

'We'll all be poorer with Donald Trump's tariffs — but he can't halt clean energy'

Gernot Wagner is a climate economist at Columbia Business School and faculty director of its Climate Knowledge Initiative. Speaking to Srijana Mitra Das at *Times Evoke*, he discusses Donald Trump's tariffs — and their implications for the net zero movement:

Donald Trump has called the Indian economy 'dead' — how do you analyse that?

I take Donald Trump's comment about India being a 'dead economy' about as seriously as anything else he says — the 50% tariffs on India and Brazil are now his latest instance of economic arson. Nobody even knows how long these tariffs will last, how high they'll be in a month, who will get exemptions or why. The tragedy is, Trump holds real power to damage the US — and the global — economy.

What are the key economic implications of Donald Trump's tariffs for America — and the world?

The main implication is higher inflation — we will all be poorer for them. 'Price up, quantity demanded down' is a steadfast economic principle. It applies here too. Of course, there are complexities — are there ever smart tariffs, for instance? The answer can be 'Yes' in, say, a climate context with carbon tariffs like the European Union's Carbon Border Adjustment Mechanism (CBAM). These are the kind of tariffs which even writers of *The Economist* can get behind because they help level the playing field for a policy that is a step in the right direction, internalising negative externalities and ensuring the market functions better.

Once, John Stuart Mill and Alexander Hamilton, both philosophers of liberalism, wrote favourably about setting tariffs for infant industry protection. A fledgling United States of America was extremely dependent on England — tariffs were the only way to jumpstart certain industries. Today, fast-growing economies like India can benefit up to a point from intelligently applied targeted



BLOWING IN THE WIND... Donald Trump dislikes wind turbines, which he considers a blot on the landscape — yet, these are actually far better at preserving nature, a fact many nations accept

tariffs to foster domestic industry. However, things are different with Trump's tariffs — these do not benefit anyone. Consider the deal struck between the European Union (EU) and the US now — tariffs essentially went from almost 0 to 15%. US consumers buying European products are paying more while European consumers buying American products are also doing the same — everyone is poorer.

Trump says the tariffs will boost US manufacturing and competitiveness — will they?

There might have been a grain of truth to that, had the tariffs not come hand in hand with measures that actually hurt our competitiveness and manufacturing. The One Big Beautiful Bill passed recently removes many incentives that, under the Inflation Reduction Act of the Biden administration, helped onshoring the solar manufacturing supply chain in America. Five years ago, the US produced 13.5 new gigawatts of solar panels — this year, the US surpassed 50 gigawatts worth of domestic solar panel assembly. China dominates the global solar panel manufacturing supply chain. But this change in the US was because of concerted industrial policy, guiding things in the right direction on manufacturing, climate and competitiveness.

Now, Donald Trump famously hates wind turbines. He also hates solar panels. Why? These cut into the profits of the fossil fuel industry. So, this is a double whammy for the US clean energy transition. It is now more costly to import solar panels — it is also more costly to manufacture them domestically. Yet, the clean energy transition

is the inevitable future for business and manufacturing — there is only so much the Trump administration can do to stand in its way. The big winner from all these measures is China — the big loser is the US. The most worrying feature for businesses here is the random process of setting tariff levels, the inadequacy of the reasoning behind them and the erratic nature of it all. Businesses crave policy certainty. If you were to announce a complete phase-out of internal combustion engines by, say, January 1, 2035, as discussed and instituted in the EU, companies can say, 'Alright, that's 10 years from now, let's figure out how to adjust.' They can rework their investments and then strategise how to gain. Here, we have the administration saying, 'Tariffs are coming on this date — oh, now they're delayed by 90 days. Now they're on, now they're off.' Such uncertainty is hardly likely to benefit US competitiveness.

Times Evoke Americana is an occasional series on the US and the energy landscape

How do you see the global energy transition?

I am optimistic on some fronts. India and China have net zero goals. However, I am pessimistic about what is happening politically in the US at the federal level — plenty of damage will be done. But while those in charge are taking steps backward in the US, globally, the transition is accelerating in the right direction.

You mentioned the EU's CBAM — this was recently rejected by BRICS which called it unilateral and discriminatory. What is your view?

Of course those on CBAM's receiving end have obligations to their own citizens and would quite prefer CBAM to not exist. However, there are two important points here. First, the planet benefits overall because CBAM expands the carbon club or the set of nations willing to work on the best policies and nudge things in the right direction. Second, CBAM enables certain countries and industries to gain — for example, the Korean steel industry basically has two major companies. Those two groups export only about 5% of their production to the EU. So, only 5% of South Korea's steel production is directly affected by CBAM.

That said, the prospect of CBAM coming along has been in place for a while. This prompted both these leading producers in the South Korean steel industry to invest in lower carbon steel production technologies that will help them avoid those carbon tariffs — CBAM justifies such investments, subsidies and domestic policies, all of which help the planet. BRICS could see that as a key result.

India already has many climate-oriented policies, like the electrification of two- and three-wheelers, that are in many ways more advanced than anywhere else in the world. These have a clear rationale to them — electric motors are fundamentally better technology, a much more efficient mode than internal combustion engines. Why shouldn't a rapidly growing economy like India not jump for that, instead of locking itself into inefficient old technology? Why not use CBAM as an opportunity to do exactly that?

Views expressed are personal

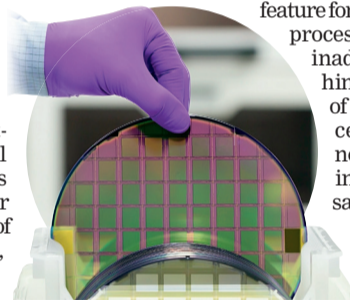
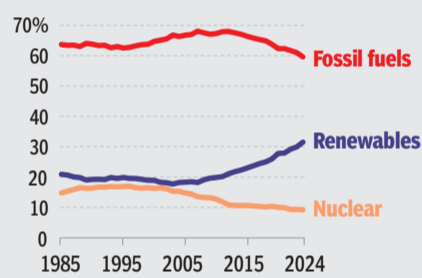
WHERE IS THE MONEY?

Wagner (R) says US companies are facing policy uncertainty



THE FUTURE IS (ALWAYS) RENEWABLE:

Electricity generation from diverse sources worldwide shows a clear trend — fossil fuels are poised to decline while renewables are on a rising curve



A CHIP OFF THE OLD BLOCK? Trump's tariffs make US solar panels dearer

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