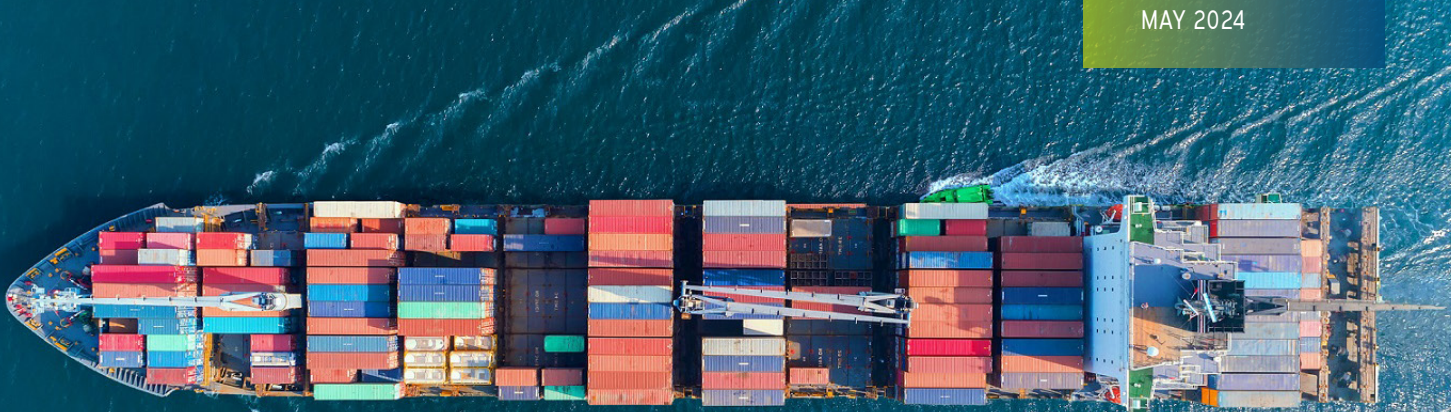


US Trade War with China Escalates

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Introduction

The Biden administration announced a new round of tariffs on approximately \$18 billion dollars of Chinese imports on May 14, 2024. The administration is framing the tariffs as a means to protect strategic sectors and supply chain resiliency.¹ Secretary of the Treasury Janet Yellen, who recently returned from a visit to China, previewed the tariffs on the day before their official announcement. Yellen stated, "I've been clear in my engagement with the Chinese that we believe there needs to be a level playing field for competition, and that we have particular concern about clean energy, semiconductors and areas where China has, through its policies, encouraged so much over capacity."² The Biden administration has been keen to emphasize that the tariffs are focused on specific areas of concern rather than being broad-based, or as Yellen phrased it, "a more strategic way."³

The White House statement on the new tariffs carefully connected each tariff to recent Congressional spending bills as a way to signal that these sanctions are indeed focused and narrow (see Figure 1).⁴ "Today's actions to counter China's unfair trade practices are carefully targeted at strategic sectors and the same sector where the United States is making historic investments under President Biden to create and sustain good paying jobs."⁵ The White House also used the opportunity to accuse China of unfair trade practices.⁶ "Furthermore, these same non-market policies and practices contribute to China's growing overcapacity and export surges that threaten to significantly harm American workers, businesses and innovation."⁷

¹ Source: White House, "Fact Sheet: President Biden Takes Action to Protect America's Workers and Businesses from China's Unfair Trade Practices," May 14, 2024.

² Source: Reuters, A. Shalal et al., "Yellen Says Chinese Response Possible on Expected US Tariff Action," May 13, 2024.

³ Ibid.

⁴ Source: White House, "Fact Sheet: President Biden Takes Action to Protect America's Workers and Businesses from China's Unfair Trade Practices," May 14, 2024.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

Sector	US Stimulus Package	Current Tariff	New Tariff
Steel & Aluminum	IRA* & Infrastructure	0% to 7.5%	25%
Semiconductors (Legacy)	CHIPS**	25%	50%
Electric Vehicles	IRA	25%	100%
Lithium-Ion Batteries (EV)	IRA	7.5%	25%
Lithium-Ion Batteries (non-EV)	IRA	7.5%	25%
Solar Cells	IRA	25%	25%
Ship to Shore Cranes	Infrastructure	0%	25%
Medical Products (PPEs)	CARES***	7.5%	25%

FIGURE 1
US Tariffs on Key Chinese Imports

Source: Bloomberg data March 25, 2024.

*Inflation Reduction Act (“IRA”).

**Creating Helpful Incentives to Produce Semiconductors Act (“CHIPS”).

***Coronavirus Aid, Release and Economic Security Act (“CARES”).

China’s response to the tariffs has been strident, promising to defend its “rights and interests.” An official response declared that “the US should immediately correct its wrong actions and end the additional tariff measures against China.”⁸

⁸ Source: Bloomberg, “China Vows ‘Resolute Measures’ After Biden New Tariffs,” May 14, 2024.

The Biden tariffs on electric vehicles, lithium-ion batteries and solar cells may help protect nascent US industries but they will almost surely increase the costs for US consumers. Manufacturing wages are up 4.8% year-on-year, and the manufacturing unemployment rate is 2.7%.⁹ Globalization has been linked to falling inflation not just in the US but in developing countries around the world. The potential risks for deglobalization could be higher wage and goods prices as government pursue self-sufficiency and supply chain resiliency.¹⁰

⁹ Source: FRED as of April 2024.

¹⁰ Source: IMF, “The High Cost of Global Economic Fragmentation,” August 28, 2023.

As China faces its own real estate crisis, its dependence on manufacturing and exports has increased. As Secretary Yellen noted, China has only increased its overcapacity issues by shifting all of its investment activity away from real estate to advanced manufacturing.¹¹ Secretary Yellen traveled to Europe to encourage the European Union to join the US on adding tariffs to Chinese EVs, solar panels, and semiconductors while at the same time encouraging deepening trade between the US and the EU.¹² Yellen added, “the IRA (Inflation Reduction Act) is working and we welcome similar action around the world including the European Green Deal.”¹³ However, Europe has their own auto industry to protect. For example, Germany has warned that tariffs on China would hurt German automobile companies as China might retaliate with tariffs on German car exports.¹⁴

¹¹ Source: Reuters, A. Shalal et al, “Yellen Says Chinese Response Possible on Expected US Tariff Action,” May 13 2024.

¹² Source: Financial Times, Janet Yellen Urges Europe to Join US in Chinese Exports Crackdown,” May 21, 2024.

¹³ Ibid.

¹⁴ Source: Politico, “How Germany Lost the Battle to Prevent Tariffs on Chinese Cars,” May 21, 2024.

The US-China trade wars and decoupling have already had a meaningful impact on the global economy. A variety of politicians ranging from Christine Lagarde¹⁵ to Mitch McConnell¹⁶ are on the record as saying, "Nobody wins a trade war." Yet the US and China appear to be on a path to an escalated trade war. The increased tariffs on China are part of the debate in the upcoming presidential election. Hence there may be more effects to come, including unexpected consequences for the US and Chinese economies.

¹⁵ Source: Reuters, March 7, 2018.

¹⁶ Source: Reuters, May 14, 2019.

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