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## Are we facing another Smoot-Hawley Act and Global Depression?

Last week, Bruegel published an article<sup>1</sup> that compared the Biden tariffs on China to the Smoot-Hawley Act from 1930. In another article<sup>2</sup>, the same institute argues how the Biden tariffs are much smaller, impacting only \$18bn of the \$500bn annual imports from China into the US. The comparison to the Smoot-Hawley Act is very interesting, nevertheless, as it falls into the very same time period in which there are already so many similarities to how the world economy and its powers are positioned now. Many of these similarities are structural and appear in line with Ray Dalio's long-term debt cycle of around 75 years +/- 50 years<sup>3</sup>. The below table summarises these structural similarities. The question is, are we indeed facing another Smoot-Hawley Act and Global Depression?

### 1920s vs. Now: Historic similarities

| Parameter                           | 1920s  | Now  |
|-------------------------------------|--|--|
| Superpower has high debt/GDP        | The UK had government debt/GDP of 150-190%, while the US had government debt/GDP of 30%                                  | The US has government debt/GDP of over 120%, while China has 77% debt/GDP      |
| New Superpower leads new technology | The US produced 26.5x as many cars as the UK in 1924   | China produced over 8mio EVs in 2023, 6x more than the US                      |
| Globalisation                       | The world slowly moved from globalisation towards de-globalisation. Trade was 11% of global GDP before declining to half | It appears like we have reached peak globalisation. Trade is 25% of global GDP |
| Technology                          | Energy transition from the horse and firewood towards the combustion engine and coal                                     | Energy transition from ICE vehicle and oil and gas to BEV and renewables       |
| Inequality                          | Top 1% owned 12-19% of total share of income   | Top 1% owns 30% of all household wealth  |
| High speculation                    | Businesses and private individuals were borrowing excessively and bought stocks  | High speculation, cryptocurrencies were worth over \$3trn                      |
| Low interest rates                  | Interest rates stayed between 4-5% before declining during the Great Depression  | Interest rates moved to 4-5% after a long period of near 0%                    |
| Pandemic                            | The Spanish Flu had 4 major waves  | Covid also had 4 major waves (Beta, Alpha, Delta, Omicron)                     |
| Conflict                            | WWI followed by WWII   | Ukraine war and potential conflicts in Israel/Middle East and Taiwan/China     |

<sup>1</sup> <https://www.bruegel.org/first-glance/us-tariffs-chinese-imports-managed-trade-back>

<sup>2</sup> <https://www.bruegel.org/analysis/rippling-out-bidens-tariffs-chinese-electric-vehicles-and-their-impact-europe>

<sup>3</sup> <https://www.linkedin.com/pulse/where-we-big-cycle-brink-period-great-disorder-ray-dalio/>

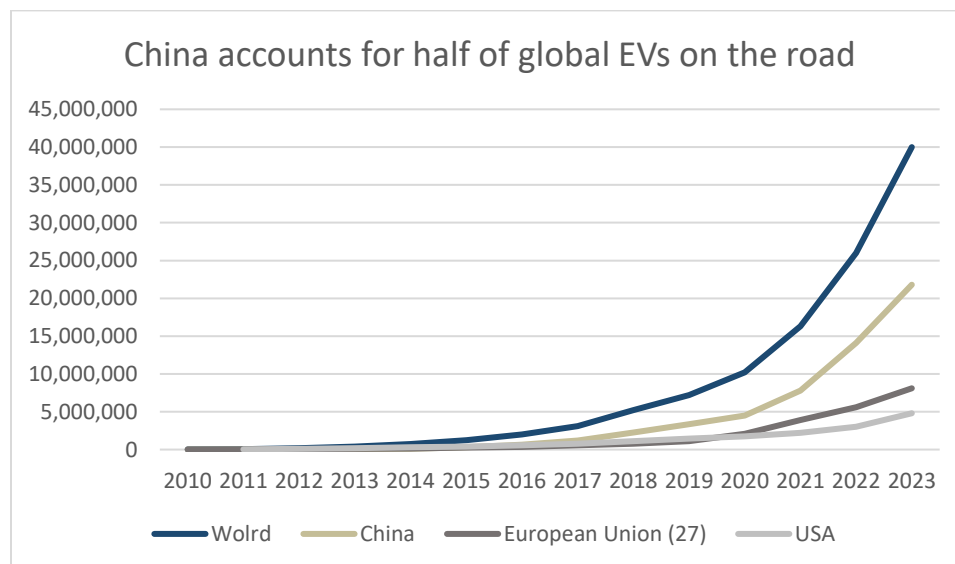
|                    |  |  |
|--------------------|--|--|
| Trade restrictions | The British insisted on free trade despite the US (& Germany) turning to high tariffs  | China has high tariffs in place for many products, while the US insists on free trade (less and less so recently)        |
| Overproduction     | With Europe emerging out of WWI, the continent experienced rising agricultural production, leading to overproduction. This was the main trigger of tariffs | China is accused of government financed overproduction and dumping practices. This is the main trigger of recent tariffs |

Source: The Forgotten Depression by James Grant, various other sources

### The US led the transition from the horse to the combustion engine in the 1920s

| Country        | Motor vehicle production in 000 |       |
|----------------|---------------------------------|-------|
|                | 1924                            | 1928  |
| USA            | 3,666                           | 4,359 |
| Canada         | 135                             | 242   |
| France         | 145                             | 210   |
| UK             | 138                             | 212   |
| Germany        | 18                              | 90    |
| Italy          | 35                              | 55    |
| Czechoslovakia | 2                               | 13    |
| Russia         | 0                               | 1     |

Source: XIII. The Roaring Twenties. Slouching Towards Utopia? The Economic History of the Twentieth Century by J. Bradford



Source: OurWorldinData.org

## The Smoot-Hawley Act & Great Depression

The Smoot-Hawley Act was a legislation that increased dutiable import tariffs into the US by around 50% to an average tariff rate of nearly 60% vs. 40% before, and shifted total import tariffs from below 15% to 20%. While the tariffs were initially only thought to target agricultural products, they expanded further towards many industrial products as well. Why were these tariffs imposed and did they cause the Great Depression? Firstly, it is important to understand that President Hoover won the 1928 Presidential Elections partly by promising to protect domestic farmers and issue tariffs to farming products that are imported. Hence, Hoover was pressured to deliver on his election promises. The overproduction in Europe after World War I at that time did not only center around agricultural products, but also on machinery and other industrial goods. However, the sequence of events is key. By May 1929, the House approved the initial Smoot-Hawley tariff, which caused stocks to drop by around 2.5%. Only two weeks later, Republicans met to rewrite the bill. Built on hopes that the final bill will be amended, this in turn led to a market rally, which peaked in September, up over 13% from the June lows<sup>4</sup>. Many industrial tariffs were discussed to be reduced during this phase<sup>5</sup>. These industrial tariff reductions were then rejected on 21<sup>st</sup> October 1929<sup>6</sup>, which led to a market crash. The Smoot-Hawley Act was ultimately signed by Hoover on 17<sup>th</sup> June 1930 and the market crash lasted for over two years with short-lived, but strong rallies, as the market expected the tariffs to have a reduced effect or expected politicians to make changes. The markets only began to stabilise when Hoover lost the next Presidential Election in 1932 to Democrat Roosevelt, who reduced tariffs again. However, the damage was done, as trade collapsed due to retaliatory actions with US imports from Europe declining by 66% over the span of five years<sup>7</sup>. Global trade as percentage of global GDP declined from 11% in 1929 to 5% in 1935. Today, such a decline in global trade would be even worse, as global trade as percentage of global GDP is above 25%.

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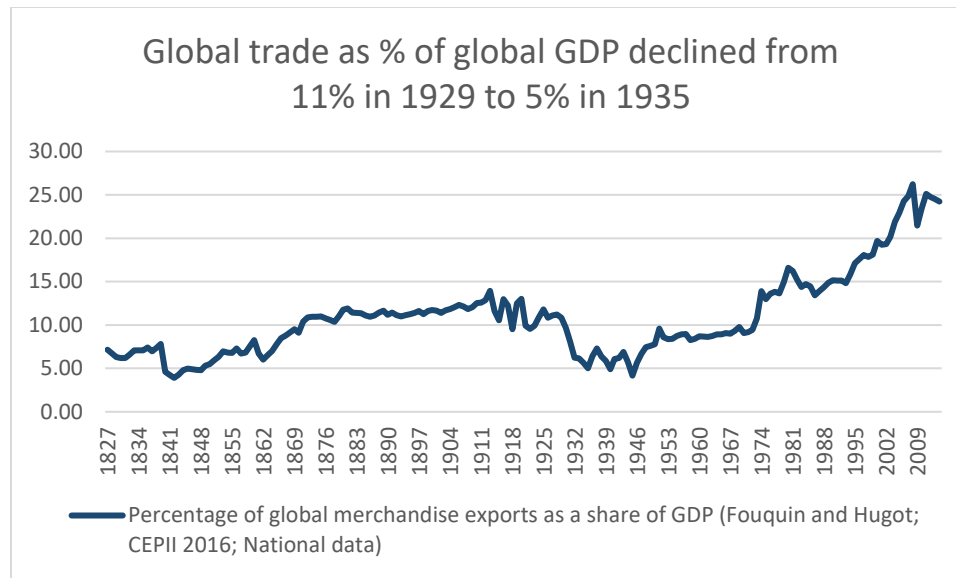
<sup>4</sup> <https://www.cato.org/blog/smoot-hawley-tariff-great-depression>

<sup>5</sup> [https://www.nber.org/system/files/working\\_papers/w28616/w28616.pdf](https://www.nber.org/system/files/working_papers/w28616/w28616.pdf) p.4/5

<sup>6</sup> <https://www.cato.org/blog/smoot-hawley-tariff-great-depression>

<sup>7</sup>

[https://web.archive.org/web/20090312055958/http://future.state.gov/when/timeline/1921\\_timeline/smoot\\_tariff.html](https://web.archive.org/web/20090312055958/http://future.state.gov/when/timeline/1921_timeline/smoot_tariff.html)



Source: OurWorldinData.org

### How does 1929 compare to today? The Trump Tariffs

Like Hoover, Trump campaigned on the basis of fair trade. Different to Hoover, however, Trump did not propose one major tariff and instead first began negotiation before phasing in the tariffs over multiple months, even years, which gave the countries affected (mostly China) a chance to respond. The negotiations and tariffs intensified over the years and begun affecting entire companies, such as the ban on Huawei in June 2019 and restrictions on SMIC in September 2020, which are only two out of over 50 sanctioned Chinese companies during this period. The focus also shifted away from unfair trade practices to concerns over military applications. The market reacted negatively to Trump's tariffs, with the Dow Jones hitting a high just one week after the first tariffs on solar panels and washing machines were introduced on 22 January 2018, dropping over 10% in a week. (The value of these initial tariffs was only around \$2bn.<sup>8</sup>) From there the Dow Jones stabilized mostly before another 10% drop in December 2018. The latter drop in the Dow Jones was the worst December selloff since 1931 and was due to risks from

<sup>8</sup> [https://www.stltoday.com/business/local/u-s-slaps-duties-on-washing-machines-made-in-china/article\\_5bd36359-62b4-55f4-9ac1-8cbe214e28a5.html](https://www.stltoday.com/business/local/u-s-slaps-duties-on-washing-machines-made-in-china/article_5bd36359-62b4-55f4-9ac1-8cbe214e28a5.html) , <https://www.statista.com/statistics/232941/us-imports-of-solar-equipment-by-source-contry/>

not only the US-China trade war accelerating, but also a slowing economy and higher interest rates.<sup>9</sup> Importantly, Trump fought this trade war relatively carefully when compared to Hoover, and even though most countries retaliated, the US was easily winning this trade war. To this date, the US is imposing a 25% and 7.5% tariff on approximately \$250bn and \$112bn of imports from China respectively generating over \$70bn in tax revenue.<sup>10</sup> This compares to a meagre \$106bn worth of US imports into China being tariffed that raise an estimated \$11.6bn of tax revenues for China.<sup>11</sup>

#### 2018-2020 Trump tariffs timeline

- On 22 January 2018, Trump imposed tariffs on solar panels and washing machines of 20-50%<sup>12</sup>
- On 8 March 2018, Trump imposed a 25% tariff on steel and 10% tariff on aluminum imports<sup>13</sup>
- On 15 June 2018, Trump imposed a 25% tariff on 1,102 mostly industrial goods (such as aerospace, information and communications technology, robotics, industrial machinery, new materials, and automobiles) from China worth \$50bn in 2018 trade values<sup>14</sup>
- On 30 May 2019, on back of a spike in illegal immigration from Mexico, Trump announced 5% tariff on all imports from Mexico to come in effect on 10 June 2019 and were to rise by 5% every following month until it reaches 25% unless Mexico does something against illegal migration<sup>15</sup> - tariffs were not enacted on due to Mexico helping reduce immigration, which immediately reduced illegal immigration from Mexico<sup>16</sup>

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<sup>9</sup> <https://www.cnbc.com/2021/12/08/why-this-month-echoes-december-2018-when-stocks-plummeted.html#:~:text=The%20S%26P%20500%20in%20December,the%20worst%20December%20since%201931.>

<sup>10</sup> <https://taxfoundation.org/research/all/federal/tariffs-trump-trade-war/>

<sup>11</sup> <https://taxfoundation.org/research/all/federal/tariffs-trump-trade-war/#:~:text=China%20has%20responded%20to%20the,tax%20of%20nearly%20%2411.6%20billion.>

<sup>12</sup> <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/january/president-trump-approves-relief-us>

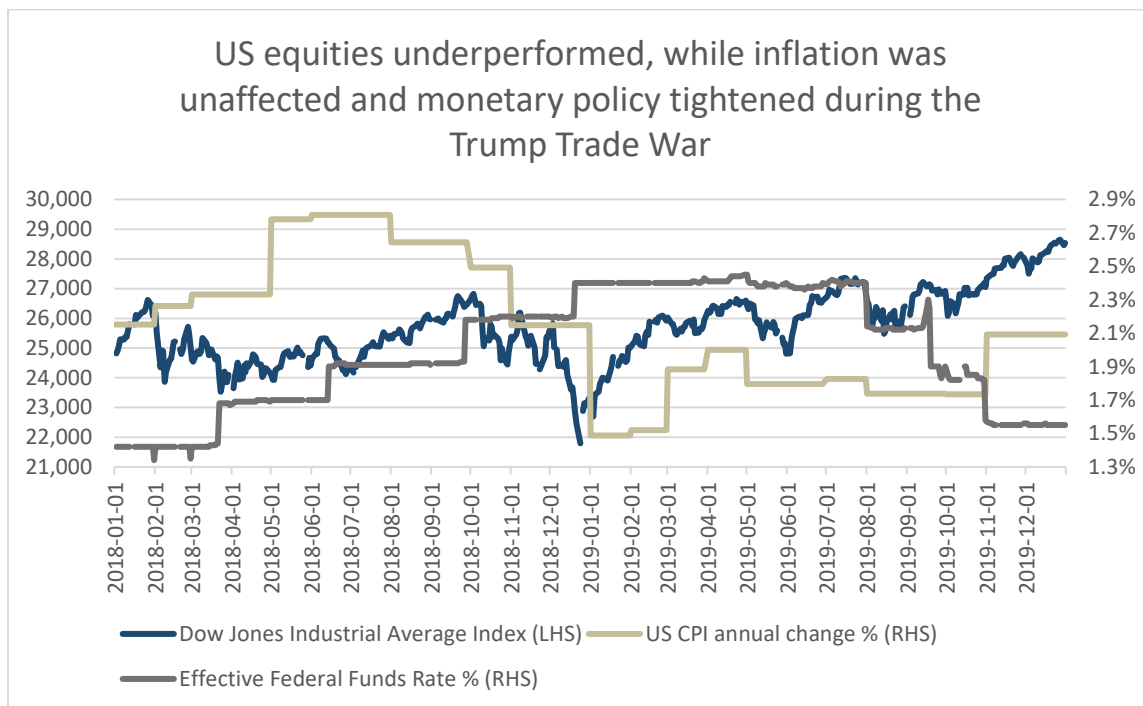
<sup>13</sup> <https://trumpwhitehouse.archives.gov/briefings-statements/president-donald-j-trump-addressing-unfair-trade-practices-threaten-harm-national-security/>

<sup>14</sup> <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/june/ustr-issues-tariffs-chinese-products>

<sup>15</sup> <https://trumpwhitehouse.archives.gov/briefings-statements/statement-president-regarding-emergency-measures-address-border-crisis/>

<sup>16</sup> <https://trumpwhitehouse.archives.gov/briefings-statements/president-donald-j-trump-secures-historic-deal-mexico-combat-crisis-border/>

- 25% on 1,333 products from China, added another 25% on 818 products with an annual trade volume of \$34bn, and another 25% on another 279 products valued at \$16bn, added another 10% on 6,031 products of the value of \$200bn
- On 13 August 2019, Trump announced a 10% tariff on \$300bn worth of China imports beginning in September 2019 and included products such as cell phones, laptop computers, video game consoles, certain toys, computer monitors, and certain items of footwear and clothing.<sup>17</sup> 4 days later China retaliated by reducing agricultural imports from the US, but this lasted only for a year, as an agreement was reached in 2020 to ramp up US agricultural imports into China<sup>18</sup>



Source: FRED St. Louis

<sup>17</sup> <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/ustr-announces-next-steps-proposed>

<sup>18</sup> <https://fas.usda.gov/data/china-highlights-2022-record-agricultural-trade-prc#:~:text=In%202022%2C%20the%20total%20value,U.S.%20agricultural%20and%20related%20exports.>

## How does 1929 compare to today? The Biden Tariffs

On 14 May 2024, the Biden administration introduced new tariffs and hiked existing tariffs on several Chinese products worth an estimated \$18bn in imports compared to \$537bn in total imports from China<sup>19</sup>. Similar to Trump, Biden argued that China engages in unfair competition, such as requiring shared ownership when US companies want to sell their products in China, including technology license agreements and outright IP theft. The main difference to Trump is that Biden does not target imports from any country other than China, and hikes tariffs to such a level that it makes it impossible for China to sell these goods to the US. Since Biden took office the US trade deficit worsened significantly. However, last year it improved by the largest amount since the Global Financial Crisis, especially with China, as the deficit shrank to the lowest since 2010. The large trade deficit on advanced technology products is being tackled with the CHIPS Act, as most of these imports relate to chips from Taiwan, South Korea and Japan. Overall, the deficit is still close to 3% of US GDP, and while it shrank with China, it grew with other countries, such as Europe, Mexico and Vietnam.

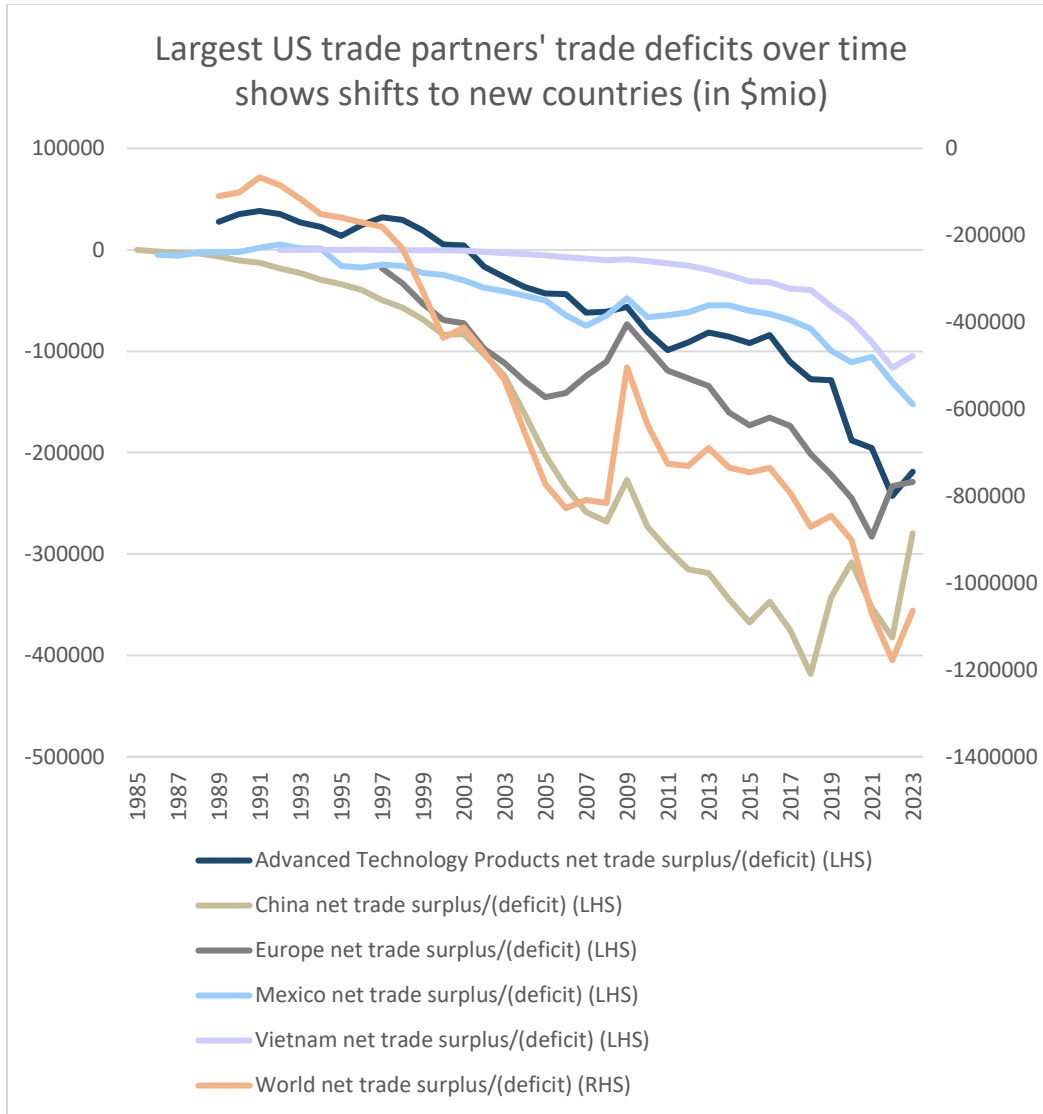
### 2023 Biden tariffs

- Chinese EV tariffs hiked from 25% to 100% in 2024
- Chinese semiconductor tariffs to be hiked from 25% to 50% by 2025
- Chinese steel and aluminum tariffs hiked from 0-7.5% to 25% in 2024
- Chinese lithium-ion EV battery tariffs hiked from 7.5% to 25% in 2024 & lithium-ion non-EV battery tariffs to be hiked from 7.5% to 25% in 2026
- Chinese battery parts tariffs hiked from 7.5% to 25% in 2024
- Chinese natural graphite and permanent magnet tariffs hiked from 0% to 25% in 2026, other critical mineral tariffs hiked from 0% to 25% in 2024
- Chinese solar cell tariffs hiked from 25% to 50% in 2024
- Chinese ship-to-shore crane tariffs hiked from 0% to 25% in 2024
- Chinese syringes and needle tariffs hiked from 0% to 50% in 2024
- Chinese PPE tariffs hiked from 0-7.5% to 25% in 2024, rubber medical and surgical glove tariffs to be hiked from 7.5% to 25% in 2026

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<sup>19</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/>

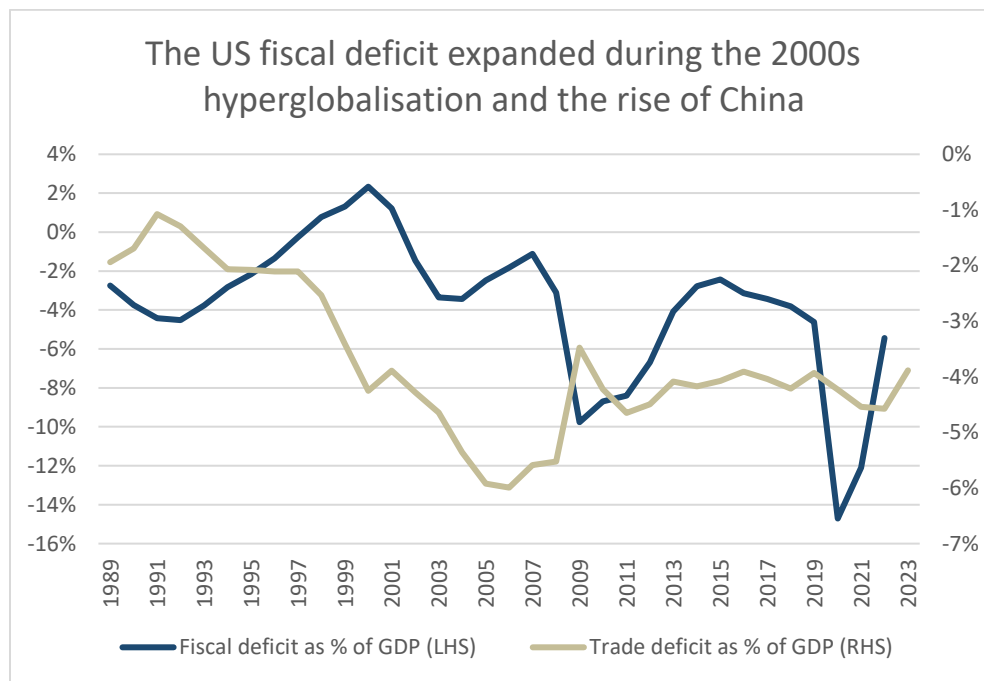




Source: US Bureau of Economic Analysis

## How does 1929 compare to today? Trump 2.0

During Trump's 2016 election campaign, Trump routinely said to impose a 45% tariff on all Chinese imports.<sup>20</sup> However, in the end the result was much more measured and targeted. Now, once again we hear Trump saying to impose a 60% tariff on all Chinese imports and a flat out 10% tariff on all imports<sup>21</sup>. This would make it appear much closer to a repeat of the Smoot-Hawley Act and the resulting Great Depression. But this is so far only campaign talk, and these rates are not specifically mentioned in Trump's official campaign videos.<sup>22</sup> Therefore, it could be expected that the approach of enacting these tariffs will be through negotiation and gradually as has been done during Trump's first term. Also important to note, there is a substantial difference to 1929, as the US has a large trade deficit now, while it had a trade surplus in 1929. This suggests that something is indeed not quite fair in the eyes of the US...



Source: FRED St. Louis

<sup>20</sup> <https://www.reuters.com/article/idUSKBN1F62SQ/>

<sup>21</sup> <https://www.ft.com/content/d44a3f1d-0fc0-4b70-a158-5a674e9ef6de>

<sup>22</sup> <https://www.donaldjtrump.com/agenda47/agenda47-president-trumps-new-trade-plan-to-protect-american-workers>, <https://www.donaldjtrump.com/agenda47/agenda47-cementing-fair-and-reciprocal-trade-with-the-trump-reciprocal-trade-act>

## How does 1929 compare to today? Retaliation

While there are many structural similarities to 1929, there are also important differences. How could retaliation ultimately play out?

1. Back in 1929, the World Trade Organisation (WTO) didn't exist. This makes the implementation of tariffs harder and instead of outright retaliation could lead to a solution via the WTO. If the WTO rules against the US, it could also lead the US from exiting the WTO, making the organization obsolete.
2. How can China specifically retaliate? China is not importing that much from the US (apart from chips & technology, which they need, and agricultural goods, which can be replaced) and hence has very little room to retaliate. Back in 2018/19 China focused on agricultural good, slashing agricultural imports in half in a year. This was only a short-lived retaliation, as recently agricultural imports from the US hit a new high of \$36.4bn<sup>23</sup> – that's still half of the money the US makes annually from tariffs on China, hence the US could always compensate their farmers. At the same time, given the rapid increase in these imports, China is likely using this as a weapon in the future.
3. At the same time and as a logical result, there will be nationalism across the world. Governments would use measures other than tariffs, such as making it harder for foreign companies to operate in their country, which China and the US are already doing. This can happen without any WTO intervention as it is harder to prove, but it feels unlikely to happen between the US and its Allies.
4. Finally, imports from China appear to be diverting through Mexico and Vietnam to reach the US<sup>24</sup>. These loopholes are difficult to close but could be done risking an entire global trade collapse. No matter whether Biden or Trump wins the next election, both will only serve one term and would not need to worry about re-election, hence could enforce tariffs much more aggressively.

This leads me to my final question: Is China strong enough to face the US in a trade war escalation?

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<sup>23</sup> <https://fas.usda.gov/data/record-us-fy-2022-agricultural-exports-china>

<sup>24</sup> <https://www.hinrichfoundation.com/research/article/sustainable/global-supply-chain-reshuffle/>

## How does 1929 compare to today? Will China become the next Superpower?

There are a lot of indicators that point towards China becoming the next Superpower. I have argued in favour of it myself in the past<sup>25</sup>, but also against it due to the US's edge on innovation and technology<sup>26</sup>. While the table posted at the very top in the introduction could point towards China becoming the next Superpower, China is in a much worse position than the US was in the 1930s. China's total debt (both government and private) stands at 287.8% of GDP compared to 274% in the US in 2023. And while China has the world's largest trade surplus of \$823.2bn in 2023, China is also one of the most exposed countries to trade, as trade as a percentage of GDP makes up 38.1% compared to 27.4% in the US in 2023. This is why a trade war can make sense for the US, as from all the countries around the world, the US appears to have the least to lose. If you then include the miserable demographics of China with an economy highly levered towards real estate, there is little optimism for China left. Structurally, the US will also always have an advantage due to the 2<sup>nd</sup> amendment, which makes the average US citizen a better soldier, high US immigration, which results in economic growth, and perhaps even the need to own a car, which is an important consumption good. China, on the other hand, does not allow guns for its average citizens, has very little immigration and one of the world's worst demographics, and because of the strong infrastructure, many citizens don't really need a car.

### The US has outperformed China by a wide margin in 2023

| Indicator from 2023                           | US     | China  | US change to 2022 | China change to 2022 |
|---|--------|--------|-------------------|----------------------|
| GDP (\$trn)                                   | 27.36  | 17.7   | 7.5%              | -1.5%                |
| Govt. debt/GDP (%)                            | 122.3% | 83.6%  | 1%                | 6.6%                 |
| Total debt/GDP (%)                            | 274%   | 287.8% | -10%              | 15.8%                |
| Trade % of GDP (%)                            | 27.4%  | 38.1%  | -                 | -                    |
| Trade surplus/(deficit) (\$bn)                | -773.4 | 823.2  | *22%              | -6.2%                |
| US-China trade surplus/(deficit) (\$bn)       | -279.4 | 279.4  | *23%              | -23%                 |
| US-EU/China-EU trade surplus/(deficit) (\$bn) | -158   | 291    | *-20.3%           | 5.4%                 |

\*when a negative number is more negative in 2023 than 2022, the change will be negative in % as well and vice versa

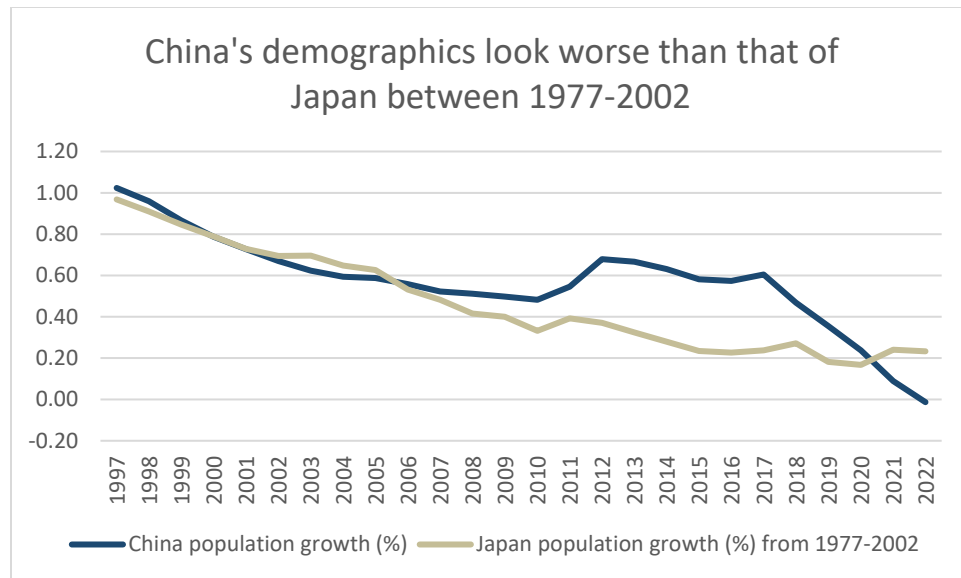
Source: World Bank, IMF, US Bureau of Economic Analysis, Intereconomics, European Commission

These numbers are from various sources and hence might not be 100% accurate and are subject to FX rates

<sup>25</sup> <https://www.aozorastep.com/1q2023>

<sup>26</sup>

<https://www.aozorastep.com/Semiconductors%20and%20how%20the%20trade%20war%20with%20China%20could%20lead%20to%20a%20war%20on%20raw%20materials%20in%20a%20bi-polar%20world.pdf>

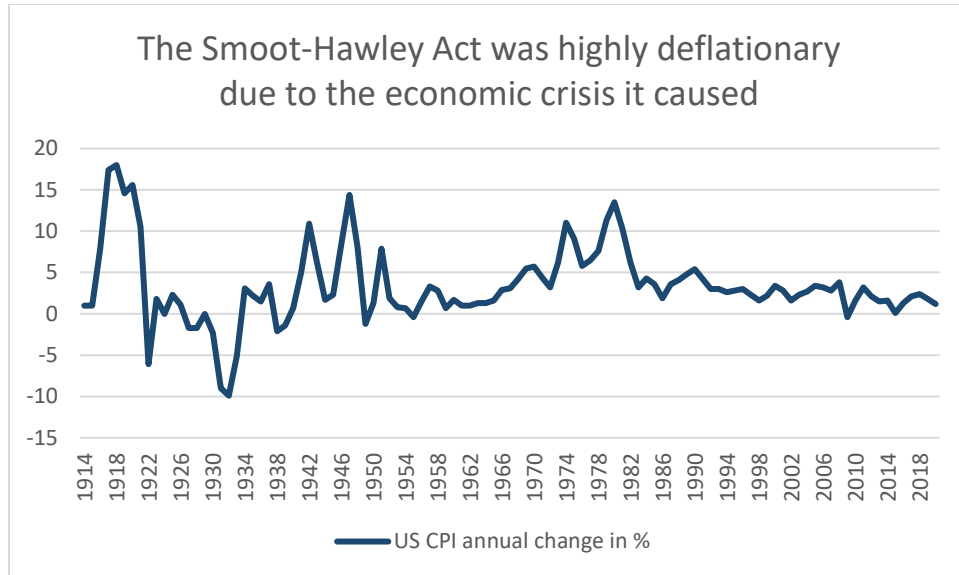


Source: World Bank

## Conclusion

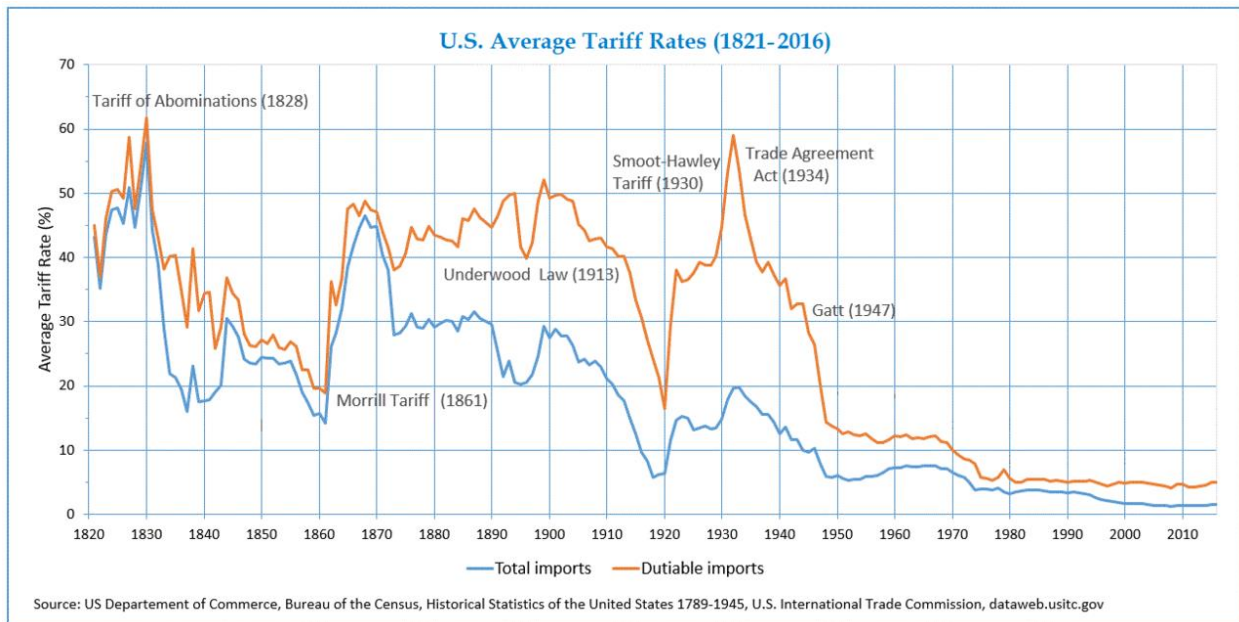
Will there be another trade war to a degree as we have seen under Hoover with the Smoot-Hawley Act? I think the answer to this question is no matter who sits in the White House probably somewhat yes, but it will be more gradual and includes negotiation and could hence be milder despite the larger degree of globalization now compared to the 1930s. The big picture parallels to the 1920s are very similar to today and although a trade war is a lose-lose for everyone, for the US it could mean losing relatively less than its competitors, in particular China. While Europe might be hesitant to follow the US in putting tariffs on Chinese products, in part due to automotive companies like Volkswagen generating half of their profits in China, I'd expect them to follow suit in the end, as they are losing market share in China anyway. China has mulled a 25% tariff on all car imports (China imported 250k cars globally last year vs. 620k Chinese EVs exports to Europe)<sup>27</sup>, which again would be a bigger loss for China compared to Europe. Geopolitically we are now firmly positioned into Global North and Global South, which already makes global trade harder. And finally, contrary to belief, tariffs generally reduce inflation, as the resulting economic collapse is a stronger force. The US experienced deflation at -6.4% in 1930, -9.3% in 1931 and -10.3% in 1932 because of the Great Depression, and only recovered after 1932 with the election of Roosevelt and a reversal of the Smoot-Hawley Act. This conclusion would suggest buying long-duration government bonds.

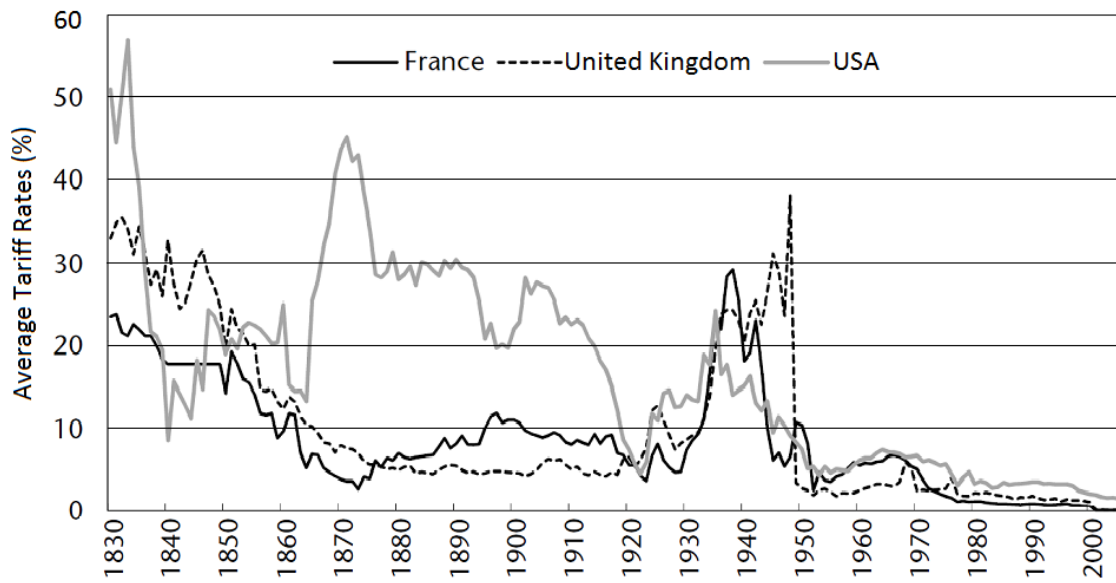
<sup>27</sup> <https://www.businesstimes.com.sg/international/china-hints-25-car-tariff-deadline-eu-probe-looms>



Source: Bureau of Labor Statistics

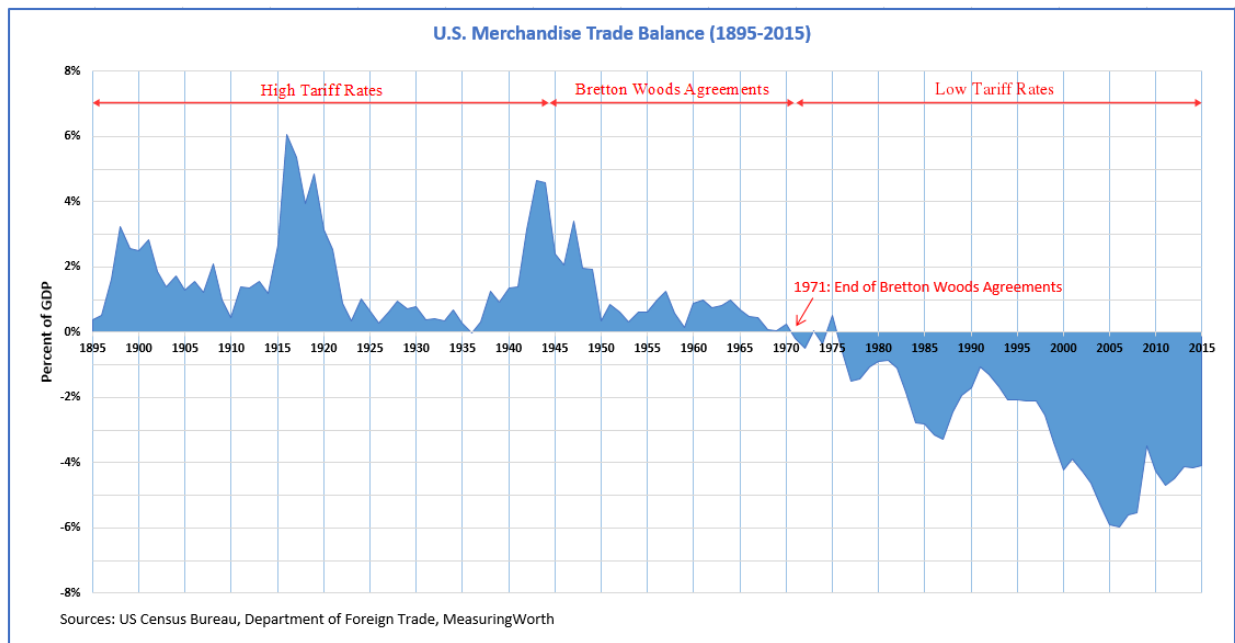
## Appendix: Chart deck on historic tariffs & trade



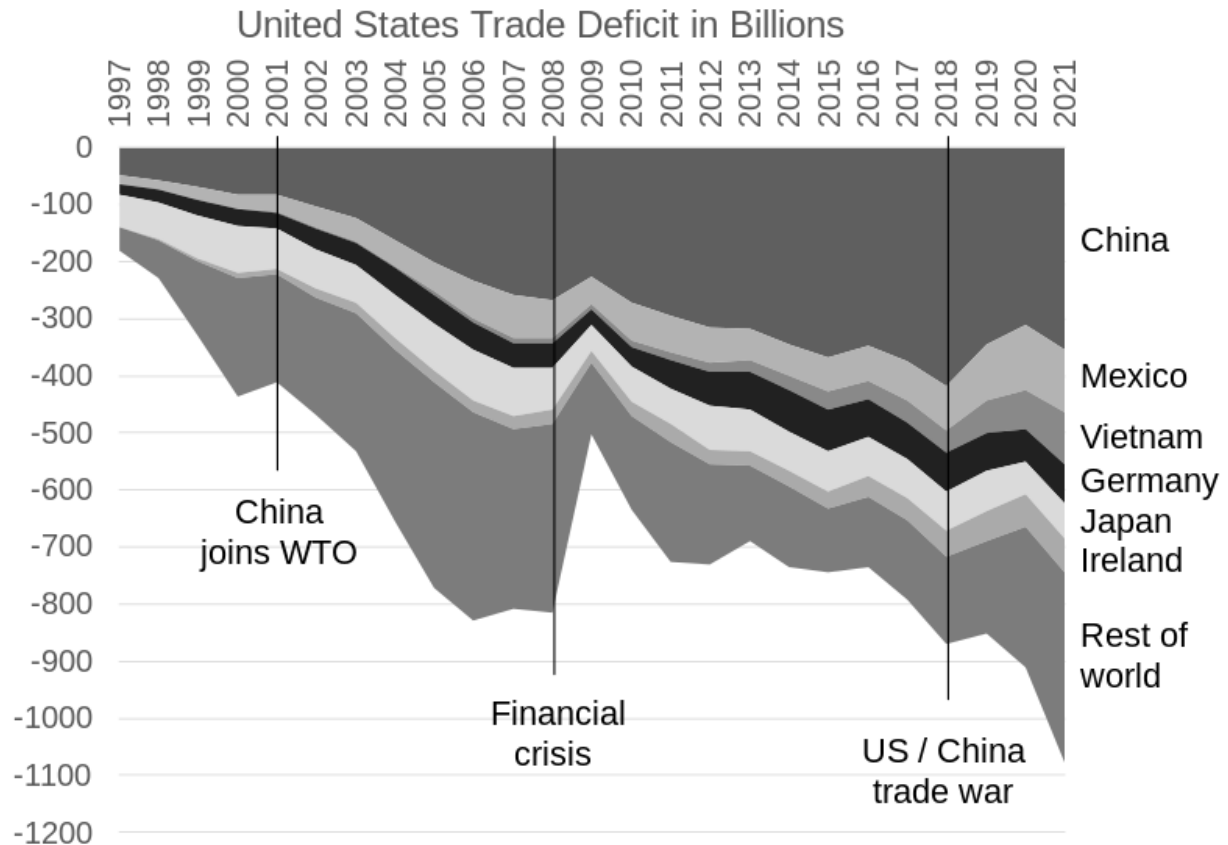


Average Tariff Rates on Total Imports, 1830-2010

Sources: Imlah, *Economic Elements*

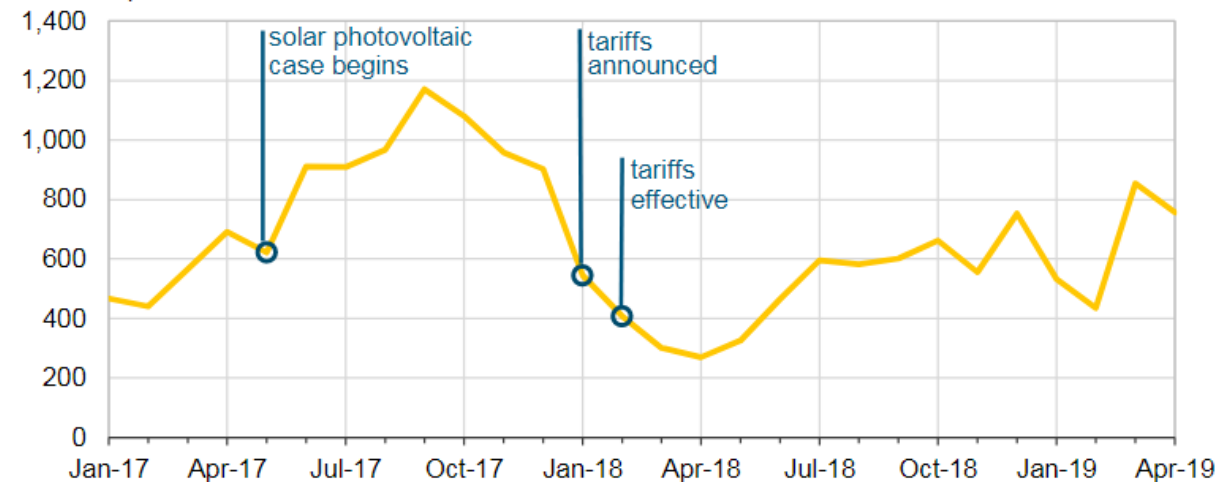


Sources: US Census Bureau, Department of Foreign Trade, MeasuringWorth



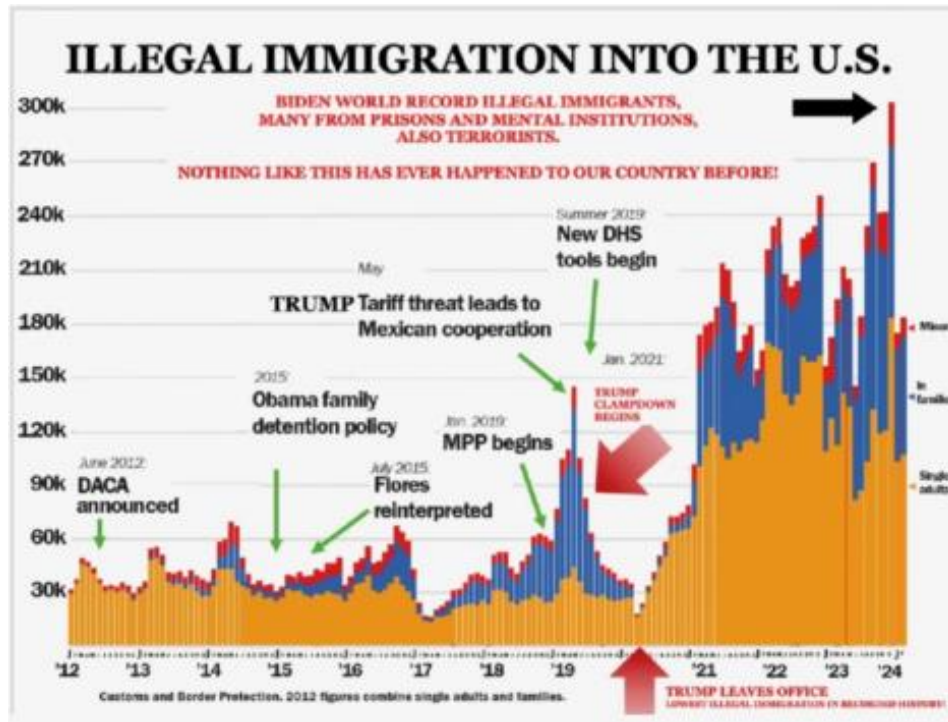
### Monthly U.S. imports of solar photovoltaic modules (2017-2019)

thousand peak kilowatts



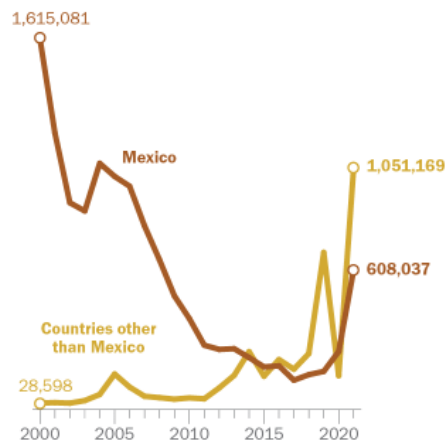
Source: U.S. Energy Information Administration, Form EIA-63B, *Monthly Solar Photovoltaic Module Shipments Report*





#### More than 1 million southwest border encounters in 2021 involved people from countries other than Mexico

*Migrant encounters at U.S.-Mexico border, by citizenship grouping and fiscal year*



Note: Beginning in fiscal 2020, annual totals combine apprehensions and expulsions into a new category known as encounters. Annual totals before fiscal 2020 include apprehensions only.

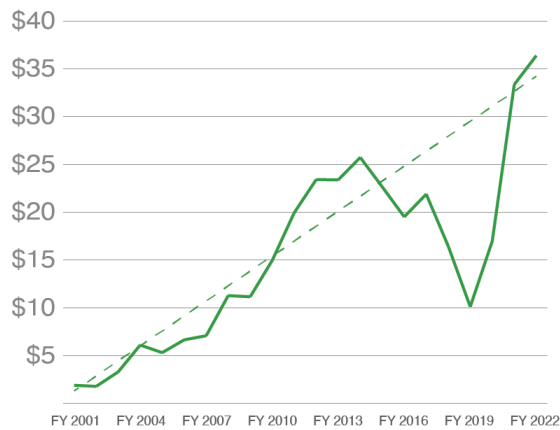
Source: U.S. Customs and Border Protection.

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## Record U.S. FY 2022 Agricultural Exports to China

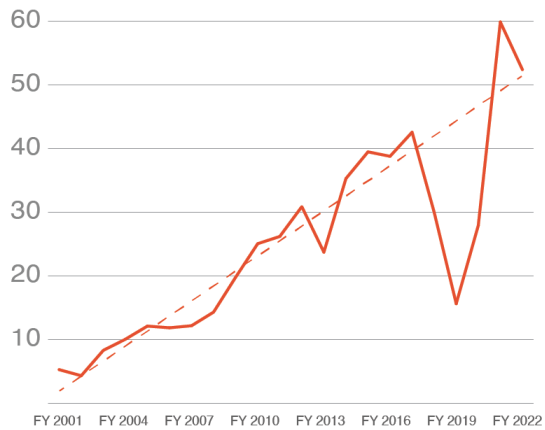
### U.S. Export Value to China

Billion USD



### U.S. Export Volume\* to China

Million MT

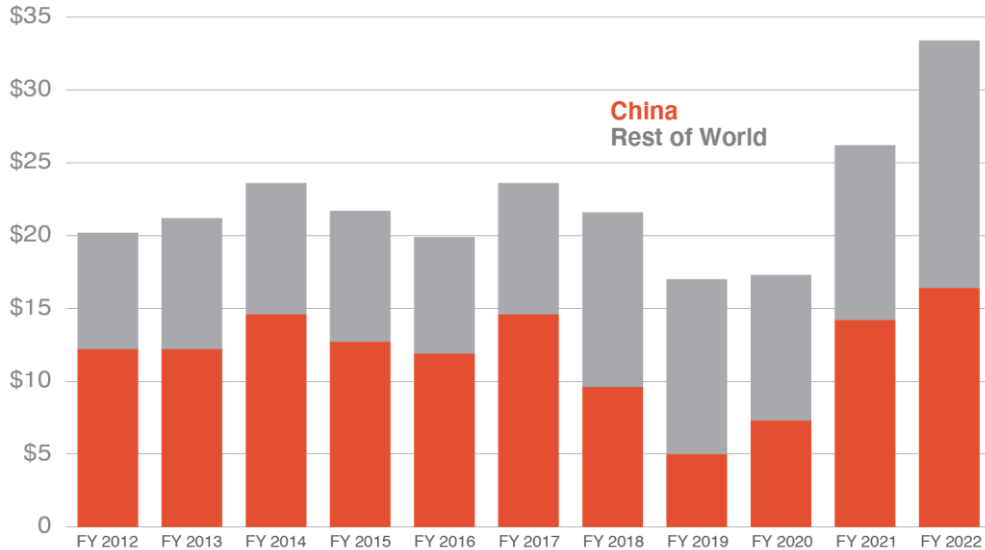


Source: Trade Data Monitor LLC.

Note: Fiscal year (FY) is on an October – September basis. For example, FY 2022 is October 2021 – September 2022. Volume\* is for all bulk grains, oilseeds, and cotton. These products typically account for greater than two-thirds of U.S. export value to China.

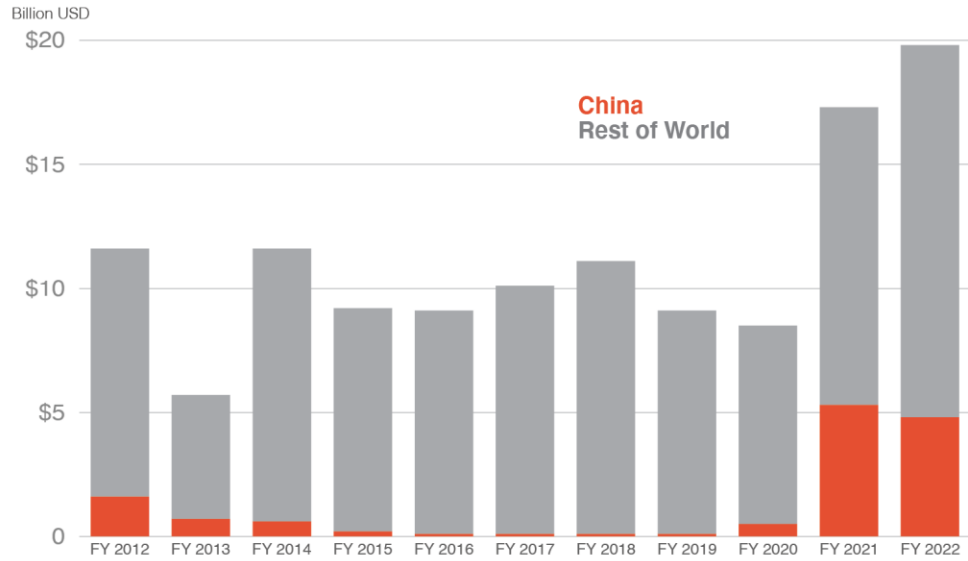
## U.S. Soybean Exports

Billion USD

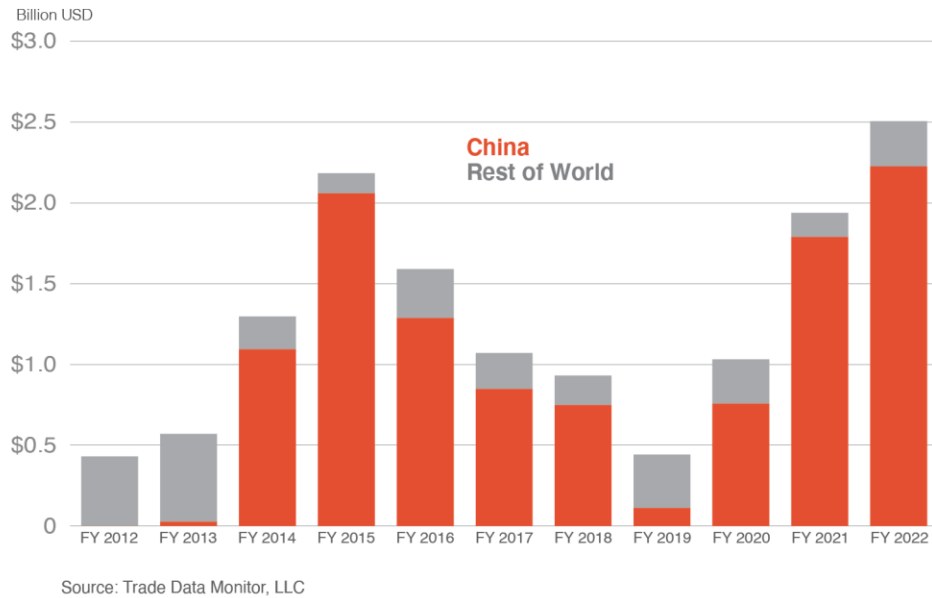


Source: Trade Data Monitor, LLC

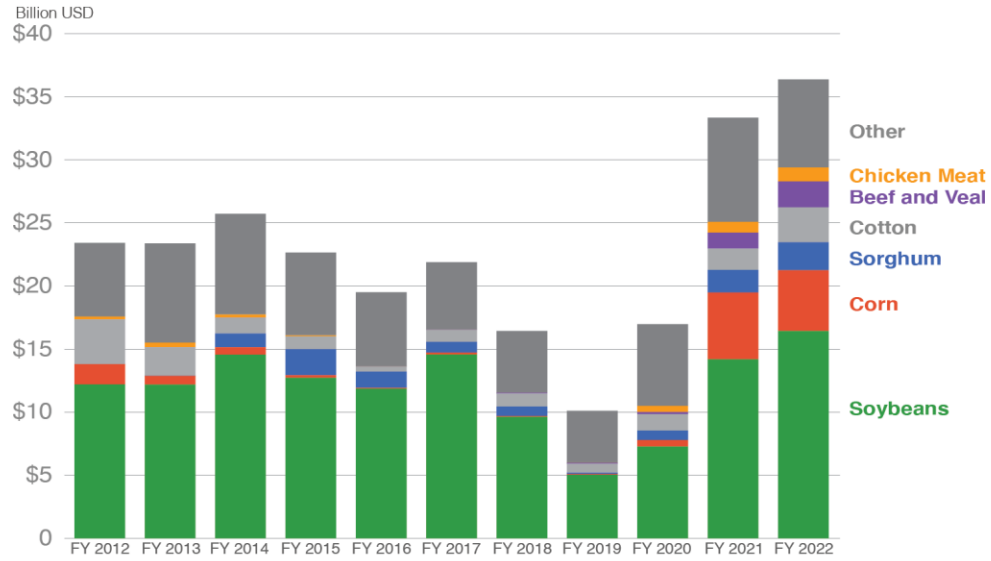
### U.S. Corn Exports



### U.S. Sorghum Exports



## U.S. Agricultural Exports to China



Source: Trade Data Monitor, LLC

