



Removing tariffs on China could ease inflation, but offers political risk

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WASHINGTON (TND) — President Joe Biden is still weighing whether to lift tariffs on Chinese products instituted during the Trump administration as inflation continues to hit Americans' pockets, a decision further complicated by the aftermath of House Speaker Nancy Pelosi's trip to Taiwan.

Many economists have advocated for the removal of the tariffs and believe it could make a dent in inflation, which is still running near 40-year highs despite recent drops. The tariffs and retaliatory measures from China impact products in sectors all over the economy, which makes things more expensive for both businesses and consumers.

The Trump administration levied the tariffs on China in hopes of getting it to back off several commercial practices that harmed U.S. businesses like intellectual property abuse and forced technology transfer. Four years after they were first put in place, experts and analysts are not seeing evidence of the tariffs having their intended effect from an economic standpoint.

From a political standpoint, lawmakers in both parties have increasingly taken an adversarial approach to China and are supportive of leaving the tariffs in place to avoid the U.S. looking "soft" toward Beijing.

The decision presents a difficult political situation for Biden and the White House, who are being criticized over both their handling of inflation and policy toward China.

But with inflation running rampant, lifting the tariffs could help the Federal Reserve in its quest to bring it back down to its goal of 2% year-over-year.

It alleviates some of the pressure on the Federal Reserve to act because the Fed's tools to combat inflation are more blunt than this. You can cause a massive slowdown in demand by increasing the cost of credit in the economy, but you risk pretty serious recession having the Fed crack down on this, so the Fed is in sort of a tough spot," said Clark Packard, a research fellow at the Cato Institute's Center for Trade Studies. "This is an area where the Biden administration can act unilaterally and take some measures to put downward pressure on prices."

Over time, removing the tariffs could drop inflation by 1-2%, according to some projections. While that wouldn't alleviate all the price pressures, it would be another step toward getting

inflation back to the Fed's preferred range and would save the average American hundreds a year.

People wearing face masks to help curb the spread of the coronavirus share a light moment as they walk by foreign shoe manufacturers on display for sale at the capital city's popular shopping mall in Beijing on Wednesday, Feb. 24, 2021. (AP Photo/Andy Wong)

It could also lead to China easing off some of its retaliatory measures, which could further push inflationary pressures downward.

"They're anxious to say goodbye to this episode, so no doubt they would reciprocate," said Gary Clyde Hufbauer, a senior fellow at the Peterson Institute for International Economics. "To a certain extent, then the administration could claim success on opening the avenue for U.S. exports to China on items which don't have a security focus. "There's a whole set of restrictions being put on anything of a high-tech or security nature, but that leaves a lot of other commerce."

Some Democrats in Congress have also started to push the White House to remove some or all of the tariffs to reduce inflation. Democratic Reps. Stephanie Murphy of Florida and Jake Auchincloss of Massachusetts wrote in the Wall Street Journal this month that both parties should advocate for the removal of tariffs to help American businesses compete in a global economy and reduce costs at home.

"Trade liberalization policies, such as removing (Section) 301 and 232 tariffs, could save the average American household almost \$800 annually—far more than the president's proposed gas-tax holiday. It's no cure-all, but for struggling American families and businesses, every dollar in price relief counts," they wrote.

In this Feb. 19, 2020, photo, police officers wearing face masks patrol at a container port in Qingdao in eastern China's Shandong Province. (Chinatopix via AP)

To address the national security concerns and protection of intellectual property in high-tech items, the U.S. could use different methods to blunt espionage or unethical practices without hitting such a wide swath of imports and exports like tariffs.

Government agencies could also more directly target Chinese or state-owned enterprises that are known to act maliciously with sanctions.

"The U.S. has a treasure trove of information about which specific companies those are," Packard said. "I would prefer a scalpel approach to the hatchet of tariffs, which history has shown that domestic consumers tend to pay the costs on the tariffs."

Pelosi's trip to Taiwan and Beijing's reaction further complicates the issue for Biden after China backed out of negotiations on several issues with the U.S., ramped up military drills surrounding Taiwan and enacted economic penalties on Taipei for hosting her.

For critics who are already wary of lifting the tariffs, it would appear the U.S. is backing off of holding Beijing accountable.

"From that standpoint of the decoupling camp, the optics of reducing tariffs on China at this time will be considered to be appeasement, abdication, complete weakness and so forth and so on, so Biden is very mindful of those potential criticisms if he acts," Hufbauer said.