TRUMP OR HARRIS: TO CHALLENGE CHINA, THE NEXT PRESIDENT SHOULD FIX TRADE

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The following is the fifth in a series on the challenges facing the next US presidential administration in managing the most crucial Indo-Pacific relationships. See part one in the series here, part two here, part three here, and part four here.

In the September presidential debate, former President Donald Trump and current Vice President Kamala Harris had sharply contrasting views on issues ranging from energy, immigration, and foreign policy toward China and the Middle East.

Yet, both agreed that tariffs were useful for the sake of US foreign policy.

The debate started with tariffs, and the two candidates went back and forth on the likelihood that the new tariffs would cause inflation. By the end of the debate they returned to their discussion on tariffs, where they disagreed on which sectors they should impose tariffs and which countries should be targeted, but agreed that tariffs were useful. Regardless of the detrimental consequence of tariffs, including inflation, the candidates emphasized the need to impose them to protect critical sectors and spur domestic manufacturing.

The debate clearly demonstrated a new era in the United States, where the two parties are recalibrating the balance between national security and economics.

Biden's trade war and Trump's

The United States has a growing list of grievances about Beijing's mercantilist practices. These include widespread market-access restrictions, from equity caps on investment to regulatory harassment; pervasive subsidies directed at national champions that tilt the competitive playing field against foreign firms in China and in third markets; and widespread forced technology transfer and intellectual property theft. To protect domestic industries vital to national security and incentivize China to change its practices, both the Trump and Biden administrations have imposed tariffs on Chinese products.

In March 2018 President Trump announced the administration would impose a 25% tariff on imported steel and a 10% tariff on imported aluminum. Following the announcement, the Trump administration imposed several rounds of tariffs on steel, aluminum, washing machines, solar panels, and goods from China, impacting more than $380 billion worth of trade at the time of implementation and amounting to a tax increase of nearly $80 billion.

President Biden said in a 2019 speech: "President Trump may think he's being tough on China, but all he has delivered is more pain for American farmers, manufacturers, and consumers." Yet, the Biden administration has largely upheld existing tariffs, with some exceptions. These include suspending certain tariffs on European Union imports, replacing tariffs with tariff-rate quotas (TRQs) on steel and aluminum from the EU and UK, as well assteel from Japan, and allowing tariffs on washing machines to expire after a two-year extension. In May 2024, the Biden administration announced additional tariffs on $18 billion of Chinese goods, resulting in a tax increase of $3.6 billion.

Increase in Tariffs across Strategic Sectors Announced on May 14

INCREASE IN TARIFFS ACROSS STRATEGIC SECTORS ANNOUNCED ON MAY 14

STRATEGIC SECTORS	INCREASE IN TARIFF RATE UNDER SECTION 301
STEEL AND ALUMINUM	INCREASE FROM 0-7.5% TO 25% IN 2024
SEMICONDUCTORS	INCREASE FROM 25% TO 50% BY 2025
ELECTRIC VEHICLES(EVS)	INCREASE FROM 25% TO 100% IN 2024
BATTERIES, BATTERY COMPONENTS AND PARTS, AND CRITICAL MINERALS	-TARIFF RATE ON LITHIUM-ION EV BATTERIES WILL INCREASE FROM 7.5% TO 25% IN 2024, WHILE THE TARIFF RATE ON LITHIUM-ION NON-EV BATTERIES WILL INCREASE FROM 7.5% TO 25% IN 2026. -THE TARIFF RATE ON BATTERY PARTS WILL INCREASE FROM 7.5% TO 24% IN 2024.
SOLAR CELLS	INCREASE FROM 25% TO 50% IN 2024
SHIP-TO-SHORE CRANES	INCREASE FROM 0% TO 25% IN 2024

AUTHORS' COMPILATION DERIVED FROM WHITE HOUSE FACT SHEET

President Biden’s trade policy differs from the former president’s in that he seeks to increase production and jobs in a select group of emerging high-tech industries. Additionally, he has tightened trade restrictions with China under the "Small Yard, High Fence" approach, limiting the sale of American technology to Beijing while directing federal subsidies to US manufacturers competing with Chinese manufacturers. Another key difference in President Biden’s trade policy is that his strategy relies on bringing international allies together to counter China through a mix of domestic incentives and potentially coordinated tariffs on Chinese goods.

Weighing Washington’s tariffs on Beijing

Among the reasons countries impose tariffs are to protect domestic industries vital to national security, incentivize foreign countries to change their practices, and to raise revenue. The Trump and Biden administrations both stated they imposed tariffs for the first two reasons.

The Trump administration argued that tariffs were “imposed to encourage China to change its unfair practices” as they “threaten[ed] United States companies, workers, and farmers.” Similarly, after the Biden administration announced tariff hikes on May 14, the White House announced tariff increases were designed “to protect American workers and American companies from China’s unfair trade practices,” including forced technology transfers and theft of intellectual property. The administration also pointed out China’s “growing overcapacity and export surges that threaten to significantly harm American workers, businesses, and communities.”

The biggest problem with the latest round of tariffs imposed in May is that it cannot resolve the aforementioned problems the Biden administration sought to tackle. Rather than focusing on changing China's forced technology transfers and protecting intellectual property rights, the tariff increases were more about boosting US industries.

Furthermore, doubts persist about whether tariffs truly benefit the US economy. By raising the cost of parts and materials, tariffs increase consumer prices, and reduce private sector output. This will eventually reduce the return to labor and capital, incentivizing Americans to work and invest less. There are numerous studies claiming the negative economic consequences of tariff policy. In August 2019, the Congressional Budget Office (CBO) estimated that the negative GDP effects of recent tariff increases had outweighed the positive ones and were decreasing real output by 0.3%. Meanwhile, the Tax Foundation estimated in July 2023 that the long-run effects would bring GDP down by 0.2% and total employment down by 142,000 jobs.

Another issue with the extended tariff policy is that China has evaded its impact. The US-China trade war and rising risks of investing in China prompted global companies to adopt a "China Plus One" strategy, diversifying production into ASEAN countries. These nations became attractive alternatives to replace China for their relatively young populations, free trade agreements with key players, and prime geographical locations. However, it wasn't just American firms relocating to Southeast Asia—Chinese manufacturers also shifted operations there. Currently, Chinese firms attempt to bypass tariffs by selling components to manufacturers in ASEAN, where the final goods will not be regulated by the US. In the electric vehicle industry, Chinese companies are rapidly expanding into Southeast Asia, making it difficult to regulate them under current trade policies.

Finally, US tariff policy and protectionist actions are also harming allies. Successive administrations have pursued protectionism, from Trump's steel and aluminum tariffs to Biden's Inflation Reduction Act subsidies. Unfortunately, these protectionist policies are also hurting the US allies. The steel and aluminum tariffs also affect countries like the European Union and Japan, while the subsidies from the Inflation Reduction Act have created challenges for US allies trying to conduct business in the US. In response, countries like Japan, the EU, Canada, Australia, and others have adopted their own domestic subsidies.

Getting trade policy right

Rory Linehan has stated that the United States' greatest strength comes from its network of allies, supported by shared values such as democracy, human rights, and a market-driven economy. Now there are looming concerns regarding the latest round of US tariffs on China. Not only is it incapable of resolving issues like forced IP transfer and IP theft, but there are doubts about its ability to enhance US economic competitiveness, supply-chain resilience, and the overall US economy. China has found ways to bypass existing tariff regulations by shifting its manufacturing sector to countries like Vietnam, Hungary, and Mexico, where it can avoid regulations, while the US tariffs and protectionist policies are hurting American allies.

If the new administration aims to achieve its stated goal of changing China's unfair trading practices, the new president should consider reviewing its trade-distorting policies and reigniting a policy of market-driven economic integration with its allies.

To regulate China's non-market, export-driven model of growth, the administration should work through international organizations and institutions, just as it did during the recent G7 meeting in Italy. Through channels like the G7, the WTO, and the OECD, the US could build an international coalition demanding that Beijing change direction. If those efforts prove ineffective, the administration could authorize collective action to rein in China's exports while simultaneously revitalizing the market economy.

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