

U.S. TRADE WAR DIDN'T BOOST US MANUFACTURING MIGHT

Factory Production Peaked in 2018

By Josh Zumbrun and Bob Davis

WASHINGTON—President Trump's trade war against China didn't achieve the central objective of reversing a U.S. decline in manufacturing, economic data show, despite tariffs on hundreds of billions of dollars of Chinese goods to discourage imports.

The tariffs did succeed in reducing the trade deficit with China in 2019, but the overall U.S. trade imbalance was bigger than ever that year and has continued climbing, soaring to a record \$84 billion in August as U.S. importers shifted to cheaper sources of goods from Vietnam, Mexico and other countries. The trade deficit with China also has risen amid the pandemic, and is back to where it was at the start of the Trump administration.

Another goal—reshoring of U.S. factory production—hasn't happened either. Job growth in manufacturing started to slow in July 2018, and manufacturing production peaked in December 2018.

Mr. Trump's trade advisers nonetheless say the tariffs succeeded in forcing China to agree to a [phase one trade deal in January](#), in which Beijing agreed to buy more U.S. goods, enforce intellectual property protections, remove regulatory barriers to agricultural trade and financial services and to not manipulate its currency. They also say the tariffs—which [remain on about \\$370 billion in Chinese goods](#) annually—will over time force China to end unfair practices and help rebuild

Tariffs “are having the effect of bringing manufacturing jobs back to the U.S.,” U.S. Trade Representative Robert Lighthizer said in an interview, citing statistics that show a net gain of 400,000 U.S. manufacturing jobs from November 2016 until March 2020, when the pandemic forced widespread factory closures.

However, about 75% of the increase in manufacturing jobs occurred before the first tranche of tariffs took effect against China in July 2018, when annual growth in manufacturing jobs peaked and then began to decline. By early 2020, even before the pandemic reached the U.S., manufacturing job growth had stalled out, and factories shed workers in four of the six months through March.

An industry-by-industry analysis by the Federal Reserve showed that tariffs did help boost employment by 0.3%, in industries exposed to trade with China, by giving protection to some domestic industries to cheaper Chinese imports.

But these gains were more than offset by higher costs of importing Chinese parts, which cut manufacturing employment by 1.1%. [Retaliatory tariffs imposed by China](#) against U.S. exports, the analysis found, reduced U.S. factory jobs by 0.7%.

Mr. Trump is one of a long line of U.S. presidents to use tariffs to protect favored industries. President Obama put steep tariffs on Chinese tires, President George W. Bush imposed tariffs on steel and President Reagan hit Japanese televisions and computers.

But Mr. Trump’s enormous increase in tariffs on Chinese goods represented a sharp departure in post-World War II economic history. Since the war, the U.S. has led round after round of global trade talks aimed at reducing tariffs. No longer.

“This is the biggest use of tariffs since the Smoot-Hawley tariffs” during the Great Depression, said Chad Bown, a trade expert at the Peterson Institute for International Economics. “The economic impact is going to take years to play out.”

Mr. Trump has called himself a **“tariff man”** and said businesses that complain about the impact of tariffs should simply build factories in the U.S.

“I happen to be a tariff person because I’m a smart person, OK?” Mr. Trump said in [an interview with The Wall Street Journal](#) in November 2018 as the trade war intensified. “We have been ripped off so badly by people coming in and stealing our wealth.”

The tariff strategy, however, played out differently for manufacturers depending on their individual circumstances. That is shown by the experience of two Midwestern manufacturers, Atlas Tool Works Inc. and Hemlock Semiconductor Operations.

Illinois-based Atlas said sales of its brackets, gears and conveyor belts used in manufacturing rose 18% in the year after Mr. Trump placed tariffs on similar parts from China. But Hemlock, a Michigan company that makes polysilicon used in computer chips and solar cells, is still struggling.

The phase one trade deal signed by Washington and Beijing in January specified that China would buy more U.S. solar-grade polysilicon, Hemlock’s main product. But China never lifted its tariffs on polysilicon—just as the U.S. kept tariffs on most Chinese imports—and Hemlock didn’t register any gains.

But China had plans of its own. [Solar was specifically identified](#) as a strategic industry for Chinese dominance in “Made in China 2025,” the country’s national plan to dominate high-tech manufacturing. That plan included making solar-grade polysilicon—turning China into a competitor to Hemlock instead of a customer.

Solar-grade polysilicon exports to China had shriveled to \$107 million by 2018. The plant in Clarksville never operated, and was closed in 2014.

“It’s the classic Chinese industrial story,” said Mr. Bassett. “Continued subsidization, no requirements to deliver a return on investment, no enforcement of environmental or safety standards. An artificially low price that drives everyone else out of business.”