



360° View of New Tariffs on China

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In the fast and furious competition among presidential candidates to determine who is more protectionist than the other vis-à-vis China, President Biden has upped the ante with his recent announcement of new tariffs of \$18 billion on Chinese EVs, semiconductors, batteries, solar cells, steel and aluminum. (The current tariff of 25% on EVs will increase fourfold to 100%.)

While the center ring of this three-ring protectionist circus is EVs, the pathology of our trade predicament extends beyond any one industry has its genesis in politics, pure and simple; a media that thrives on stirring things up; and a public whose basic knowledge of economics would fill half a thimble.

Xenophobes and isolationists who would sever economic relations with China buy into the specious argument that “we don’t make anything anymore” and we need to adopt a strictly made-in-America agenda---“bring those jobs back home”. While it is true that traditionally U.S.-made products such as TVs, Levi jeans, cellphones, flatware and steel rebar are sourced from overseas, the U.S. exports over \$165 billion goods to China, including machinery, electrical equipment, vehicles, aircraft and pharmaceuticals—all high-value goods that employ thousands of Americans directly and indirectly. Additionally, when the media reports US-China trade balances, it invariably excludes our greatest strength in global commerce—services, where the U.S. registers a surplus with China of nearly \$15 billion. Travel, financial services and intellectual property are among our leading exports to China. The last is clearly the most important since intellectual property is a knowledge-based asset that a great many Chinese manufacturers incorporate in their finished products under licensing agreements with U.S. firms. Ironically, that would make many Chinese imports a U.S. export in part, as well!

Back to EVs, the Biden administration champions a “green” agenda where alternative energy is a high priority; therefore, increasing tariffs actually impedes the goal of a carbon-free planet. Figuratively speaking, it is the equivalent of a circular firing squad, since the result will be an increase in EV prices for consumers not only in the short-term but in the long-term since the price of fossil fuels will not be rising any time soon, thereby creating a disincentive for consumers to purchase electric vehicles.

One can expect China to retaliate in some form in response to the Biden administration’s latest tariff announcement, while the administration itself would be wise to keep in mind that the U.S. is 100% reliant on imports for over a dozen key minerals deemed critical by the U.S. government, with China being the primary import source.

Like it or not, the US and China need one another to address serious global problems such as drug trafficking, terrorism, fentanyl, transnational crime, and environmental degradation. It would be an enormous mistake for America’s national and economic security to be jeopardized due to political expediency. Tariffs, indeed, have consequences.
