

## Will Tariffs Work?

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The second Trump administration plans to make tariffs an important part of US economic policy. There are multiple reasons for higher tariffs on foreign goods, as the Trump administration sees it. First, raise federal revenue. Second, return manufacturing jobs to the United States. A third possible motive is to reduce the economic and military power of China, as many US politicians and military advisers consider China to be an adversary, or an enemy.

Cyrus Janssen is a geopolitical analyst and investor with a large following on YouTube. Janssen says that many US companies are ignoring the Trump Administration's intentions and believes that "the simple reality is that it's almost impossible to move these jobs back to the United States for three main reasons." First, despite the political rhetoric, during the last 24 months, there has been no significant change in trade between China and the US. Second, China has made technological advances in many areas that should not be underestimated. Last, most American consumers will not pay up for American made products.

Tim Cook, CEO of Apple Inc, made some comments on China that reflects the thinking of many US manufacturers.

There's a confusion about China. The popular conception is that companies come to China because of low labor costs. I'm not sure what part of China they go to, but the truth is China stopped being the low labor cost country many years ago. The reason is because of the skill, the quantity of skill in one location, and the type of skill it is.... The vocational expertise is very, very deep here (in China).

Cook's comments are supported by the data that we have available. According to Georgetown's Center for Security and Emerging Technology and the OECD, in 2020, China had 3.57 million graduates in science, technology, engineering, and mathematics (STEM). This compares to the next three countries with the most STEM graduates: 2.55 million for India, 820 thousand for the United States, and 520 thousand for Russia.

Janssen also points out that China has a technological advantage in the engineering disciplines related to rare earth metals, which are key to many electronic products and green energy initiatives. 70% of rare earth metals are mined in China and nearly 90% are refined in China. Why?

According to Shanghai Ranking, six of the top ten universities for the mining and metals engineering are in China, with the other four in Australia. In metallurgical engineering, China has seven of the top ten ranked universities. In chemical engineering, US-based MIT is ranked #1, Georgia Institute of Technology #6, Stanford University #9, but all of the other top sixteen universities are in China.

Finally, the obvious question is whether American consumers want to return to more American products. Mark Cuban, billionaire investor, had this to say about US consumer preferences:

The majority of American consumers will not pay up for American made products. If they would, all of this would be moot. Companies would have an incentive to build here, even if it costs more.

While the second Trump Administration clearly intends to make tariffs an important part of economic policy, the implementation may not be as easy as planned.

If you have any questions or comments, please contact me.

Sincerely,  
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