The Daily Dish

China and the Trump Trade Agenda

DOUGLAS HOLTZ-EAKIN | MARCH 23, 2018

Eakinomics: China and the Trump Trade Agenda

To the surprise of no one, President Trump yesterday announced his tariffs and other actions against China, as well as additional details on his steel and aluminum tariffs. To my eyes, the basic contours of the announcement are: (1) it makes sense to focus on China, a well-documented bad actor on the global trading stage; (2) it makes sense to worry about how the United States engages China, and the potential fallout for the international trading system; (3) the process surrounding the China actions is very different than the seemingly chaotic approaches to other trade issues; and (4) there remains an enormous amount of confusion about the actions and path forward.

First, the facts: The president announced levying tariffs at a rate of 25 percent on $50 billion worth of Chinese goods, "confront[ing] China's discriminatory technology licensing practices through a World Trade Organization (WTO) dispute proceeding," and restricting investments by China in the United States.

Taking the key aspects in order:

(1) China is a bad actor that requires a response. Yes. And the Trump Administration should be congratulated for its focus on China, as opposed to broad-based steel tariffs that harm allies. In addition, there has been a debate over whether the United States should "go it alone" in confronting China, or use a multilateral approach (as was, for example, the Trans Pacific Partnership). The actions outlined yesterday have a bit of both: tariffs and investment restrictions, but also a WTO case on licensing practices.

(2) It make sense to worry about how this gets done. Obviously. Equity markets fell at the prospect of a trade war as the result of the U.S. action. The Dow fell 2.93 percent (over 700 points), the S&P 2.52 percent, and the NASDAQ 2.43 percent. It is easy to imagine China retaliating against key exports like agriculture, aircraft, and others. What will the larger implications be?

(3) This is a Trump policy but a non-Trump process. As the administration described it: "In August, President Trump's Administration launched an investigation into Chinese acts, policies, and practices related to technology transfer, intellectual property, and innovation. The U.S. Trade Representative (USTR) led the investigation under Section 301 of the Trade Act of 1974, which gives the USTR broad authority subject to Presidential direction to eliminate unfair trade practices or policies that burden U.S. commerce. USTR led an extensive investigation based on a thorough analysis of evidence and comments received from academics, think tanks, law firms, trade associations, and American companies and workers." In addition, the administration used the agencies to develop the tariffs, will roll out additional detail over the next two weeks, and will allow a 30-day comment period on the final versions. This is far from the administration's recent impulsive moves, nearly withdrawing from the North American Free Trade Agreement (NAFTA) and the steel tariffs.

(4) Enormous confusion remains. On the same day as the China announcement, it was clear that European

Union countries, Argentina, Brazil, and South Korea would join Canada and Mexico as countries exempted from the steel and aluminum tariffs. New AAF research suggests that exempting these nations from the tariffs will save U.S. consumers approximately $5.8 billion in increased costs. But why these countries? And why not obvious allies like Japan or Taiwan? These actions raise the specter that the China announcement is also only an opening bid, soon to be scaled back. If so, by what criteria?

The China trade action is in its infancy and will evolve over the weeks and months to come. There is probably no other policy that is more important to get right and avoid enormous headwinds to economic growth.