The US-China Trade Clash: Two Views

By Simon Lester

US President Donald Trump is leading his country into a trade quagmire. The intensification of skepticism and hostility towards China and recent aggressive actions will be difficult to undo or pull back from.

By Aidan Yao & Shirley Shen

While a positive development, the prospect of trade talks restarting between the US and China is unlikely to lead to a major breakthrough. US President Donald Trump seems set on a collision course with Beijing before the US midterm elections in November.
Digging in for a Long Fight

By Simon Lester

US President Donald Trump frequently proclaims his desire to “drain the swamp.” In U.S.-China trade relations, however, he is steadily leading the United States into a quagmire from which it may be difficult to escape. Skepticism and hostility towards China among U.S. politicians and commentators existed long before Trump, but the intensification of the rhetoric, and aggressive actions taken in recent months, will be difficult to undo or pull back from, at least for this administration.

Like all countries, China is guilty of a number of trade sins. There are sectors in which it is highly protectionist, and it has only recently begun to follow rich country norms on intellectual property. China is not the only offender, of course, but given its economic size and its authoritarian politics, it is not surprising that China is the target of the most intense criticism.

What is surprising is the strategy taken by the Trump administration to address these issues. While the Barack Obama administration tried to work within multilateral rules, the Trump administration has decided to go it alone. It is imposing tariffs on China that clearly flout World Trade Organization (WTO) obligations, and which do not appear to be achieving the objective of prompting reform in China.

Instead, we are in the midst of a back-and-forth game of tariff escalation. The U.S. imposes tariffs on U.S.$34 billion of imports; China matches it. The U.S. adds tariffs on another U.S.$16 billion of imports; China matches that. The U.S. is now threatening tariffs on $200 billion of imports; China doesn’t import enough from the U.S. to match that, but it will impose tariffs on all the imports it can. If this keeps going, both sides will be imposing tariffs on all imports from each other, and perhaps taking other retaliatory actions as well.

The administration’s defense of its policies is that other methods of dealing with China have been tried and did not work. The administration accuses China of cheating, and says the WTO cannot handle China’s unique brand of state intervention. There have even been suggestions that China’s entry into the WTO on the terms agreed in 1999 was a mistake.

The reality is that WTO litigation against China’s trade practices has worked quite well, where it has been used. China does as well as other countries at compliance when challenged in a WTO complaint. The problem is that WTO dispute settlement needs to be used more. But the Trump administration is not listening to this criticism (it has filed only one new WTO complaint). It is relying mostly on tariffs instead.

And despite the concerns of economists and affected companies, the administration shows no sign of letting up. As long as the U.S. economy is doing well, the administration is confident that it will win this battle. The logic is simple: U.S. imports from China are much greater than Chinese imports from the U.S. Therefore, in a contest of tariffs on imports, the U.S. will come out ahead.

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The Debate: Lester

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