Tariffs and labour costs undermine Trump's factory-focused ambitions

Christian Bürger

At first glance, President Trump's attempts to encourage the reshoring of US manufacturing appear to be working. The President recently claimed that the US has attracted over USD 12 trillion in new foreign investment commitments in the months since he took office.

That would be a remarkable achievement and vindication of a policy that mixes the stick of tariffs with the twin carrots of deregulation and tax cuts. But the reality is more nuanced. Washington believes it is ushering in an era of rapid reindustrialisation that will rebalance its trade relationships with the world and bring millions of jobs back to American heartlands. Others are not so sure.

Critics argue that pledges of investment are not investment, and there is scepticism about what many of the promises made by corporations and governments actually amount to. And, while some high-value manufacturing sectors are likely to enjoy more rapid growth over the next decade, major barriers to the wider goal of reindustrialisation are ignored.

The Trump effect

To be clear, new investment in the US is certainly happening. In March, the Taiwan Semiconductor Manufacturing Company (TSMC) announced a USD 100 billion investment in semiconductor manufacturing in the States. Apple has committed to a USD 600 billion investment in domestic capacity. Ford, GM and Tesla are all expanding US battery production and assembly facilities.

Foreign direct investment (FDI) commitments have risen rapidly. Foreign companies have pledged to invest USD 236 billion in the US since the start of the second Trump presidency, nearly 233% more than during the same period of the Biden administration. In addition, some foreign governments have pledged significant US investment strategies as part of trade deals. Research from the Peterson Institute for International Economics (PIIE) suggests that FDI inflows may reach USD 400 billion this year, 25% higher than 2024, a substantial amount even if it falls short of Trump's lofty aspirations.

There are clear winners. Aerospace, pharmaceuticals and semiconductor production are all likely to benefit from accelerated growth over the next few years. The President's personal intervention can be a blunt but effective weapon. Trump's recent trip to the Middle East ended with a record-breaking order for 210 Boeing jets from Qatar Airways in a deal worth USD 96 billion. Meanwhile, his "Big Beautiful Bill" contains incentives for companies setting up in the US in the form of R&D expensing, interest deductions and more.

Less than meets the eye

But impressive-sounding headline figures don't tell the whole story. Trading partners, including the EU, Japan and South Korea, have all used investment pledges to secure more favourable trade deals with Washington, but what those pledges really amount to is open to question. Japan said it would establish a USD 550 billion US investment fund, while the EU suggested European businesses would invest USD 600 billion in US operations. Companies have also tried to mollify Trump - see Apple above - by pledging higher US investment.

Dig into the details, and there may be less here than meets the eye. "Pledges aren't the same as actual investments – whether from governments, trading blocs or businesses," says Dana Bodnar, economist at Atradius. "There are ambiguous timeframes and conditions that need to be met. Moreover, some pledges are basically a rebranding of investments already underway: up to 70% of recent investment pledges broadly overlap with prior plans, so they're not motivated by current trade policies."

In fact, while the President lauds the success of tariffs and trade threats, economists say the recent boom in US factory construction is largely the result of incentives contained in previous initiatives like the Inflation Reduction Act (IRA) and CHIPS Act.

These initiatives drove huge amounts of investment into sectors that previously had little presence in the US, including batteries, renewable power generators, critical minerals processing and high-end semiconductors. They continue to pay dividends, though green elements are now threatened by climate scepticism in Trump's Republican Party.

Incumbents boosted but reshoring unlikely

By contrast, the current US trade policy mix may be as much a hindrance as it is helpful to US manufacturing prospects. Growth predicted for the next half-decade is likely to be limited to a few established sectors and, in some cases, may happen despite Washington's interventions rather than because of them.

The IRA and CHIPS created new manufacturing capacity, and one factor common to all sectors set for growth is a significant existing domestic footprint. In other words, current policy favours industries that already have a strong US presence. It's far less likely to achieve a wider reshoring of industries that have largely abandoned the US as a manufacturing base.

"The US already has a strong position in sectors like high-tech goods, pharma and aerospace, and it's these that will see the highest growth over the next few years," says Bodnar. "These industries already have a solid business case for manufacturing in the US and may now take advantage of tariff policies or tax cuts to expand US operations in the mid- to long-term. For sectors without a strong presence in the US, the current policy mix may actually be a disincentive to invest."

One obvious disincentive is the uncertainty created by an erratic tariff policy, which in turn discourages long-term investment. The latest Fixed Private Investment (FPI) data shows a 3.9% year-on-year fall in the second quarter of 2025.

High wages and increased costs

Tariffs not only create uncertainty; they increase costs for businesses that have to import materials and components. That includes manufacturing input costs and the cost of the building materials and machinery needed to set up new factories.

Trump's policies may be actively working against his ambitions in another way. Labour-intensive sectors are likely to struggle to find the people they need at wages that make US manufacturing competitive. Labour shortages and skills gaps in construction and industrial workforces are exacerbated by the administration's well-publicised efforts to slash migration.

"In sectors that rely on low-paid workers, the current tariffs are not high enough to make American-made goods cost-competitive with those manufactured in most of Asia," says Bodnar. "In the case of clothing, for example, the current tariff rates will erode the cost advantage of Chinese-made T-shirts, but not those produced in Vietnam, Pakistan or Bangladesh."

Overall, we think the current policy mix is highly unlikely to spur a broad-based resurgence of US manufacturing, especially in labour-intensive sectors. While tariffs and incentives will boost some high-value industries, too many structural barriers remain for those without a strong existing US presence. In addition, many US companies that manufacture abroad are chasing foreign markets rather than exporting goods back to the US.

The upshot is that we expect industrial production growth of 0.1% in 2025 and -0.9% in 2026, much lower than our December 2024 (pre-inauguration) forecasts of 1.7% and 2.6% respectively, suggesting a muted investment environment for most sectors.

Some manufacturing progress - but no rebirth

The picture that emerges is a complex one. The Trump administration has had some success in persuading trading partners and multinational corporations to invest in US manufacturing, though benefits will mostly be limited to industries that are already well established in the country.

Tariffs have helped secure investment pledges, though these are not always what they seem. Incentives have helped, and Trump's unique presidential style may have delivered some sales success.

At the same time, Trump's tariffs have helped create an unpredictable economic environment that makes long-term investment decisions more difficult. Many businesses are waiting out the storm. The lack of an effective labour strategy and the active discouragement of immigration are reducing the appeal of the US as a base for labour-intensive industries, an unfortunate side effect for an administration promising to bring back millions of factory jobs.

Put simply, the administration's policies rather cancel each other out. There will be progress in US manufacturing over the coming years, largely spurred by existing initiatives and the expansion of well-established industries. But the dream of wholesale reindustrialisation still feels a long way away.