



## **The Global Economy Report: A New And Dangerous Tariff War w/ Costas Lapavitsas**

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**Dimitri Lascaris (DL):** Good day. This is Dimitris Laskaris coming to you for Reason2Resist from Kalamata, Greece on January 31st, 2025. Today, I'm pleased to be joined again by Costas Lapavitsas. Costas is a professor of economics at the School of Oriental and African Studies, University of London. He was elected as a member of the Hellenic Parliament for the Syriza party in the January 2015 general election in Greece. In that election, Syriza ran on a platform of opposition to austerity. However, in the summer of 2015, after former Greek Prime Minister Alexis Tsipras capitulated to the demands for new and harsher austerity from Greece's creditors, Costas defected from the party. Thank you again for joining me, Costas.

**Costas Lapavitsas (CL):** It's my pleasure, Dimitri. I look forward to the discussion.

**DL:** And for the benefit of our audience, we do plan to be having these discussions on a regular basis. We will be calling this the Global Economy Report with Costas Lapavitsas. We will be covering a whole range of issues, both at a theoretical level, also at a granular level. And in the days and weeks ahead, you know, we look forward to having input from our audience members in the form of comments on these videos to help direct the conversation to subjects that are of most importance to people watching Reason2Resist. So today we'd like to focus on the subject of Donald Trump's tariff threats. We're also going to touch upon this extraordinary story around the artificial intelligence company DeepSeek out of China. But for the time being, let's turn to the whole issue of tariffs. Trump has been lobbying tariff grenade threats at just about everyone, Costas. For example, he has threatened to impose across the board 25% tariffs on two of the US's largest trading partners, Mexico and Canada, if they do not take new unspecified measures to reduce the flow of illegal immigrants and drugs across their borders with the United States. These tariffs are supposed to go into effect tomorrow, February 1st. But Trump has also claimed to have another motivation for threatening tariffs. He says he wants to force companies to bring their manufacturing facilities to the United

States from abroad. Within days of taking office, Trump told global business leaders they should manufacture products in the United States to avoid import tariffs and enjoy low tax rates. Speaking by video conference from Washington to the World Economic Forum in Davos, Trump warned of new US tariffs in, quote, "differing amounts", close quote, for all countries. So Costas, why don't we start with Canada and Mexico. If Trump implemented this threat, 25% across the board tariffs, what do you anticipate, broadly speaking, the consequences would be economically, not just for Mexico and Canada, the target of the tariffs, but also for the United States?

**CL:** The first thing to say is that Trump talks a lot, as we all know, and what he does is a different thing, right? So we'll have to wait and see, especially in his present incarnation as president, when he's made so many announcements that one loses count. But let's assume that he will do or that he will deliver some version of the tariffs against Mexico and Canada. You said that they are among the largest trading partners of the United States. Actually, they are the largest. About 15% of imports, each, into the United States and something similar of US exports. They're the largest partners. I'll come back to that, how they become the largest partners, Mexico in particular. But there we are. What's driving it? Is it independent productive capacity in Canada and Mexico that's doing it? No, no. It's multinationals. It's US multinationals that have got capacity across the border. And as we well know, for several decades, they use it to produce and they use it to develop their chains, their production chains across the border. And they're shifting goods, which appear as imports or exports, depending on the direction of flow. If Trump imposes these tariffs, the first we will know, it will be the American multinationals, because they will be hurt by that. They will be severely damaged by that. That will have implications for profitability. It will have implications for their business models. It will have implications for employment. It will have implications for local areas in which that capacity is concentrated, not just in Mexico and Canada, but in the United States. Because this really is one pretty much integrated production area across North America, across the continent. So that's what he's talking about. I'm not sure how well he understands it, but that's what we're talking about.

Now, this policy, however, that Trump is proposing is not new. And we've got to be, again, clear about this. Mexico has emerged as a massive trade partner of the United States, essentially since 2018. It was always big, of course, because there was capacity there, US capacity, but it has emerged as the largest since 2018. Why? Because China has retreated. And China has retreated precisely because Trump imposed the original tariffs on it back in 2018. Did Biden lift the tariffs? No, not really. Biden continued that policy. So it started as a Trump policy, but then it became also a Biden policy, and it was maintained as such in order to reduce the significance of China in US trade. Who benefited? Mexico, in other words US multinationals established in Mexico. But the impact is there. The impact is there. They did diminish the share of China in US trade. We did do that. Who benefited from it? You've already mentioned it. DeepSeek benefited from it. [inaudible] Yes, the United States imports less from China compared to what it used to – and bear in mind, a lot of the imports of the United States are computers and electronic goods, people don't realise that because they think that the US is self-sufficient. It's far from self-sufficient in this kind of thing. China benefited

in the sense that its own capacity domestically was forced and needed. So what we've got, to sum it up, is a policy by Trump that likely hurts US multinationals. A policy that will affect trade in all probability, the flows of trade, it will shrink them. And the policy that will have an impact in the countries that receive the tariffs, which is unpredictable. We don't know what's going to happen. But this policy that Trump is applying is not just Trump. This is something that the US ruling elite obviously chooses to do. Biden continued it in order to succeed in the world market. And we've got to be clear about it, Tthat's the meaning of free trade as far as the United States is concerned.

**DL:** You didn't mention, interestingly, inflation. Because in the public discourse, that seems to be a focus of concern how these tariffs would cause the price of goods in the United States to rise for American consumers. What are your thoughts on that, Costas?

**CL:** This is an easy... For inflation to be a problem, prices have to rise systematically. The imposition of tariffs changes the flows of trade and changes relative costs, of course it does that, but it's a one-off. It's not something that has a sustained impact. So prices might jump for a period of time, depending on how those who receive the tariffs respond. But inflation is something that happens over time, and if the pressure sustains itself. The inflation rose in the United States the last few years because of the boost to aggregate demand, primarily through government spending and the creation of money by the Federal Reserve. Now that is a sustained impact over a long period of time. And it produced inflation because supply did not respond. Tariffs are not the same. Tariffs are a one-off thing. So there would be price changes. They would be more mixed than people assume. But that's not really... Inflation is a sustained, long-term thing. It happens this year, next year, the year after that, and so on. So it's an easy argument. It's not really a persuasive argument, as far as I'm concerned, about the impact of the Trump tariffs.

**DL:** Now, as I mentioned at the outset, in the case of Canada or Mexico, Trump has placed the emphasis on border security. But he talked more broadly in his lecture to the Davos crowd about his desire to see countries move their manufacturing companies, I should say, multinational companies move their manufacturing facilities to the United States. Do you think this is likely to be an effective strategy for achieving that objective?

**CL:** That's why I mentioned to you that this isn't really just Trump's policy. Control over trade, specifically with China, but more broadly, was also Biden's policy. And intervention in trade processes is a long-standing US policy tool, as we know from sanctions when it comes to political events and so on, but more broadly, economic events, too. The first time that the United States, the last four decades, attempted to control the direction of trade was, of course, in the late 80s with Japan. People forget that. At that time, the Japanese had a massive surplus. The United States set out to reduce it, and they did it through the dollar, the rate of exchange between the dollar and the yen. And they actually succeeded, it has to be said. They're not doing it in the same way now. It's far more direct. But the policy is there, and it's there to be seen. Why? That's what we've got to ask ourselves in order to understand what Trump is doing at Davos and so on. Why? The United States currently is running a massive balance of payments deficit. It's 3.5% of GDP. The United States' GDP is more than \$30

trillion. You're talking a lot of money, right? So it's running a massive deficit. Most of that deficit is because of the goods trade. The United States imports a lot of manufactured goods, computers, electronic goods, all the various things that go into making the technological infrastructure that the United States is so proud of. It actually imports a lot of that. And what it exports is basically oil, main export, and a lot of services in which it has a surplus. The services themselves depend on the technological infrastructure because they're technology-associated, insurance, fintech, that kind of thing. That's the position of the United States in the world economy at the moment, and it is seriously in deficit. That's a reflection of the weakness, the underlying weakness of American capitalism, and that has to be appreciated. It cannot compete. All that talk about the triumphs that the US economy presents, they are emanating from the financial system, which of course is doing very well at the moment. But the sustained weakness, and this weakness captured in the deficit, the balance of payments deficit that I mentioned, became very, very big after the pandemic. Trump is trying to do something about that. He's trying to do something about that. He's trying to reduce the deficit in the way that he understands by imposing direct controls, and he's also trying to do something about the underlying weakness of the US manufacturing, which also Biden began, incidentally. Biden tried to attract US corporations back into the territory of the United States, the reshoring that people were talking about, and Trump continues it in his own inimitable Trumpian way, because there's a certain crudeness and directness of Trump that goes with being a New York City real estate agent, basically. So that's what he's trying to do. Will he succeed? I have serious doubts about that. Yes, some difference will be made, but unless there is a sustained investment wave in the United States, much of it driven by the public sector, this imbalance will not be reversed. This imbalance will not be reversed. I can't see how the US productive sector will be able to out-compete Asia, essentially, which is where most of these manufacturers' goods come from [inaudible] deficit in the United States.

**DL:** I would imagine, Costas, that a massive return of manufacturing capacities in the United States would require dramatic improvements in the United States infrastructure to accommodate this industrial capacity, and Trump's ideological orientation is not towards government spending to facilitate economic activity. His ideological orientation is cut, cut, cut, and, in fact, that seems to be precisely where they're heading, except, of course, in the always-prioritised sector of military spending. There, we're probably going to see dramatic increases in spending. So it's hard to see how simply imposing a bunch of tariffs is going to result in the multinational corporations of this world and the manufacturing sector deciding to reshore to the United States. But one other thing I wanted to talk to you about, you talked about this enormous trade deficit. On a long-term basis, what is the primary danger to the United States of a persistent large trade deficit?

**CL:** The United States has been able to sustain a very great balance of trade deficits and current account deficits more generally, because it can attract capital from across the world, basically, and it balances out the deficits in goods, which is the main driver of this deficit, partly through a surplus in services, which isn't nearly as big as the deficit in goods, but mostly through the inflow of capital. And he has been able to do that for a very long time,

and he continues to do it. And that, of course, is down to the role of the dollar. The exorbitant privilege about which so much has been said, rightly, in the last few decades of the United States. The dollar is the world money, is the reserve currency across the world. It's actually the unit of account. In other words, the unit in which a lot of business is undertaken, including financial business, banks transact in dollars across the world. It is the means of payment. Often, debts are settled in dollars. And crucially, it's also the means of accumulating and holding wealth globally. If you want to keep your wealth in money form and feel reasonably secure about it, I mean, nothing is secure, right, when it's in the money form, the dollar is the first choice. So the United States enjoys this exorbitant privilege because of the role of the dollar, and it is perfectly clear about it. Trump says it again in his inimitable Trumpian way. He's declared it, that this is what we're about, and we will maintain it. Can it continue to do it? Can the United States continue to do it? Well, I've got news for Trump. In the long term, the ability of a country to maintain its currency in that position ultimately depends on its productive prowess. It ultimately depends on that, and it depends on its trading prowess. In other words, for a currency to do that, and to do it over time, you really want the country that issues that currency to be preeminent in trade and to have surpluses, right? to be able to sell more than it imports. The United States doesn't do that. So it relies on capital coming in to play in the stock market, to take part in financial activities, and to lend to the United States government. Buying United States government securities is an act of choice by a lot of people who want to put their money on one side. So what we've got is really a vicious circle here. The United States government spends, it borrows in order to spend, a lot of these securities are bought by the Federal Reserve, which holds a vast amount of government debt, and a lot of the securities are held abroad. 30% of the US public debt at the moment is held abroad. In other words, almost \$10 trillion is held abroad. Can that be maintained? It's a balance of terror. It's a balance of terror on both sides. If the foreigners stop buying, the United States will not be able to borrow. But if the borrowers stop buying, the dollar will collapse, and the borrowers will lose a lot of money as the dollar collapses. But that's what's been maintaining US preeminence. Is it sustainable in the long term? No, in the long term it's not. But the long term can last significantly.

**DL:** How do you think countries that are targeted with these tariffs should react in order to protect their own economic interests? As part of your answer, if you could address the issue of whether these tariffs violate the treaty obligations of the United States and whether there's some mechanism for these countries to protect themselves by, you know, invoking the dispute resolutions of treaties. And I'm thinking here particularly of Canada and Mexico. So how do you think they should react to these threats if in fact they're implemented?

**CL:** We don't have much to go by on this. And the reason is that Trump is threatening to impose massive tariffs on countries that are supposedly friendly to the United States and on countries in which US multinationals have got substantial interests and productive capacities in place. So we don't really know because the experience we have is from China. Trump imposed significant tariffs on China in 2018. Biden continued and stopped. And China retaliated, which is the usual way to respond. China retaliated. And there are implications for US corporations, for the ability of the United States to obtain rare earth materials for its arms

industry at a reasonable price, and for China itself because it forced it to develop capacity. Now, what Mexico and Canada will do because of their peculiar relation, treaty-based off, with the United States, it's difficult to tell. I wouldn't like to be in the position of the leader of either of these two countries. They will have to retaliate somehow. They will have to retaliate if these are imposed. What they will impose controls on, I don't know. Because they are, as I said, the biggest importers and the biggest exporters. How you do it is a difficult exercise. Their economy will be hit. If they've got any sense, they will obviously retaliate, but then they will take capacity to cut themselves off from these connections and begin to develop some separate means of economic activity that doesn't depend on Trump, basically, and on the choices of the US elites. What that would be in the case of Canada and Mexico, I don't want to say. It's a difficult, very difficult equation to solve, and it will take them some time. But retaliate, they will. I expect them to do that.

**DL:** And if you were an advisor to the Prime Minister of Canada, whoever that may be, they would never rely upon an economist as capable as you are. I'm sure they tend to favour incompetent economists, I can assure you, but if you were giving them advice about how best to protect the country from this type of behaviour on the part of major trading partners, particularly in the United States, on a long-term basis, and given current macroeconomic trends, I'm thinking here particularly, of course, of the rise of the BRICS in China and so forth, what would your advice be to the Canadian government?

**CL:** I would tell the Canadian government that the period that has lasted a long time in which growth is supposed to come from international trade, the IMF logic, you want to grow, you go into the world market. Growth comes from trading globally. It comes from this massive market that presumably has emerged, and only benefits can come from it. Therefore, what do you do with your country's economy? You direct it to the international market. You import and you export from there, and that's how growth comes. Productivity improves, and all wonderful things result from it. I would tell the Canadian government and the Mexican government that this period is over. The significance of Trump and what he's doing, and of Biden, I repeat, who ostensibly followed this kind of thinking, is that this period is over. What we've got in front of us is a period of manipulating trade. I'm not suggesting that the world market will break into blocks. I don't think that will happen. I think the interconnections are still very substantial. China depends on the European market. The United States depends on the Asian suppliers. These will not change very quickly. So it's unlikely that separate blocks will emerge in which countries will trade only with a few other countries and not with those outside the block. However, what will happen, I think, is stronger dividing lines. Not quite blocks, but stronger dividing lines. So the times during which, you could say, growth comes from going into the world market, those times are gone. And that's what Trump told the Davos people. That's really what he told them. That was the message. That's why they were shocked, because going to the world market was their mantra. That is the mantra of the international business elites across the world. And it's over as far as the United States is concerned. So that's the advice I would give to the Canadian and the Mexican government. This isn't a passing cloud. This is here to stay. And therefore, you devise economic policy with that in mind, which means that you've got to support domestic demand and domestic

production. In other words, there will be a rebalancing in favour of the domestic components of growth and the international components of growth. And that means looking after your own people in the first place. It means that they have capacity to buy. It means that they've got to have capacity to invest. It means that they must have some money they can put in the bank and then they can mobilise themselves. It means turning towards the domestic sources of growth to a significant extent. That's the advice I would give them. How you do it depends on the country. Mexico will follow a different path to Canada because its economy is different. But the direction of the flow is clear. That's where we're going.

**DL:** And presumably that's going to require very considerable government investments in local production.

**CL:** It will require a rebalancing of the public and private sources of economic growth and investment. It will require rethinking of where growth comes from and what kind of growth. You will not be able to succeed in the world that's coming by driving wages down and aiming for the global market, which is basically the bottom line of the previous period. You aim for the global market. You want to achieve that through competitiveness. You drive wages down and invite foreign capital. That's finished. That period has come to an end. It won't stop tomorrow. It is clear that it's come to an end. That's what Trump said. So rethink what you're going to do and how you're going to do it and protect your own people and make sure that Labour is defended and benefits from what's going to happen.

**DL:** I, for one, will not be mourning the passing of this era. I can assure you of that, Costas.

**CL:** Neither do I. Neither do I. Can I just make one more point here?

**DL:** Sure.

**CL:** The form that the new era will take is still unclear. We know that the old is finished. Trump basically announced that. And I repeat, it isn't just Trump. Biden is in the same group, really. Trump, though, has just told us that the old is finished. He doesn't want it anyway. And he will do other things. What he will be doing, the form of the new is far from clear. And that is not unique in history. Just because you realise that the old doesn't work doesn't mean that you know what the new will look like. And Trump is fumbling about. He's actually groping in the dark. It's obvious. Just the number of things he's announced means he hasn't got a plan. When you announce so many things, you're just hitting here, there. It's a shotgun approach to change. So in a sense, what I'm saying is the old has died but the new is yet to be born. We get some intimations of what it might look like, and that's what I tried to convey to you, but that's not to say that: Oh yeah, that's emerging, definitely in the next three years, that's how it's going to be. Oh, no, no, no. There's going to be uncertainty, instability. There's going to be tumultuous events taking place precisely because the old will not surrender easily. And the new cannot yet emerge in clear form.

**DL:** Nor will it be the first time that Western governments didn't have a plan. Let's turn then to this very interesting development on the artificial intelligence front, Costas, in the time

remaining to us. And I'd really just sort of like to get your broader thoughts about this. First of all, why should people care, ordinary citizens? Why should they care about the emergence of this artificial intelligence product from DeepSeek and the broader industry and this huge almost hysteria around the birth of AI and the development of AI?

**CL:** There are a number of issues here and we can discuss them ahead because they're important issues for the global economy, but also, of course, for the lives of ordinary people in so many countries. Now, maybe we could draw a little parallel with the internet. Remember when the internet was in an embryo form, it was just about to be born 25 or whatever years ago. And people were debating what it's going to do, whether it will be a serious entity and the apostles of the internet at the time were saying that he's going to change everything and there will be a new economic configuration that will prevail across the world with greater productivity, with marvellous things and so on. And there was the dot-com bubble, you might recall, back in the late 90s as a result of all that talk about the internet. What have we got 25 years later? The internet is a reality. It has indeed changed the way people live. Can you imagine, I mean, what we're doing now is through the internet. I mean, it would have been impossible. Lives have indeed been changed. It's become part of the fabric of the world, really. Has it led to a new economic era? Oh, no. Oh, no, it hasn't. Yes, it's changed a lot of things. Yes, it's changed the way we live. It's changed the way labour is undertaken. But has it led to a new era? Only in the dreams of those who were preaching it 25 years ago. And that's a very, very important point, right? Very important point. I'm not suggesting that AI will be exactly the same. I don't know. No one does, right? What I'm suggesting, however, is even if it generalises, which it looks to be doing, and it changes everyday life, which it probably will, and it gets integrated into production and all kinds of activities, which it looks as if it will, it doesn't mean that it will lead into a new economic model, a new economic reality. That doesn't follow necessarily. It doesn't mean that it will improve productivity. It doesn't mean that it will lead to a new era in which milk and honey will flow in the streets, which is what the apostles of AI often promised.

So we have to be careful with that. And it won't be the first time. I mean, for the last 40 or so years, we've had technological revolution after technological revolution. I mentioned the internet. There will be more. Every time there is talk of a new era, a new industrial revolution, and every time it is disappointed. So whether it's going to happen with AI, I don't know. We'll wait and see. The impact on the productivity of labour, which is the key factor here, is not yet clear. People say that it will improve the productivity of labour, which is ultimately where wealth comes from. If we become more productive, then obviously the sources of wealth expands. The impact on the productivity of labour is far from clear, far from clear to me. It might or it might not increase it. It depends on what else will happen with it, on how it will impact on other services, what form of services, what else it will generate. So it's not clear that it will impact dramatically on the productivity of labour, even if it changes the way we live, which it probably will. So be cautious and wait. We'll have more to say about how it impacts production and so on in other times we meet. The point I want to make here is this: What the stock market does with regard to these revolutions is a different thing. And then they often get confused, these processes. The reality of AI might be along the



lines that that suggested or might be slightly different. Nobody knows. The reality of the financial system when it comes to AI is well known. Yeah, it tends to create bubbles. It tends to create bubbles around that. It tends to increase prices beyond any kind of reasonable measure and it tends to generate speculation. It's well known since the days of the tulip craze in Amsterdam back in the 17th century, since the days of the railways in Britain in the 19th century and since dot-com and the internet 25 years ago. Something similar has been taking shape in the United States. The big tech companies have been attracting capital from across the world. The capital that I mentioned to you before is flowing into the United States. Much of it is going into tech and pushing tech prices in the stock market ever higher and they're benefiting from it. As companies always do. They're drawing huge amounts of capital which they presumably will invest in becoming the masters of the universe.

Because amidst all this, this Chinese enterprise announced that it can use AI which is comparable to what open AI has in the market at a fraction of the price. And it did so because it had to do it in the forced conditions of the Trump and Biden restrictions on trade with China. And you can understand. That immediately puts the stock market in a frenzy. A downward frenzy. Because huge amounts of money have gone into the US [inaudible] Or the assumption that they are the leaders and they need this vast amount of money in order to maintain technological superiority. If another competitor comes in and produces roughly the same thing at a fraction of the price you can imagine what will happen to the money you put in, basically it goes down the black hole. So that's the first shock that we've seen. The market has recovered since then, because we don't get to know what DeepSeek will do. We don't get to know if it truly has the capabilities that it purports to have. But the first shock is important. It tells you there's a lot of froth. There's a lot of puff. It tells you there's a lot of people who are making money out of the stock market and they've got a vested interest in boosting it and presenting it as the biggest triumph of the United States [inaudible]. And that's not true. That is financial speculation. That will be separate from the reality of AI. The last thing I want to say in this connection is this: Even if this turns out into a proper bubble and then bursts, as bubbles always do, and even if this has significant negative effects on the big businesses involved, which it will do, that doesn't mean that AI will disappear, right? [crosstalk] ... disappear after the dot-com bubble burst. Just as the railways continued after the railway mania subsided. But that's the life of financialist capitalism in which the United States sells and which dominates the public sector.

**DL:** Right. Well, always a pleasure talking to you, Costas. Unfortunately we're out of time for today and we look forward to having our next Global Economy Report in about two to three weeks' time.

**CL:** It's my pleasure. Good to talk to you.

**DL:** And this is Dimitri Lascaris coming to you for Reason2Resist from Kalamatha, Greece on January 31, 2025.

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