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Economy

How China tariffs ripple throughout the Midwest economy

By H. Lee Murphy

Credit: Getty

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The announcement of new import tariffs in mid-May from the White House amounted to the most significant trade protection measures — all aimed at China — from the U.S. in years. The impact on the Midwest will be significant, since the highest duties will come on products such as steel and cars and other mainstay manufacturing categories in Chicagoland and the rest of Illinois.

The new tariffs, which will take effect Aug. 1, came in the middle of an election year as President Biden said he was moving to protect U.S. industries strategic to national security. There has been bipartisan agreement among Democrats and Republicans in recent years that the Chinese government was subsidizing key industries, in particular electric vehicles, with unfair government support.

The European Union has announced that it is enacting a schedule of higher tariffs on Chinese goods of its own, though the rates aren't likely to go as high as in the U.S. Biden announced that the tariffs on electric vehicles made in China would rise from the current rate of 25% to 100% — effectively killing off the Chinese EV business in America. Tariffs on batteries will rise from 7.5% to 25%, solar cells from 25% to 50% and steel will jump from a range of 0 to 7.5% to 25%.

The logistics industry, much of it based in and around Chicago, has been busy in the past six weeks trying to gauge the impact of the new tariffs. China has promised retaliation, but so far hasn't taken specific actions. One of the leading freight forwarding specialists in China, OEC Group, is officially headquartered in Taiwan but has big offices spread around the U.S. including in suburban Itasca, where 100 people are employed. The head of that office, Nick Klein, who holds the title of vice-president of sales and marketing, sat with Crain's recently to discuss the impact of higher tariffs on Chinese goods. Excerpts follow.

A couple of decades ago economists waited with rapt attention for the announcement of trade deficits each month, and those deficits were political issues in elections. Today it seems hardly anybody pays attention to the deficits, maybe because we've given up on the idea of ever getting back even in imports and exports.

Sourcing is very complex now, with pieces of products designed and made in one place and then often assembled somewhere else. But it is true that more and more of our logistical work at OEC involves inbound goods and not outbound. We bring in finished manufactured products to places like California and Seattle and then we send back cherries from Washington and other agriculture commodities from California. China has the advantage, clearly. According to the office of the U.S. Trade Representative, last year we imported close to $565 billion in goods from China. In the same year, we exported $195 billion to China.

Why have China and other places in Asia gained such an advantage?

Years ago Barack Obama was president and he went to Steve Jobs and asked him why Apple was no longer making its phones in the U.S. It turned out that sometime before Apple was having trouble with the glass on the front of the phones cracking and getting scratched and needed a change. Apple couldn't find enough glass engineers in the U.S. to fix the problem. The company turned next to Foxconn in China and they put on extra shifts in their factories in a matter of a few weeks and Apple got what it needed.

The point is that America doesn't have the people with many essential manufacturing skills anymore. China has embraced manufacturing. It's easy for the production of things like furniture and rubber tires to go to places like Vietnam and Malaysia where people are acquiring the necessary skills and are motivated to work.

The theory is that nations with big populations of 25-to 40-year-olds is where manufacturing gravitates. These are people in the prime of their working careers. But as birthrates fall in the U.S. our country is losing people in that crucial age range. China's birth rate has also fallen and they won't be so dominant in that age range a generation from now. That's why you're going to see more manufacturers investing in places like South America and Africa in the future because populations are still rising in those regions.

Another theory was that American companies would be sourcing more products beyond China by now elsewhere in southeast Asia. But that doesn't seem to be moving as quickly as some had anticipated.

Yes, the expectation was that more manufacturing would be moving to Taiwan and Vietnam and India. But Taiwan and Vietnam are mostly fully employed by now and can't absorb much more manufacturing capacity. India is a logical place for more growth in the future, but their rail and supply chain isn't nearly as advanced or efficient as it is in China and the U.S. Ocean freight shipping from India and elsewhere in southeast Asia is very dependent on routes going through the Suez Canal, but terrorist attacks there on shipping traffic have made passage difficult and shippers are being forced to go around the Horn of Africa. That's a problem.

Are you seeing much evidence of reshoring or nearshoring?

Bringing manufacturing back to North America needs to be a 50-year project, not a 10-year project. The first problem is that young people in the U.S. don't like to work with their hands anymore. The second problem is that we don’t have the necessary chips and rare earth metals to make high-tech components for batteries today. Those metals are in China. The third problem is that there is so much organized crime in Mexico complicating efforts to build more manufacturing there. At one time we thought Mexico would become rich by making products for the U.S., but it hasn’t turned out that way yet.

Your company does a lot of work with the Chinese automakers. But that business is effectively walled off from the American market at this point.

With new 100 percent tariffs the Chinese car business here will sink to zero. It’s true the Chinese do a lot to support that industry. For a car maker there the government will find you a factory site and put up a building and then lend you money to get started. And then if you aren’t successful they’ll take it over for you and run it as a government entity. In the process, many of their cars can’t meet our EPA guidelines.

The thing is that China has thousands of newly-eligible car buyers every day, and so their carmakers can do well concentrated on just their domestic market.

At presstime here we haven’t seen any significant retaliation yet from China. Is that surprising?

Klein: Yes, China’s response has been quite restrained so far. Their economy has been struggling to keep growing at the pace they’re used to, and perhaps that is why we aren’t seeing tariffs over there raised yet. As it is, we love the low wages and great supply chain in China and they love the way America consumes. But starting in August that consumption is going to come at a higher price when the tariffs kick in. Americans will have to get used to paying more.

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