariff rate to 50% on most Indian goods entering the US.¹³

In our view, tariffs on Brazil seem to be driven by President Trump's friendship with Jair Bolsonaro, while penalising India over Russian oil purchases seems odd when US exports to Russia have risen by around 20% year-over-year in the first half of 2025.¹⁴

The other examples would appear to show the government taking power away from companies when it comes to decision-making.

Before getting to what we believe are some high-level implications of America's embrace of mercantilism, a segue is in order — how the US-China tariff and trade stoush may pan out.

⁷ Nvidia, AMD to pay US government 15% of revenue from AI chip exports to China, <https://siliconangle.com/2025/08/11/nvidia-amd-pay-us-government-15-revenue-ai-chip-exports-china/>

⁸ Intel and Trump administration reach historic agreement to accelerate American technology and manufacturing leadership, <https://newsroom.intel.com/corporate/intel-and-trump-administration-reach-historic-agreement>

⁹ What to know about the Trump administration's deal with AI chipmakers, <https://abcnews.go.com/Business/trump-administrations-deal-ai-chipmakers/story?id=124539684>

¹⁰ Trump's tariffs would cost US employers \$82.3 billion, potentially causing price hikes and layoffs, <https://www.pbs.org/newshour/economy/trumps-tariffs-would-cost-us-employers-82-3-billion-potentially-causing-price-hikes-and-layoffs>

¹¹ US tariffs and sanctions against Brazil and the Brazilian response, <https://www.cov.com/en/news-and-insights/insights/2025/08/us-tariffs-and-sanctions-against-brazil-and-the-brazilian-response>

¹² Fact sheet: President Donald J Trump addresses threats to the United States by the Government of the Russian Federation, <https://www.whitehouse.gov/fact-sheets/2025/08/fact-sheet-president-donald-j-trump-addresses-threats-to-the-united-states-by-the-government-of-the-russian-federation/>

¹³ US to hike India tariffs to 50 percent over Russia oil purchases, <https://www.politico.com/news/2025/08/06/us-to-hike-tariffs-on-india-to-50-percent-over-russian-oil-purchases-00495411>

¹⁴ Trump says US planning 'quite a bit' of Russia-related tariffs, [Trump Says U.S. Planning 'Quite a Bit' of Russia-Related Tariffs](https://www.foxnews.com/politics/trump-says-us-planning-quite-bit-russia-related-tariffs)



“Mercantilism with American characteristics”

Advantage China through “escalation dominance”?

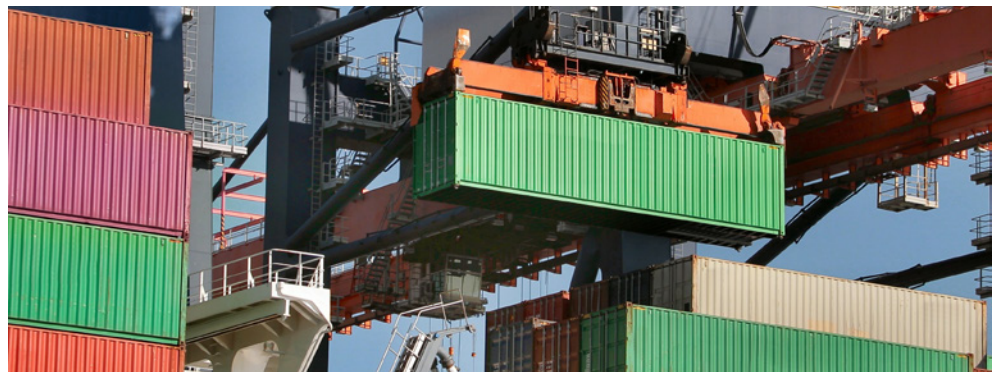
My investment team colleagues, and I have come to the view that it's more important to pay attention to what this White House does, rather than what it says. With this context, it's revealing that the US has extended a new 90-day pause on China tariffs.

On the heels of the United States imposing tariffs of more than 100% on imports from China in early April, and China retaliating, US Treasury Secretary Scott Bessent depicted China as “...playing a pair of twos.... We export one-fifth to them of what they export to us, so that is a losing hand for them.”¹⁵

The Trump administration claims a strategic advantage in trade disputes, asserting it holds “escalation dominance” over economies with which the US runs a trade deficit, such as China.

This concept, with its Cold War origins, comes from Rand Corporation¹⁶, a think-tank, and draws from game theory suggesting one party can escalate a conflict in ways that disproportionately harm the opponent, who lacks the ability to retaliate with sufficient force.

However, this perspective may be flawed. China could hold a strong hand in a trade conflict due to the US' reliance on critical imports that are difficult or costly to replace domestically in the short term. Initiating a trade war without reducing this dependency risks significant economic damage for the US.



High level implications

The US shift toward mercantilism, characterised by policies like tariffs, trade barriers, and prioritising domestic production, disrupts the global trading system with potentially significant investment implications.

Investors may lean towards companies with strong domestic operations and minimal reliance on global supply chains or export markets. These firms would be less exposed to tariffs, trade disputes, or disruptions in international trade. Mercantilist policies often trigger tit-for-tat responses, disrupting global economic stability and affecting companies with international exposure.

As global trade fragments, investors may also prioritise companies with regional supply chains (for instance, North America-centric operations under the United States-Mexico-Canada Agreement (USMCA), or companies operating under the European Union umbrella, for example). Regional trade blocs may become more resilient than globalised supply chains, reducing exposure to US driven trade disruptions.

The era of US exceptionalism has not passed, but we believe judgments about the country are becoming increasingly influenced by its drift from long-standing policies.

¹⁵ *Trade wars are easy to lose: Beijing has escalation dominance in the US-China tariff fight*, Adam S Posen, Foreign Affairs, 9 April 2025

¹⁶ *On thermonuclear war*, Herman Kahn, Princeton University Press, 1961. Kahn wrote this book a year before he left RAND.



Underweight US shares

As ever, our portfolios are diversified underscored by holdings in many thousands of assets, industries, and regions.

We have an underweight position to US shares as we believe technology company valuations, as a group, remain stretched. That said, we continue to have a modestly positive view on the US equity market overall, at least in the near-term, but have a more cautious longer-term view. On the other hand, improving fundamentals like a rise in earnings quality, supportive policy, and strong market dynamics support our preference for emerging markets, and global markets, outside the United States.

Infrastructure assets, including those benefiting from the transition towards clean energy, telecommunications, and those associated with technological advances are important parts of our portfolios too.



Likewise, select real estate businesses, such as those in the industrials sector supported by the digitisation and logistics themes continue to feature in our portfolios. We have also turned more positive on the domestic retail sector, such as neighbourhood shopping centres, as well as opportunistic and value-add global real estate assets where we can acquire at attractive discounts and benefit from value-add activities.

Underlying all our actions is our active management approach, which is anchored, in the first instance, to a long-term strategic asset allocation. The long-term perspective is complemented with shorter-term analysis of the economic outlook and asset class return expectations.

However, our investment process does not end there as we also integrate multiple scenarios of how markets and economies may progress. This means we're not trapped into trying to guess a single correct future but rather consider many possibilities and a far greater range of potential outcomes.

In our view, the complexity of today's market and geopolitical climate make it especially risky to leave portfolios on autopilot. Instead, steering portfolios with considered active management enables us to look ahead, and ideally, avoid traps and potholes, and seize opportunities.



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