

NEW CHINESE TARIFFS LACK BITE

KEY POINTS

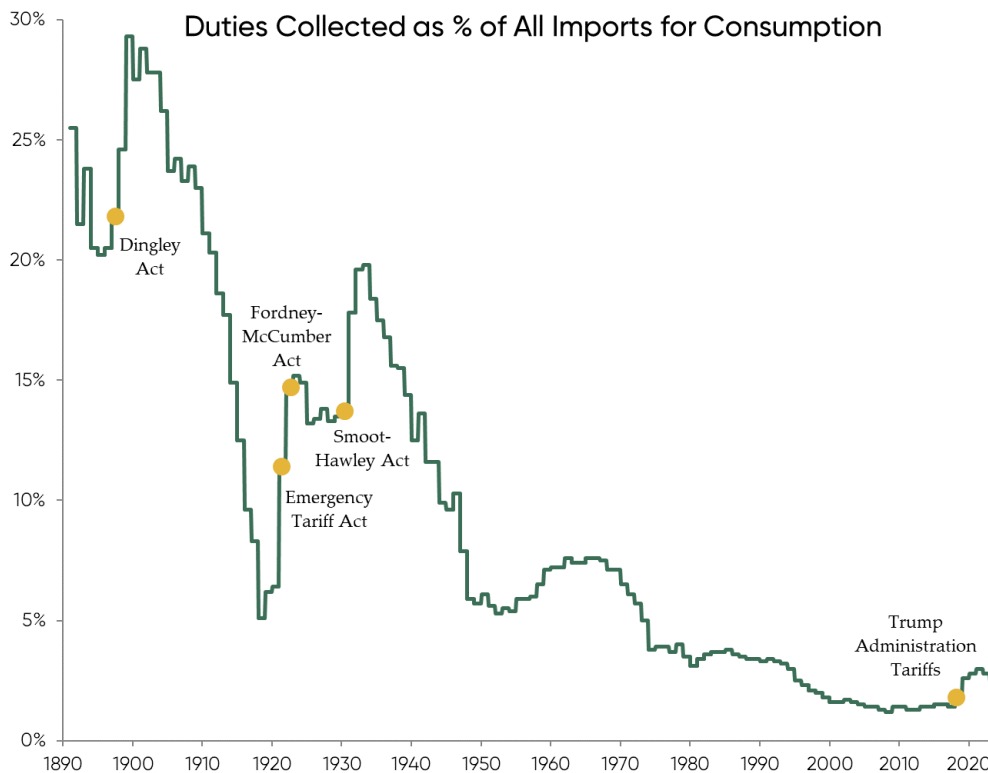
- The Biden Administration's new Chinese tariffs are predominantly symbolic in nature.
- These changes lack the magnitude and surprise power to meaningfully affect equity markets.

BACKGROUND

The Biden administration's newest tariffs on Chinese imports, announced Tuesday, May 14th, can likely best be categorised as symbolism. As with previous tariff proposals, they have generated warnings of possible economic (e.g. higher inflation) and sociological (e.g. slower "green" transition) implications. However, we believe their scope on America's imports is not substantial enough to have a formidable impact. For equities, these are more akin to background noise than a market driver.

In principle, we don't think tariffs are a positive. They add costs for consumers, and businesses alike, and interfere with commerce. As well, the lack of price competition for domestic goods keeps prices elevated more than they would likely be otherwise.

However, for tariffs to sway markets, they must be broad enough to both affect a large swath of trade and invite global retaliation on the same scale. This realistically has not occurred since the Smoot-Hawley Tariff Act, which contributed to the Great Depression.



Source: US International Trade Commission, as of 31/3/2019. US duties as a percentage of imports for consumption, 31/3/1891 – 31/12/2023.

PROPOSED INCREASES IN CONTEXT

President Biden's tariffs, which affect the following imports, are nowhere near the historical highs of Smoot-Hawley. Here is a bullet-pointed list of them:

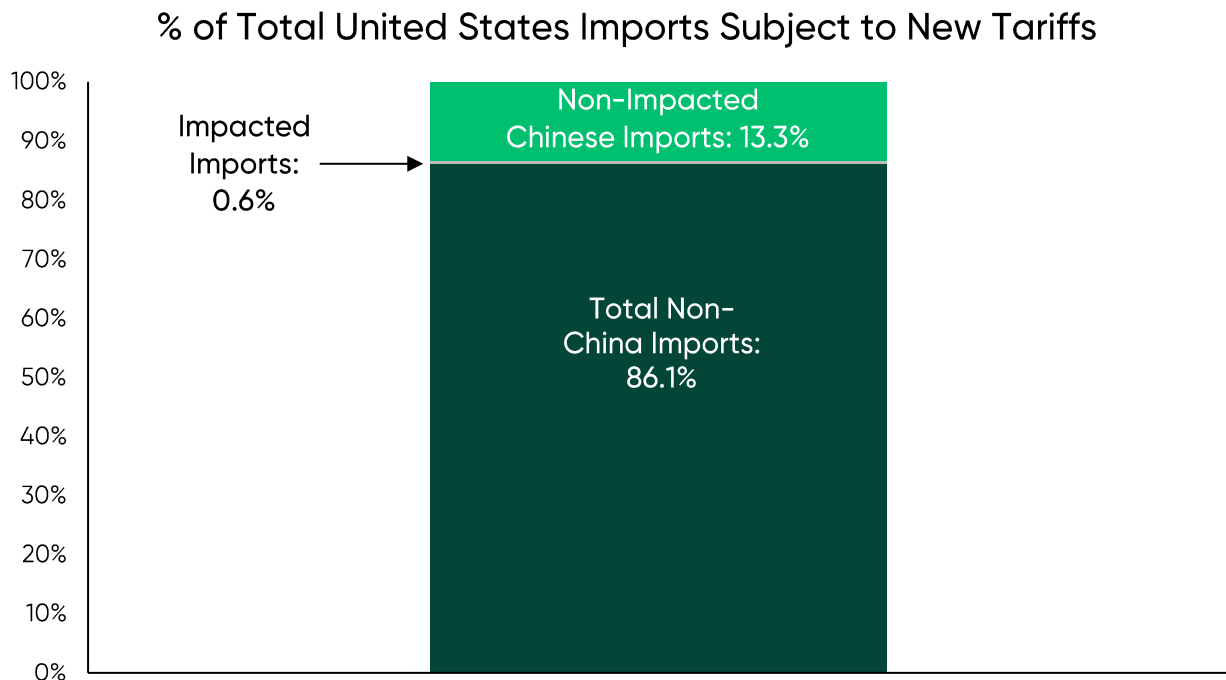
Tariffs will rise on:

- Steel and aluminum products from 7.5% to 25% in 2024
- Solar panels from 25% to 50% in 2024
- Electric vehicles (EVs) from 27.5% to 102.5% in 2024
- Lithium-ion batteries used for EVs and battery parts from 7.5% to 25% in 2024
- All other lithium-ion batteries from 7.5% to 25% in 2026
- Larger-storage batteries from 25% to 75% in 2026
- Select medical products from 0% - 7.5% to 25% in 2024 and 2026
- Semiconductors from 25% to 50% in 2025

New tariffs will be imposed on:

- Several "critical minerals" in 2024 (25%)
- Shipping cranes in 2024 (25%)
- Graphite in 2026 (25%)

In total, these add up to only about \$18 billion worth of imports annually, which equates to 4.2% of US imports from China and only 0.6% of total US imports.¹



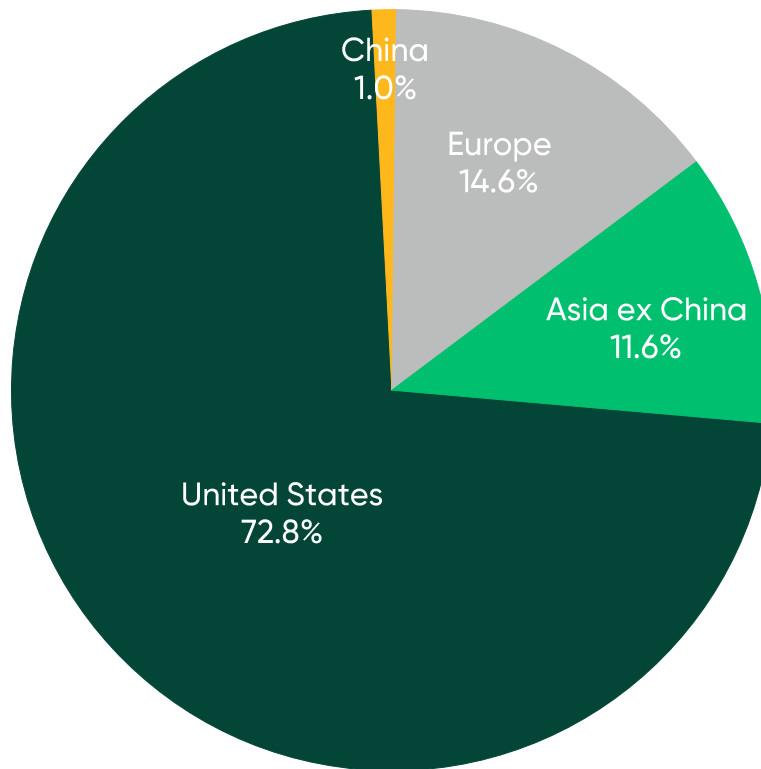
Source: FactSet & US Census Bureau, as of 31/12/2023, in USD.

¹ During calendar year 2023, US imports totaled \$3.08 Trillion USD. US imports from China accounted for \$427.2 Billion USD.

Another factor limiting the impact is the tariffs apply to items the United States doesn't import from China in large quantities. Beginning with steel and aluminum, the American Iron and Steel Institute reports that Canada is the US' top supplier, responsible for 24.5% of imported steel mill products last year.ⁱⁱ China was only the seventh-biggest, supplying a paltry 2.1% of US steel imports.ⁱⁱⁱ China's aluminum role is similarly small, supplying only 3.6% of US imports last year.^{iv} Neither of these figures is large enough to materially raise raw materials costs domestically. More likely, they are an incentive to extend the shift away from China that started with President Trump's 2018 tariffs, rendering this increase an empty gesture.

For electric vehicles, the United States has a marginal number of sales from China and there is only one Chinese-owned brand currently available in US markets. The administration calls the tariff preemptive and preventative, to fend off the potential for cheap Chinese imports to displace more expensive American-made EVs, but that is a speculative move aimed at possibilities, not actual commerce taking place.

% of Total Consumer Electric Vehicle Sales



Source: FactSet & Kelly Blue Book "Electric Vehicle Sales Report Q4 2024". Total number of consumer EV sales by brand. Region based on majority interest of company ownership structure.

Note, too, that none of this is surprising Chinese manufacturers. The tariffs follow a multiyear review and generous public discourse which has given Chinese businesses time to prepare. Accordingly, they have begun expanding their production footprint in Mexico, which will allow them the trade terms set by the US-Mexico-Canada Trade Agreement as long as they comply with the rules-of-origin requirements.

CONCLUSION

These impacts will only come to fruition if whoever occupies the White House proceeds with the tariffs in 2024, 2025 and 2026.^v The long phase-in process leaves a lot of uncertainty about their longevity, not to mention even more time for businesses to prepare and adapt.

In our view, this is a political story, not an economic one. US politicians have been tough on Chinese trade and touted tariffs in election years for decades. Each time with pundits fearing the issue as if it were new. And, as long as the “tough on China” stance proves popular, politicians in both parties will continue to adopt these ideals to win votes.

Much as markets might prefer if these actions were instead making the case for freer trade, none of this creeping protectionism is new. Equities overcame 2018’s tariffs quickly, and they have taken the latest proposals in stride. When—and if—they take effect, their surprise power will be gone. Markets move most on surprises. Slow-moving, and narrow-scope, tariffs simply don’t qualify.

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ⁱⁱ "Steel Imports Down 8.7% in 2023," American Iron and Steel Institute, 25/1/2024.

ⁱⁱⁱ Ibid.

^{iv} Source: US International Trade Administration, as of 18/4/2024.

^v Ibid.