The Washington Post Democracy Dies in Darkness

# Biden keeps many Trump tariffs in place, confounding businesses hoping for reprieve

End of waivers irks business groups that want action on China trade

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Greg Dalpe, a manufacturing executive in Upstate New York, expected President Biden to undo the damage his White House predecessor had done to trade links with China. Instead, the new president has only made things worse.

New York Air Brake, which makes train brakes in Watertown, N.Y., imports Chinese iron and steel housings for one of its hydraulic parts. In 2018, company executives applied for and received an exclusion from President Donald Trump's 25 percent import tax, after demonstrating that they could not find a qualified supplier outside China.

But the Biden administration halted the last such exemption this year, forcing the company to pay millions of dollars in annual tariffs even as its main competitor in Mexico uses a similar Chinese product without paying any tax.

The tariffs have eroded New York Air Brake's profits, crimping its ability to invest in new products and imperiling brake production in its 800-worker plant on the shores of Lake Ontario, said Dalpe, the company's senior vice president for sales and marketing.

"We are surprised, quite frankly, by the lack of exclusions and the time that has passed," he said. "This is not something we can absorb indefinitely. If we continue with the cost disadvantage, it becomes a very difficult proposition to continue to manufacture these products in the United States."

New York Air Brake's predicament illustrates the tangible cost of the Biden administration's unhurried rethinking of its China policy. After winning exemptions during the Trump administration, hundreds, possibly thousands, of American companies are now paying tariffs while the Biden team debates the right approach to Beijing.

Biden aides say the stakes are too high to rush into a new stance or to lock in specific elements of the trade approach they inherited from Trump, such as the tariff waivers. The White House also wants to make sure it enjoys allied support before unveiling any bold new plan.

The administration has cultivated labor union support by promising a "worker-centered" trade policy. But business groups complain that officials have yet to articulate their plans for the trade deal Trump signed with China in early 2020, as well as the unresolved issues left over from that bargain, such as China's massive state subsidies.

For U.S. companies, this is the fifth year of uncertainty over the contours of the commercial relationship with China. And patience is wearing thin.

"Business needs to plan, and there's no information to plan on," said one executive, who spoke on the condition of anonymity to preserve relationships with the Biden team.

Major corporations such as Otis Elevator, Hamilton Beach Products and Clorox are among those that have suddenly lost their tariff exclusions. The result has been thinner profits, an intensified scramble to find new suppliers outside China, and upward pressure on prices as inflation percolates at its fastest pace in 13 years.

Trump began imposing tariffs on Chinese goods in 2018, following a U.S. investigation that concluded China was using unfair trade practices to acquire American technology. Washington ultimately imposed tariffs of up to 25 percent on roughly $360 billion in annual Chinese imports.

From the outset, U.S. businesses complained that the tariffs increased their costs and made them less competitive. This month more than

30 industry associations urged the administration to jump-start its engagement with China, including by restoring product exclusions and negotiating an end to tariffs imposed by both countries during the recent trade war.

“The tariffs are hurting us, and they are hurting the Chinese,” said Myron Brilliant, executive vice president for the U.S. Chamber of Commerce. “We encourage each side to take confidence-building measures that would provide the political space to take some tariffs down.”

Many companies say that lifting the tariffs would help cool inflation. But the first China levies took effect in mid-2018, almost three years before prices began jumping, and while some businesses have passed the added costs on to their customers, others have absorbed them.

TMI, an auto-parts maker in Wixom, Mich., introduced a “tariff surcharge” this year after losing its exclusion for a Chinese-made speed sensor. With less than $10 million in annual revenue, TMI splits the $500,000-plus tariff tab with its customers.

The company said its low-volume orders of customized sensors and actuators cannot be profitably produced in the United States.

“It would break us if we paid all the tariff,” said Matthew Zimmermann, TMI’s president. “Right now, it seems to be working. But it’s a dicey position to be in. … If I could wave a magic wand and make the tariffs go away, I would.”

The Office of the U.S. Trade Representative (USTR) in 2018 established an exclusions process that allowed some companies to escape the levies, though its decisions were made on a “case-by-case basis” and were not consistent or fully documented, according to a Government Accountability Office study released last month.

The USTR rejected 87 percent of almost 53,000 exclusion requests, usually because companies could not prove they would suffer severe harm or were unable to find a non-Chinese supplier, the GAO found.

Last year, the USTR granted temporary relief to products linked to fighting the coronavirus pandemic. But the Biden administration allowed the broader program to expire while it conducted a review of China policy.

The end of the exclusion program came despite pleas from dozens of consumer and industrial companies.

Husco International warned that the loss of its exclusion for aluminum spools used in hydraulic valves would mean “an immediate price increase” and the closure of 17 production lines at plants in Waukesha and Whitewater, Wis., idling 70 workers.

Company officials did not respond to email and telephone requests for comment.

Clorox sought a one-year exclusion extension, telling the USTR it had “no choice” but to continue producing its Brita water pitchers in China.

Hamilton Beach Products said shifting production of its commercial mixers and blenders from China would increase costs by 70 percent and plunge the company into the red. “It is virtually impossible to pick up and move production outside of China,” Hamilton Beach told the USTR.

The tariff exclusion saved Hamilton Beach $1.6 million in the second quarter last year, helping boost its gross profit margin to 25.5 percent from 21.8 percent one year earlier, the company told investors.

Otis Elevator sought continued protection for a product it identified only as “The Machine,” which moves elevator cars. The company, which booked a profit of more than $1 billion last year, said paying the tariffs “will have a multiyear impact whose negative effects will be borne by Otis, its U.S. customers, U.S. workers and employees, the construction and real estate industries and the users of Otis products.”

Otis Elevator and Hamilton Beach declined to comment.

William Reinsch, a trade specialist with the Center for Strategic and International Studies, said politics explains the administration’s reluctance about tackling China.

“Public opinion on China has tanked. Anything they do on this, they’re going to be criticized for giving away the store, for being too soft,” he said.

Administration officials say they want to take their time in developing a new approach to China, rather than move precipitously to mollify business and thus compound Trump’s errors. The economy’s robust growth in the first half of the year, including the addition of more than 4.3 million jobs, eases the pressure to act.

“We are conducting a robust, strategic review of our economic relationship with China and engaging a wide range of stakeholders, including the business community, to create effective policy that delivers results for American workers, farmers and businesses and puts them in a stronger position to compete with China and the rest of the world," said Adam Hodge, a USTR spokesman.

One question is what to do about Trump's "phase one" deal, which committed the Chinese to buy $200 billion in additional U.S. goods over a two-year period ending Dec. 31. Through midyear, Chinese orders were running at roughly two-thirds of required levels, according to estimates by economist Chad Bown of the Peterson Institute for International Economics.

The administration is likely within weeks to provide some answers to corporate concerns, officials said. Meanwhile, trade negotiations are on hold as the administration prioritizes investment and economic recovery at home.

"Our domestic renewal comes first," Secretary of State Antony Blinken said in a recent speech.

Trade was the animating force behind Trump's China policy, with Robert E. Lighthizer, the chief negotiator, an influential ally as Trump lobbed tariffs and threats at the Chinese.

But under Biden, trade policy has slipped in importance and the focus has shifted from issues of technology transfer and intellectual property to concerns over the use of forced labor in the Muslim-majority Xinjiang region.

"Trade is no longer driving the relationship. It's been pushed to the background," said Wendy Cutler, vice president of the Asia Society Policy Institute and a former U.S. trade negotiator.

Administration officials also have sent conflicting signals. Katherine Tai, who succeeded Lighthizer as U.S. trade representative, has described the tariffs on Chinese imports as "leverage" for future negotiations, while Treasury Secretary Janet L. Yellen told the New York Times they "hurt American consumers."

People like Anne Hoef, treasurer of Mabuchi Motor America in Troy, Mich., are caught in the middle. In a 27-person sales office, Hoef has been tasked with completing the government paperwork needed to apply for the exclusions, the related tariff refunds and finally the unsuccessful extension bids.

Mabuchi's products, small motors for automotive power windows, doors and side mirrors, are detailed in 40 rows and seven columns on an Excel spreadsheet. After more than two years, the company's costs have grown by "millions of dollars," which it has passed on to its American customers. And the Mabuchi motors that were made in China before the tariffs are still made there now, just as they have been for more than 40 years.

"For some of our motors, they're never going to shift from China. It wouldn't make any economic sense," she said. "The question I would ask is, how does putting tariffs on these motors help America? It only hurts our company and our customers."