Insight

# Understanding the Latest Tariffs on China

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Over the weekend, President Trump indicated that he will be raising tariffs on $200 billion of Chinese goods from the current 10 percent rate to 25 percent. This would be the fourth time that President Trump imposed tariffs on China under Section 301, a law empowering the United States to enact tariffs in response to unfair trade practices. These new tariffs would be misguided for several reasons.

First, new tariffs will undoubtedly place even more upward pressure on consumer prices in the United States, both directly by increasing the cost of consumer goods and indirectly by increasing the cost of production. Previous American Action Forum research estimates that President Trump's tariffs thus far could increase nationwide consumer costs by nearly $38 billion per year. Assuming his latest threat materializes, the additional costs for U.S. consumers could almost double to $66 billion – an increase of over $28 billion annually.

Furthermore, while the first two rounds of Section 301 tariffs were targeted to protect technology companies in industries most susceptible to intellectual-property theft, these new tariffs would apply more broadly to consumer goods such as agriculture products, furniture, and autos. If the president takes his threat even further and applies tariffs to all Chinese goods imported by the United States, U.S. businesses will be pained the most. Nearly two thirds of imports from China are used by U.S. businesses in production. Instead of protecting U.S. industry, tariffs on China make it more expensive to produce things in the United States.

Second, every new tariff levied by the president has been met with proportional retaliation by our trade partners. To date, $131 billion of U.S. exports are facing new tariffs abroad, ranging from 5 percent to 50 percent, entirely due to President Trump's trade actions. Alternatively, the president's new tariffs have not inspired a single nation to reduce its tariffs against the United States. The president should not expect a different result moving forward.

Finally, the president's motivation for these new tariffs is built on three faulty assumptions: (1) The bilateral trade deficit with China costs the United States money; (2) Tariffs will fix this problem by reducing our trade deficit, and (3) Tariffs are responsible for a booming U.S. economy. In reality, trade is a voluntary transaction that leaves both parties better off. For instance, more than half of all imports are used by U.S. manufacturers in production. U.S. consumers also directly benefit from higher quality products inspired by international competition and increased access to goods and services provided by trade. To the second point, imposing tariffs does not directly improve the U.S. trade balance, but it does lead to product shortages, raise consumer prices, decrease domestic investment, and depress both imports and exports. By extension, tariffs depress economic growth.

Reforming Chinese trade practices is a worthwhile aim. Continuing to use tariffs to achieve this aim, however, will likely result in greater costs for the United States than benefits.