Wednesday, June 26, 2024 / The end of made in China?

[HALF SECOND OF SILENCE]

[BILLBOARD]

SCORING IN—TRIANGLE TIME

NOEL: In 2018, President Trump started a trade war with China.

*<CLIP> President D. Trump, (May, 2019) We’re having a little squabble with China because we’ve been treated unfairly for many many decades, or actually a long time*

NOEL: He put tariffs on goods coming into the U.S. from China, making them more expensive.

*<*[*CLIP*](https://www.npr.org/2019/09/01/756427889/new-china-tariffs-go-into-effect)*> NPR Scott Horsley “a lot of apparel, some food products,*

NOEL: China retaliated, hit American farmers.

*<CLIP> NBC:The policies that he’s put in place and the trade war that he started have done nothing but hurt rural America. “*

NOEL: In 2020, Candidate Biden criticized the trade war

*<CLIP> Joe Biden, NPR “We’re going after China in the wrong way.*

NOEL: But then when he was elected … Biden KEPT most of the tariffs in place! And last month he EXPANDED them on certain products. In this economy!?

SCORING HARD OUT THEN BACK IN

NOEL: Coming up on Today, Explained: President Biden’s trade war explained by his chief trade warrior!

[THEME]

NOEL: I’m Noel King. Alright, so…on May 14th, the Biden administration announced it will raise tariffs on certain goods from China. Steel. Aluminum. Some medical products. And electric vehicles, among other things. I asked U.S. Trade Representative Katherine Tai WHY?

TAI: tariffs are one of our most tried and true tools. A tariff is basically a trade tool. Now in recent years the conversation around tariffs has gone from being kind of objective and wonky to being much more emotional and dramatic. And we all know why this is.

NOEL: Because tariffs make things more expensive.

KATHERINE TAI: Well, no, because, in say, the last few years, there has been a real fixation on tariffs as, something that you use to beat up on other people or other countries. And what I want to what I want to really focus people on is when you're a trade policy professional, you're looking at a tariff really in a very bloodless kind of way. A tariff is like a two by four, which you can get at the hardware store, right? Either you can swing it around and threaten people with it and bash things with this two by four, or you can use your two by fours in a strategic way in a thoughtful architectural way. And you can use a bunch of two by fours to build something really beautiful, to build something really useful, like a bridge or a fence or a house. Now, what we've done with respect to the China tariffs is to take a structure that was imposed starting in 2018,

*<CLIP> FORMER PRESIDENT TRUMP, 2018: “The word I want to use is reciprocal...*

TAI: that was built on a legal action that was, initiated here at USTR, focused on unfair trade practices of the People's Republic of China.

*<CLIP> FORMER PRESIDENT TRUMP, 2018: “When they charge 25 percent for a car to go in, and we charge 2 percent for their car to come in to the United States, that’s not good.*

TAI And that set of tariffs was imposed in response to findings that USTR made in 2018 that, China's practice of forcing technology transfer of abusing intellectual property rights, was an unfair trade practice that had damaged U.S. economic interests that we needed to counterbalance, and we needed to create, a consequence for those actions, in part also to create leverage to negotiate changes in behavior by the PRC government.

*<CLIP> TRUMP: “IF they charge us, we charge them the same thing. THat’s the way its gotta be.”*

TAI Now, what happened in 2022? On the four year anniversary of those tariffs being put in place, we received, comment from our stakeholders saying, please keep some or all of these tariffs because, they're helping to address the challenges that we're facing in the trade relationship with China. And this triggered under our section 301 statute, a process for us to review the tariffs on how effective they've been and, whether or not the PRC practices have abated and if not, what we should do about it. So as a result of that review that we started in 2022, we announced that we are going to be keeping the tariffs in place, but strategically raising them. And each one of the areas where we have increased the tariffs with respect to Chinese imports is an area that corresponds with a strategic sector that we are investing in here at home. And the intention is to bring these two elements together, the tariffs as a defensive element, to hold off negative competitive trade impacts. And then the investments kind of as an offensive policy measure to enable the United States to either, continue to grow in an area where we're competitive or to build back in areas that have been eroded over time.

NOEL: I appreciate what you're saying about using tariffs as not as a blunt tool, but as like a scalpel or two by four, your words. But tariffs do make things more expensive. And Americans are deeply concerned about high prices right now. Why isn't the why doesn't the Biden administration consider this to be a liability, especially in an election year?

KATHERINE TAI: So, let me walk folks through a little bit how a tariff works, because, I've heard this narrative quite a bit, too, and it seems very logical, and there is a certain logic to it, but it does help to understand, exactly how a tariff works, to understand that it's not a one for one. That when you put on a tariff of 5% at the border, that that means that that good when sold in the U.S. market is going to be 5% more expensive. When we have started looking back at the last five and six years of, prices in the United States, you did not see an automatic increase in prices as a result of the tariffs being put down. What we did see, though, were inflationary dynamics, especially once Covid hit. And I want to highlight there that yes, I understand the logic that if you put a tariff on at the border, that it can make prices go up. But I just want to be very, very clear. It's not a 1 to 1. And there are also a lot of instances where tariffs went on. And we have importers in the businesses in the middle tell us that for various strategic reasons they chose to absorb the cost. What I want to highlight is there is a lot going on in the international economy, in the domestic economy, that are resulting from the chickens coming home to roost because of decades of trickle down economics. And we are in the process of addressing all of those challenges.

NOEL KING: Part of the appeal of Made in China is that it's going to be cheaper than Made in America, right? That's the story of the last 30 years. The Biden administration really wants Americans to buy electric vehicles. At the same time, it's putting tariffs on electric vehicles and making it not worth it for China to come into the American market. There's some real tension there.

KATHERINE TAI: So I think this is a this is a great example of how we're in the middle of two transitions right now. We're in the middle of one transition. And when it comes to the climate, knowing that as of today, we're not going to hit our climate goals, but we can get to a place in the future where we have more tools available, we have more deployment of the technologies that we can curb the production and emissions of carbon into the atmosphere. Similarly, we are in the middle of, frankly, a supply chain and manufacturing transition. We know from our experience during the pandemic that we have lost so much of our manufacturing capability that when a crisis came and there was a set of goods that everybody in the world needed, at the same time that we found ourselves mostly helpless to be able to start making those things again. And so it's a matter of mapping these two transitions against each other. ~~But~~ I would just say that a good example is solar panels. In the early 2000 we were growing that industry. We had a lot of innovation going on here in the United States, and it was around that time that the PRC really started ramping up its industrial targeting of this sector to say, we want to focus all of our resources on becoming really efficient, on, producing a lot of these solar panels, which they did. As a result, our solar panel producers started going out of business because.

NOEL KING: Because they were cheaper.

KATHERINE TAI: Because they were cheaper. And then today, what we find ourselves in is a situation where we are 85% reliant on one country to produce our solar panels, and it is a country with whom we have a complex and increasingly tense relationship where we find ourselves then, and solar is just one example is once one country can corner that international market by artificially low prices and basically addicting us to the cheap goods that once they have that hold on us and we've stopped producing, then we've actually lost a lot of our freedoms to be able to meet our own goals, to make our own decisions. And we become entirely reliant on someone else to allow us to fulfill our goals and aspirations. once you have lost in industry, bringing it back is so much harder that we are going to need to start playing defense and offense before we lose our industries, and I'm going to bring that back to electric vehicles. Once someone else corners that global market, it also allows them to jack the prices up when they've got that monopoly, and you are completely helpless, and they can keep yanking that back and forth like a yoyo. And that kind of price volatility is part of what we have learned from the pandemic years is really detrimental to economic growth and development.

NOEL: I might come away from this thinking what you are telling the American people is: you guys got used to cheap stuff from China. It is time to get unused to it. Things are going to be more expensive. It's for the benefit of the country. Get used to it.

KATHERINE TAI: I would say it's for your benefit. What we've had for a very long time is a global trading system that has allowed us to pit our workers against each other, that rewards the behavior of exploiting workers, of exploiting the planet. And I would say it's good for all of us to wean ourselves off of that particular addiction, because if we don't, there's no sustainability to the planet or this international economy. And I think that just in the last couple of years, we've started to see what happens when things stop working. And it is a very scary place to be, but it doesn't have to be that way.

*<CLIP> PRESIDENT BIDEN: “Here’s the truth: we all do better when we all do well. It’s time to build our economy from the bottom up and the middle out, not the top down. That hasn’t worked very well.”*

TAI: And the really interesting and challenging part of being the trade representative at this time is that this means that we have to change the trade conversation instead of seeing who can produce more stuff cheaper. The question we should be really tackling right now, and we are starting to do it with our trading partners. Developed economies and developing economies alike, is what is a global trading system, where we can be building our middle classes together, where we can stop pitting them against each other and saying, there are only so many jobs, there are only so many good jobs to go around. And they're either going to be in my economy or your economy, right? That's the traditional kind of industrial policy perspective. And if we can crack the nut in the international trade conversation and figure out how can we raise standards over time as opposed to lower them, how can we build our middle classes together? That's the pathway to a newer and better version of globalization that we need to have today.

SCORING IN — Purplebutter NO DRUMS - MELODIC ONLY

NOEL: U.S. Trade Representative Katherine Tai. Coming up: Speak to the past and it shall teach thee. We do have recent data on whether tariffs make things more expensive for American consumers, courtesy Donald Trump. We’re going to fact-check Ambassador Tai a little bit.

SCORING BUMP

[BREAK]

[BUMPER]

NOEL: I’m Noel King. I interviewed Ambassador Tai in her office in DC earlier this week, and Vox Correspondent Dylan Matthews, who frequently covers economic policy, was also there! In a suit!

DYLAN: I was excited to. To interview Ambassador Tai because she has been talking a big game, and I think implementing a big game about changing the way that the US does trade policy, that, it was not a return to the way that Obama did trade policy or Clinton did trade policy. It was more of a continuation, with the Trump administration. think I got a broader sense of sort of what's motivating her in the administration, and I think a stronger sense of just how central China is to all of their thinking on this, which you can, of course, sense from the tariffs they've imposed on them. And, some of their public comments, before. But, the number of times I asked a question that wasn't about China and got an answer that was about China, I think was really telling in terms of who they see as their main sort of challenge and what they see as, as the main, the main threat in trade for them to overcome.

NOEL: There was a sense, I got that this administration seems to be acknowledging that perhaps Donald Trump was not entirely wrong when he went hard on China.

DYLAN: Yes, I think I think that's true. And I think you can hear them say that some places, you know, there was an event recently where Ambassador Tai was asked what she thought of, of Robert Lighthizer, who was, her predecessor under the Trump administration. And, she lays out some disagreements but also says, you know, frankly,

*<CLIP> TAI AT ATLANTIC COUNCIL EVENT: “Where I find an alliance with Bob is we have to change our approach to trade. THat the world is significantly different. And the benefits here in the US are not inclusive enough.”*

DYLAN And so I think they're quite open that there was an old bipartisan consensus around, ~~sort o~~f full openness and trade, and there's a new bipartisan consensus around using tariffs and other restrictions, to try to combat China.

NOEL: You heard Ambassador Tai tell me that these new tariffs that the Biden administration is levying on Chinese goods will not necessarily trickle down to consumers? We might not pay more. There is this understanding that that a tariff is a tax on consumers. What does the data show about what we're paying?

DYLAN: So we have a lot of good studies on this very recently because of the trade war that the Trump escalated with China,...

SCORING IN—WOBBLY NEIGHBORHOOD

*<CLIP> CBS NEWS: “The new tariffs could increase prices for everything from deodorant and dog leashes to bicycles and backpacks…”*

DYLAN: So I know of at least four careful economic studies trying to estimate what economists call passthrough, which is the degree to which tariffs are paid for ultimately by the consumer. And you can have full pass through, which is consumers pay all of it, or partial pass through where consumers pay some of it. Maybe some of it gets taken out of profit margins. Maybe some of it gets eaten up in changes in the exchange rate, things like that.

*<CLIP> TRUMP: “There’s been absolutely no inflation and frankly it hasn’t cost our consumer anything, it cost China…”*

DYLAN: There's a general finding in the literature that there was complete pass through. It does seem like when Trump raised tariffs on Chinese goods, every dollar of that was paid for by American consumers.

SCORING STUTTERS OUT

And I think the economists find this a little puzzling because it's worse than theory would predict.

NOEL: hmm

DYLAN: And I don't see any reason to think that the tariffs by Biden will have a different effect in that sense. We have pretty good evidence that these are ultimately eaten up by consumers

NOEL: You wrote a very good article for Vox about how President Biden wants the American people to go electric. He wants us to drive electric cars, but he's taxing his tariff. Electric cars from China. Tell us about the tension here and what you make of this.

DYLAN: Yeah. So China has invested just a ton in getting better at building EVs. And I think every expert I've talked to on the global EV market says, that above and beyond any subsidies they get. And it's true that they get subsidies. They just have have refined this to a degree that that other countries, including the US, haven’t.

*<CLIP> NBC NEWS: “No company makes or sells more than BYD the Chinese giant taking on Tesla. Offering cars for as little as $10,000.”*

DYLAN: And that seems like it, presents an opportunity, for, for Americans if you want to transition to electric vehicles, buying cheap EVs manufactured in China seems like one way to get Americans on board. Americans like cheap stuff. They're probably not going to pay a premium for something that's environmentally better. But they might take a discount for something that's environmentally better. Understandably, the US and also Europe. And as of this week, Canada been nervous about what this means for their own, auto manufacturing sectors. And so have have imposed very significant tariffs. The biggest ones are in the US.

*<CLIP> CBS NEWS: “president BIden is taking a hard line on Chinese imports, charging a 100 percent tariff on electric vehicles…”*

DYLAN: I think from the vantage point of Detroit, it makes a lot of sense. But as you say, it does highlight this tension of there trading off, wanting to have a domestic auto production industry with wanting to accelerate the transition to EVs. And you you can't cleanly do both without giving up a little on one.

NOEL: Hm, hm. Dylan, you and I have both been reporting on the economy for a long time. And we know that there was a long standing bipartisan consensus that free trade is good. And what's more, for 80 years, the United States and much of the world has behaved like intertwining our economies, trading with other countries is going to keep us out of trouble, right? Is going to keep us from going to war with each other. We seemed to be hearing the U.S. Trade Representative argue yesterday that perhaps that thinking is out of date. It almost made me feel like we might be converging on an idea between Trump and Biden, and we might be converging in on an idea that what we were doing in the past didn't work. And it's a whole new world. We need to try something different. What do you think?

DYLAN: Yeah, I think that's right. And I think if they've said as much, I think Ambassador Tai and national security Adviser Jake Sullivan have given speeches about how they're moving past sort of trickle down economics or neoliberalism, whatever you want to call it, of of the past few decades. They're trying something new, a trade policy that puts workers first. I think people have just embraced this narrative that the last era of trade was a disaster, with a haste that I think is unwise.

SCORING IN—NEW TENSION CLEAR VISION OF FUTURE

So one thing that happened between 1990 and the present, or at least until the pandemic, was we had what economists call income convergence. So poor countries were growing faster than rich countries. They were they were coming together. And the economists who have, like, documented this, have found that it has a lot to do with trade, and the same economist who found this, found that convergence has kind of stopped since the pandemic and that that that halt has sort of coincided with this shift against trade. I think it's premature to to attribute that as the cause. But I think that gets at a real anxiety that I and a lot of other people have, which is. The US has problems, but we're a really rich country, and it strikes me as both cruel and strategically foolish to be seen to be kicking the latter away from poorer countries that want to pursue export driven growth. And I think they're their ways of squaring the circle. There's been a lot of talk about friend shoring and importing from countries that aren't China, that are friendlier to the US, But I fear this could also curdle into a more general aversion to trade, regardless of partner. And I think that would be a pretty awful thing for the world.

SCORING BUMP

NOEL: Dylan Matthews, Vox. Miles Bryan is BACK! He produced today’s episode with an assist from Victoria Chamberlin. Matthew Collette edited it. Laura Bullard fact-checked and Patrick Boyd and Andrea Kristinsdottir engineered. Thanks to Dylan and Angela in Ambassador Tai’s office. I’m Noel King. It’s Today, Explained.

[10 SECONDS OF SILENCE]