Lessons Learned from US-China Trade War in the Green Energy Market Sector

US President Joe Biden announced pervasively increased tariffs on Chinese imports, including electric vehicles, steel and aluminum and solar cells, at the White House in Washington, DC May 14, 2024. Photo Credit: Susan Walsh/Associate Press

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The issue of cheaper electric vehicles entering the US Market is alarming. Image Credit: Diminishedvaluecarolina.com

Issues Involved

“We want competition with China, but not conflict,” US President Joe Biden addressed Congress during his annual 2024 State of the Union speech in early March this year. As one of the most important priorities for the Biden-Harris administration’s US National Security Strategy outlined in 2022, China, the nation defined as the sole competitor to the United States for challenging and reshaping its hegemonic rule-based international institutions and orders, undoubtedly spotlights itself on a broader global influence. On the one hand, Chinese President Xi Jinping pledged one of his ambitious foreign policy goals for China as the forerunner of the whole developing world by challenging the unipolar nature of the ‘declining’ United States hegemony by envisioning a new multipolar world order with the US-China competition at its core. On the other hand, the ‘economic miracle’ of modern China since the late 70s under “reform and open up” spearheaded by Chinese President Deng Xiaoping faces severe alleged criticisms from the West. Recently, it claimed that the issue of years-long Chinese unfair trade practices, such as dumping due to industrial overcapacity, violates agreed-upon Most Favored Nation (MFN) guiding principles for national treatment from the World Trade Organization (WTO) and results in

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mercantile expansion for world markets’ domination where China aggressively subsides its domestic industries like electronic vehicles (EVs), solar panels, and steel, and outcompetes others with market distortion.

Although President Xi dismissed the charges of China’s overcapacity issue and Chinese officials claimed better, more competitive products of steel and others made in China, the US government claims that China state-sponsored acts of subsidizing industries such as EVs, solar panels, chips, and batteries led by Beijing push more investments into the sector, especially the auto-sector where growth hits roughly 25% year-over-year in early 2023. As the investment surges in China, the net profit margin plummets, where the data shows that the whole Chinese manufacturing sector's net profit margin is below 4% in early 2024, a statistic lower than the late 2010s’ average level of 6%. Meanwhile, China’s grand property market crash led to less demand for steel and building materials as Chinese households continued saving, which combining the effects of less demand and weak net profit margin ultimately pushed the excess capacity over-invested in productions like steel, chips, and EVs into exporting globally with achieved lower prices and consequentially flooding the international market.

Since his presidency in 2020, President Biden has been examining ways to increase tariffs on imported products like Chinese EVs in an effort not only to demonstrate his political will to build up bipartisan support for being tough on China but also to win the re-election in November 2024 against his political rival, former US President Donald Trump who frequently slams President Biden’s stances on China for being too easy during his campaign trail. “China is determined to dominate the electric vehicle market by using unfair trade practices, but I


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will not let them. I promise you,” President Biden in November 2023 speaking in front of his loyal union workers from the United Auto Workers (UAW). However, President Biden’s proposed economic toughness on curbing China sparks internal divides among his officials, and his democrat allies like Sens. Sherrod Brown (D., Ohio) and Bob Casey (D., Pa) within Congress, each running for re-election in 2025, warned him about lowering tariffs on Chinese imports. For one thing, President Biden boasted his historic political achievement in channeling billions of dollars into investment for reviving the capabilities in innovation, manufacturing, and research for American semiconductors, critical minerals, batteries, and electric vehicles through the CHIPS and Science Act, Bipartisan Infrastructure Law, Defense Production Act, and the Inflation Reduction Act to combat the peril of deteriorating climate change and show toughness on China, two of his campaign promises. For another thing, within President Biden’s administration, Treasury Secretary Janet Yellen and Commerce Secretary Gina Raimondo shared broader concerns about achieving a strategic outcome on curbing the inflation for the one seen in 2022, the highest US inflation point in the past four decades, if President Biden decided for setting up higher tariff rates on $360 billion of Chinese imports already being levied heavily under the former Trump administration trade policy with China. While it is true that increased tariffs on Chinese imports will worsen the existing inflationary situation by pushing it higher as the Federal Reserve economists indicated the 25% tariff rate increase in all Chinese imports would bring about 0.4 point increase in the US Consumer Price Index (CPI), President Biden’s trade representative Katherine Tai and others who become increasingly hawkish on China and reluctant to tolerate steps that make Chinese imports cheap in Capitol Hill maintain the status quo to reshape its economic behavior. With the upcoming 2024 US presidential election drawing near, President Biden faces a tough political decision to ensure his re-election in November while maintaining the interests of his co-working allies and officials in Washington.

While the issue of how tough the next US President or leader should face in the coming clash for global supremacy with China is subject to the debate that lasts for decades, the involvement with the Chinese market from Wall Street seems to help China rise, fueling up the divide between the dove and the hawk. On April 18th, a congressional investigation conducted by the House Select Committee on the Chinese Communist Party reported that American financial institutions, such as BlackRock and MSCI, invested billions of American retirement savings and other investments to buy shares in index funds that consist of dozens of blacklisted Chinese companies condemned by the US government on strengthening the modernization of China’s military power and

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engaging in human right abuses.\textsuperscript{10} The report points to alleged 63 Chinese companies such as “Aviation Industry Corporation of China, an aerospace and defense conglomerate, genomics company BGI Group, and Qihoo 360, an Internet-security firm.”\textsuperscript{11} While both BlackRock, the world’s largest asset manager, and MSCI, a compiler of stock indexes, acknowledged their investment activities that capitalized on Chinese companies via U.S. funds, no violations of law have been found and charged against both firms.\textsuperscript{12} MSCI said that their moves on investing in China’s A-shares that are trading in mainland Chinese stock exchanges in Shanghai for instance, backboned by other institutional investors, are driven by the Chinese market reform, a decision that has been consulted with global investors and supported by their inclusion criteria onto the Chinese market.\textsuperscript{13}

**President Biden Called for Rising Tariff Rates on Chinese Steel and Aluminum**

During a swing-state visit on April 17\textsuperscript{st}, President Biden called for raising tariffs on a series of imports of aluminum and steel from China, embarking on a broad protectionist step engaging with Beijing. After careful consultations with the administration study on raising tariff rates on a list of Chinese exports such as solar panels, electric vehicles, steel, and batteries, President Biden asked his trade officials to increase the current tariff rate on Chinese steel and aluminum from 7.5\% to 25\%, a move which is additional to 25\% tariff on Chinese steel and a 10\% duty on aluminum imposed under the former Trump administration.\textsuperscript{14} However, the import of 598,000 tons of Chinese steel into the US in 2023 has already fallen 8.2\% compared to 2022 based on reports from the U.S. Census Bureau and American Iron and Steel Institute; while in comparison Mexico and Canada remain the top two trading partners with the US on steel imports of 6.9 million tons and 4.2 million tons respectively.\textsuperscript{15} The sign-on calling for rising tariff rates on Chinese imports from the US will initiate concerns over other trading nations with the US since re-routing of Chinese imports can ship their goods into Mexico and export them later into the US with virtually zero tariffs.

Amid the US-China trade dispute over the antidumping probes, China on April 19\textsuperscript{st} announced its retaliatory move to increase the tariff rate on US exports of chemical propionic acid, a pungent chemical added to animal feeds to prevent mold and in developing pesticides, herbicides, and drug development, to 43.5\%.\textsuperscript{16} Compared with the global market of chemical propionic acid, it accounted for $1.3 billion in trade for 2022, as Straits Research shows that China consumes roughly a quarter\textsuperscript{17} of worldwide production.

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President Biden Announced Sweeping Tariff Rates on Other Chinese Imports

President Biden announced sweeping tariff rate increases on a series of Chinese imports including steel, aluminum, semiconductors, electric vehicles, lithium-ion EV/non-EV batteries, critical EV minerals, solar cells, ship-to-shore cranes, and medical equipment at the White House on May 14th. The move, driven by the 2024 US presidential election race against former President Donald Trump, signifies further commitment to the President’s one of the long-haul US foreign policy goals of building worldwide alliances on countering China’s unfair trade practices including intellectual property theft, domestic aggressive industrial policies in heavy subsidies in legacy sectors in semiconductor, critical EV minerals and steel, and dumping out of domestic overcapacity issues according to a statement released from the White House.

Under Section 301 of the Trade Act of 1974, a list of increased tariff rates is as follows:

- certain steel and aluminum products from 0-7.5% to 25%
- semiconductors from 25% to 50% by 2025
- electric vehicles from 25% to 100% in 2024
- lithium-ion EV batteries from 7.5% to 25% in 2024
- lithium-ion non-EV batteries from 7.5% to 25% in 2026
- battery parts from 7.5% to 25% in 2024
- natural graphite and permanent magnets from zero to 25% in 2026
- other critical minerals from zero to 25% in 2024
- solar cells from 25% to 50% in 2024
- ship-to-shore cranes from zero to 25% in 2024
- syringes and needles from zero to 50% in 2024
- certain personal protective equipment (PPE) like respirators and face masks from 0-7.5% to 25% in 2024
- rubber medical and surgical gloves from 7.5% to 25% in 2026.

Worldwide Outlook for the Future of Worsening US-China Relations

“Broad-based tariffs are not strategic and will impede U.S. economic growth,” stated Blake Harden, vice president of international trade at the Retail Industry Leaders Association, a trade group based in Washington, D.C. that includes membership of Apple, Walmart, Target, and Best Buy. Besides, “higher tariffs would create additional risk and complexity in an already strained supply-chain environment,” said John Donigian, senior director of supply-chain strategy at Moody’s, a bond credit rating business. The move will shape the worldwide}

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supply chain’s reconfiguration with more manufacturing put in businesses in the US and greater nearshoring with neighboring countries such as Mexico, while costs from tariffs on businesses and consumers will be dear.

“China’s industrial policy may seem remote as we sit here in this room, but if we do not respond strategically and in a united way, the visibility of businesses in both our countries and around the world could be at risk,” said Treasury Secretary Janet Yellen in a speech at Frankfurt, Germany on May 21st. While the US is pushing other allies and partners in Europe to complement the US move on raising tariff rates on China’s imports deemed threats to US national security and manufacturing bases, the European leaders remain skeptical of the alleged Chinese trade practices and state their different approach in the trans-Atlantic tensions with the US. “We have a different approach, a much more tailored approach,” said Ursula von der Leyen, President of the European Commission. On the one hand, the EU has an incentive to maintain and promote economic ties with China as China is a close trading partner with the EU, and 37% of all its EV imports are made in China, accounting for $11.5 billion. On the other hand, European officials are divided upon the issue of China as the anti-subsidy investigation into Chinese EVs and are still probing since last year, and many have concerns over US increased tariffs seen as potential violations of global trade rules set forth by the WTO. In response on May 21st, the China Chamber of Commerce to the EU warned that Beijing might seek to increase tariffs on certain car imports to the EU. On June 12th, following the anti-subsidy investigation, the European Commission announced its rising levies ranging from 17.4% to 38.1% on Chinese EV imports. With the coming economic decoupling from both the US and the EU in the green energy market, can China survive its export machine without the West?

Even though exports to the US dropped by 14% in 2023, China’s exports to Russia have risen 70% over the past two years despite the Western sanctions on Russia amid the ongoing Ukraine-Russia War; exports to Southeast Asia have surged 12% in the first five months of the year compared from two years earlier; exports to Latin America and Southeast Asia combined account for a quarter of China’s exports so far this year. According to the estimate of the International Energy Agency, China still hosts 80% of solar-manufacturing capacity and 75% of battery production, a statistic proven to indicate the strength of Chinese green energy businesses in foreseeably sustaining the global supply chain for the green energy transition happening worldwide, especially in the US and the EU.

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