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GUEST ESSAY

Why the U.S. Could Come Out Ahead in a Tariff War

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The world is bracing for Donald Trump's tariffs and doesn't think he's bluffing.

On my trips to Beijing in recent years, Chinese officials often seemed confident they could work with someone who was a businessman at heart. That confidence seems to be a thing of the past. Both U.S. political parties have turned antagonistic, and Mr. Trump seems in a far less conciliatory mood. He has vowed to add 10 percent to the tariff on imports from China and impose 25 percent tariffs on imports from Canada and Mexico, the two largest U.S. trading partners.

Perhaps it's because he has a stronger hand. President Biden is handing off a strong economy while much of the rest of the world is in a deep economic funk, making the United States better positioned to manage the fallout from a tariff war.

No matter the virtues of these policies, they could end up hurting other countries a lot more than they hurt American consumers, making the United States look like a winner.

The performance of the U.S. stock market is the metric that Mr. Trump seems to rely on most to gauge the success of his policies, and it has been stellar, far outstripping the performance of most other countries'. Tariffs, along with tighter immigration policies, are likely to cause a resurgence in U.S. inflation. But the United States has enjoyed strong productivity growth, even as productivity in other countries has been dismal. If that continues, which could hold down broader inflation, the pain inflicted by tariffs on U.S. consumers and businesses will be reduced.

The imposition of tariffs is likely to mean a stronger U.S. dollar, which will make American exports more expensive. That undercuts Mr. Trump's goal of reducing the trade deficit, but it will also pull in more investment from the rest of the world.

The field of battle has shifted in other ways, too. At the start of the first Trump presidency, China's economy was powering along, with an annual growth rate of around 7 percent. This year and next, China will be hard put to achieve a 5 percent growth rate. A spiraling property market, perilous local government finances, a shrinking labor force and brittle consumer confidence are making things worse. With Chinese household spending weaker than that of households in other countries, China has become much more reliant on exports.

Europe, a key trading partner of both the United States and China, is in even more dire straits. The two most populous countries in the eurozone, Germany and France, are beleaguered by political instability and floundering economies.

Elsewhere, Japan and Britain are mired in low growth, and even the roaring Indian economy is losing steam.

When Mr. Trump's tariffs hit the world in his first term, China pursued trade agreements with numerous countries that were affected. It was not unthinkable that China and Europe could collectively try to counter the Trump tariffs. Now, with their own economies weak, Europe and Japan, two of China's key foreign markets, are surely keen to avoid becoming dumping grounds for Chinese exports. Mr. Trump's restrictive trade policies could thus usher in a new era of global protectionism, rather than pushing the rest of the world to forge a common front against the United States.

In a second term, there are even more ways for Mr. Trump to get the tariffs he wants. The Biden administration kept in place the tariffs on Chinese imports he initiated. Mr. Biden also hit China in places where it hurt more, limiting technology transfers, access to semiconductor chips and some U.S. investments in China.

Mr. Trump is likely to continue these measures and add new ones. And he will most likely close the loopholes that have helped China evade tariffs, such as rerouting trade through countries such as Mexico and Vietnam. The days of Chinese companies like Shein and Temu sending packages to the United States of small, individual purchases that are priced low enough to avoid being subject to tariffs are almost certainly numbered.

China, of course, has plenty of retaliatory tools. It remains an important link in global supply chains and a significant market for U.S. companies, both of which can easily be disrupted. China has already restricted exports to the United States of rare earth metals, of which it controls approximately 90 percent of the world's production. (They are critical to produce semiconductor chips, electric cars, phones and laptops, among other things.)

There are some factors that could limit the scope of a new tariff war. The next Trump administration is likely to include many avowed China hawks on defense and foreign policy, but his economic team has few pro-tariff hawks. Rather, key economic posts will likely go to businesspeople, Wall Street mavens and conservative economists, all of whom understand the benefits of trade and the costs of tariffs. And with its economy hobbled, China, too, cannot afford an all-out trade war.

Then there is the Elon Musk wild card. More than half of Tesla's revenue last year came from foreign markets, and China is Tesla's biggest. Mr. Musk might well serve as an intermediary in striking a deal with China and other important U.S. trading partners.

What will be necessary for Mr. Trump to declare victory and back off from tariffs? It may be enough for other countries to agree to contain the flows of illegal drugs to the United States and illegal immigration. Whether such a bargain will prove feasible and, more important, whether it will appease Mr. Trump is an open question. The Trump tariffs will certainly force other countries to be creative in dealing with him. Given their economic realities, they may have few other options.

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