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Chinese Exports Are Threatening Biden’s Industrial Agenda

The president is increasingly hitting back with tariffs and other measures meant to restrict imports, raising tensions with Beijing.

 

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President Biden’s trillion-dollar effort to invigorate American manufacturing and speed a transition to cleaner energy sources is colliding with a surge of cheap exports from China, threatening to wipe out the investment and jobs that are central to Mr. Biden’s economic agenda.

Mr. Biden is weighing new measures to protect nascent industries like electric-vehicle production and solar-panel manufacturing from Chinese competition. On Wednesday in Pittsburgh, the president called for higher tariffs on Chinese steel and aluminum products and announced a new trade investigation into China’s heavily subsidized shipbuilding industry.

"I'm not looking for a fight with China," Mr. Biden said. "I'm looking for competition — and fair competition."

Unions, manufacturing groups and some economists say the administration may need to do much more to restrict Chinese imports if it hopes to ensure that Mr. Biden's vast industrial initiatives are not swamped by lower-cost Chinese versions of the same emerging technologies.

"It is a very clear and present danger, because the industrial policy of the Biden administration is largely focused on not the traditional low-skill, low-wage manufacturing, but new, high-tech manufacturing," said Eswar Prasad, a Cornell University economist who specializes in trade policies.

"Those are precisely the areas where China has upped its own investments," he said.

Both America and China are using large government subsidies to stoke economic growth and try to dominate what they believe will be the most important global markets of this century: the technologies meant to speed a global transition away from fossil fuels in order to avert catastrophic climate change.

But their approach to financing those industries has differed in important ways. Chinese officials have poured money into factories, including offering attractive loans from state-run banks to companies that might not have survived otherwise, to help offset a real estate crisis and sluggish domestic consumption. Those factories often run on low-cost labor.

China's factories are now exporting goods at prices that are often far below those of their competitors, helping to power its economy. In some cases, other nations allege, Chinese firms are selling products abroad at a loss.

Mr. Biden is also funneling federal money into targeted industries, in hopes of seeding innovation and opening new pathways to the middle class through well-paying jobs. He has signed an infrastructure law, an advanced manufacturing law focused on semiconductors and a suite of production incentives contained in his climate law, the Inflation Reduction Act. The spending and tax cuts from those laws have spurred hundreds of billions of dollars in announced corporate plans for new factory investment in the United States.

Some of that assistance comes with strings attached. The administration has conditioned federal money on companies paying relatively high wages or providing child care for workers. Other credits are conditioned on factories drawing on components that are mined or produced in America. Mr. Biden has staked his re-election pitch on creating more well-paying jobs, particularly union jobs, but some economists have raised concerns that those efforts to change corporate behavior will undermine his core industrial-policy objectives.

Mr. Biden and his economic team increasingly see Chinese imports as a direct threat to the president's agenda. They are weighing new and higher tariffs on some strategic imports from China and have initiated several investigations into Chinese technologies, like software and other components of electric vehicles and other internet-connected automobiles.

Administration officials are mindful of how previous surges of cheap Chinese exports of steel and aluminum hollowed out American manufacturing hubs in previous decades. Although heavily subsidized exports of solar panels, batteries and electric vehicles are helpful for containing inflation and combating climate change, administration officials believe that the prospect of lost jobs and shuttered businesses is too high, politically and economically.

The competing goals represent a challenge as the Biden administration tries to make the case that China should scale back its production of clean energy technology.

"On the one hand the Biden administration is doing everything it can to increase consumption of renewable energy products," said Scott Lincicome, a trade expert at the Cato Institute, a libertarian research center. "On the other hand, it is warning China against the sale of cheap renewable energy products, which would boost American consumption of the very products we're trying to encourage."

Mr. Biden is weighing new measures to protect nascent industries like solar-panel manufacturing from Chinese competition. Agence-France Presse/Getty Images

Janet L. Yellen, the Treasury secretary, admonished her Chinese counterparts for unfair trade practices on a visit to China last week. Administration officials voiced concerns about Chinese overproduction on Tuesday, ahead of Mr. Biden’s announcements in Pittsburgh.

“China’s policy-driven overcapacity poses a serious risk to the future of the American steel and aluminum industry,” Lael Brainard, who heads the White House National Economic Council, said during a call with reporters. “China cannot export its way to recovery. China is simply too big to play by its own rules.”

Chinese officials have levied similar complaints against the Biden administration. In a response to the new investigation of Beijing's shipbuilding subsidies, officials at China's Commerce Ministry issued a statement saying that "the development of Chinese industries is the result of technological innovation and active participation in market competition by Chinese enterprises" and not unfair state support.

"We urge the U.S. to respect the facts and multilateral rules, immediately stop its wrong practices and return to the rules-based multilateral trading system," the officials said.

But Americans are not alone in their complaints about China's new tide of exports. European leaders have raised similar concerns, including Chancellor Olaf Scholz of Germany, who complained about Chinese goods being sold at a loss in Europe during an official visit to Beijing this week.

The European Union is carrying out its own investigations into Chinese imports of electric vehicles, which could ultimately result in tariffs on those products. The bloc has already put in place a carbon border tax that is expected to hit China, which has looser environmental regulations. The new program will charge duties based on carbon emissions associated with the production of imported goods. And Mexico and Brazil are also pursuing anti-dumping investigations into China that could lead to new trade restrictions.

Bruno Le Maire, the French finance minister, noted on Wednesday that the deficit between what Europe exports to China and what it imports had tripled over the last 15 years and that more needed to be done to level the playing field.

"Europe must show her teeth on trade and on the trade relationships," Mr. Le Maire said, explaining that while trade wars would be damaging, Europe should embrace the kinds of industrial policies that China and the United States have adopted.

"I just want to emphasize the need for Europe to better protect its economic and industrial interest," he said.

The United States and its allies have struggled in the past to muster a coordinated response to threats to their domestic industries from Chinese competition. That could change this time around, said Mark Haefele, the chief investment officer of UBS Global Wealth Management. The success of China's manufacturing exports, he said, could prove to be "a catalyst for a more coordinated response" from the United States and Europe on trade.

The arguments for tougher protectionism were on display at the spring meetings of the International Monetary Fund and the World Bank this week. While the fund warned that tariffs were a threat to the global outlook, top economic policymakers explained why they viewed measures to safeguard their domestic industries as necessary.

"There's been a surge in investment in manufacturing, and in these sectors capacity utilization is very low," Ms. Yellen said on China's spending on green energy technology. "With these subsidies, the amount of capacity exceeds global demand, and what it's likely to be even over the next decade."

She added: "And so this isn't a level playing field."

The administration has faced pressure to do more to protect American industry. Senator Sherrod Brown, Democrat of Ohio, who is facing a difficult re-election bid, called last week for Mr. Biden to ban Chinese electric vehicles, which already face high tariffs. He called Chinese E. V.s an "existential threat to the American auto industry."

Mr. Biden upset Mr. Brown and other manufacturing supporters in 2022 when he declared a two-year pause on existing tariffs on imported Chinese solar panels, effectively allowing more of them to enter the U.S. market. He vetoed a bipartisan bill in 2023 that would have reinstated those tariffs ahead of June 2024, when the two-year pause will expire.

He has also faced pressure to raise tariffs on Chinese components for electric vehicles or other clean energy technology. Tariffs are currently 7.5 percent on electric vehicle battery packs but 25 percent on the components of those packs, said Brad Setser, a senior fellow at the Council on Foreign Relations in Washington and a former adviser to the U.S. trade representative under Mr. Biden. The lower rate should be raised, he said.

Mr. Setser also noted that China had long steered its subsidies to companies that manufacture and source their products in China — and sometimes had required those companies to be Chinese-owned.

"In order to build up industrial sectors where China has a first-mover advantage and now a cost advantage," he said, "you need to have an insulated market — and to use some of the tools that China has already used."

Jim Tankersley writes about economic policy at the White House and how it affects the country and the world. He has covered the topic for more than a dozen years in Washington, with a focus on the middle class. More about Jim Tankersley

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