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China: Trump Administration Needs to Align Its Trade Policies with Its Priorities

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KEY TAKEAWAYS

The challenges China creates are those the United States will have to deal with for decades, combining its diplomatic, intelligence, military, and economic efforts.

Current U.S. trade policy has not helped deal with China. It has undermined a growing U.S. economy by increasing costs for businesses and harming U.S. employment.

The Administration should remove its tariffs, double down on building new economic partnerships, and avoid falling for outdated protectionist policies.

Since coming into office, the Trump Administration has rightly identified China as a strategic competitor to the United States and the challenges it creates for all nations.[1] The United States will have to deal with some of these challenges, born out of Beijing's illicit and illiberal practices, for decades.[2] And the variety of responses needed will require diplomatic, intelligence, military, and economic components.

One element of the Administration's economic policies—trade—has yet to step up to the China challenge. Instead of making trade freer and fairer, U.S. trade polices over the past three years have made other U.S. priorities, such as working with international partners on Chinese telecommunications infrastructure, more difficult. To make matters worse, these policies have undermined a growing U.S. economy by increasing costs for businesses and harming U.S. employment.

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Federal resources have been wasted implementing these policies instead of being used to expand trade and strengthen security partnerships against the China challenge.

As much as the Trump Administration wishes to deal with the unfair trade practices of our partners and allies, the challenges created by Beijing should be the priority. The Administration should remove the tariffs implemented under Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974. These tariffs have made working with partners and allies more difficult. More importantly, these tariffs should be removed to help restore a U.S. economy that has been weakened trying to mitigate the spread of COVID-19. Finally, the Trump Administration should double down on its efforts to build more trusted trade relationships by following through with its planned trade agreements and announcing an interest in expanding economic relations with Taiwan, Georgia, and Switzerland, to name a few, and finding a way past its trade issues with India and the European Union. The Administration should also reconsider previously enacted protectionist trade policies that have long plagued the U.S. economy.

The China Challenge

Challenges created globally by the Chinese Communist Party are plentiful, including military and security threats, violations of basic human rights, competing for influence in the international community, engaging in disinformation campaigns (such as the most recent efforts to shift blame for the origins of the COVID-19 pandemic), committing corporate data and trade secret theft, and failing to fulfill its trade agreements. The United States and others have their work cut out for them in dealing with these various issues.

As influential as the United States can be in some parts of the world, trying to address these challenges alone may end up changing little, if anything. That is why the United States should work with its partners and allies in parts of the world where the United States does not have strong influence.

Economic Prosperity Network

The Trump Administration has been working on a number of initiatives to meet these challenges. Earlier this year, U.S. officials gave details about an Economic Prosperity Network (EPN) with three goals in mind:

1. "[E]nsuring sustained economic growth and prosperity for all partners;

2. "[E]xpanding fair, transparent, and reciprocal collaboration and trust principles to all aspects of economic partnering; and

3. "[C]reating a level playing field for companies, economies, and countries, based on integrity, reciprocity, accountability, transparency, and fairness."[3]

The EPN looks to build on earlier efforts of the important Quadrilateral Strategic Dialogue, which includes the United States, Australia, India, and Japan—a grouping which this year was expanded to discuss the COVID-19 crisis.[4] The EPN, on the other hand, is likely to focus more on economic issues than traditional security issues.

The United States also recently announced that it will begin a formal dialogue with the EU on China.[5] This is in addition to an ongoing dialogue with the EU and Japan to reform the World Trade Organization to deal with China's market-unfriendly practices. Making sure these major partners are on the same page as the United States will not be easy but will be worth the investment. However, while the Trump Administration is engaging with these partners, it is also placing tariffs on the goods the United States imports from them—creating diplomatic and market uncertainty and increasing the cost of goods for Americans.

Trade Policy with Its Own Agenda

For the past three years, the Trump Administration has ham-handedly applied U.S. trade law. Initially, the Administration used an outdated national security trade law, Section 232 of the Trade Expansion Act of 1962, to apply tariffs to steel and aluminum imports from allies such as Australia, Canada, and Japan and friends in India and throughout Europe. The threat of tariffs on automobile and auto parts imports, particularly from Japan, is still looming. And investigations are underway to determine whether the same law can be used to apply tariffs on mobile cranes and electronic transformer imports.

Another trade law, Section 301 of the Trade Act of 1974, was used to apply tariffs on imports from Europe because of a decades-long dispute over civilian aircraft production. Tariffs were applied not only to non-industrial goods exports but also on exports from countries in Europe that had no part in the initial dispute. The Administration is also considering imposing tariffs on various countries' imports in retaliation for their digital services taxes on U.S. companies.[6]

These tariffs have not only clouded diplomatic relations with our friends and partners—as the Administration has sought their cooperation on China—but they have also done more harm than good to the U.S. economy. A recent staff report from the Federal Reserve Board shows that the tariffs in 2018, and resulting retaliation, increased producer prices and reduced American manufacturing employment.[7]

China's Wolf Warriors

The saving grace for U.S. engagement abroad on China is that our partners are now less likely to take Beijing at its word, not necessarily because of U.S. engagement but because of Beijing's belligerence. Beijing has become aggressive over the past several years, and partners are hearing it loud and clear.

This, among many things, has led European countries to rightfully worry that Chinese investors might take this time to acquire vulnerable European firms. Meanwhile, an EU–China bilateral investment treaty appears to be falling apart at the seams as China's reform of state-owned enterprises remains lackluster. Japan's government is concerned about its nation's reliance on China for manufacturing and how Beijing occasionally places restrictions on trade for political reasons, as it did with Japan in 2010 and is doing right now with Australia.[8]

Now is the time to engage more with these partners and allies, as their interests and concerns around China become aligned with ours. But to have a more fruitful dialogue, U.S. trade policy is going to need to change. The idea of reforming the World Trade Organization is already a good start. The Trump Administration should:

- **Remove Section 232 tariffs.** The national security threat from these imports is already questionable, but the negative impact the tariffs have had on diplomatic relations is not. Removing these tariffs will bring stability to U.S. engagement abroad.

- **Remove Section 301 tariffs.** The trade disputes behind these tariffs are legitimate but do not warrant priority right now. Dealing with the China challenge is the priority and should not be sidetracked by trade squabbles.

- **Engage more economic partners.** Engaging more with Taiwan should be a no-brainer for U.S. foreign and trade policy. Finalizing the trade agreements with Japan and Kenya is also important, and pursuing trade agreements with other partners such as Georgia and Switzerland can help mature the EPN as well.

- **Hold off on future tariffs.** Current Section 232 and Section 301 investigations could mean new tariffs on U.S. imports over the next year, further increasing costs for Americans, slowing progress with economic partners on the China challenge, and delaying the economic recovery.

- **Realign trade policy to support a strong U.S. economy.** Protectionist trade policies, such as "Buy American" rules and tariffs, impose costs on the U.S. economy and downward pressure on employment. Eliminating these rules can help restore the competitiveness of the U.S. market.

The past three years of U.S. trade policy has done little to help the U.S. economy and even less to bolster U.S. influence abroad. The U.S. cannot continue to rely on Beijing to shoot itself in the foot. The United States should double its efforts to deal with the China challenge, and that requires a change in current U.S. trade policy.

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Endnotes

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