



Insight

# The Biden Administration's U.S.-China Trade Strategy: A Primer

TOM LEE | OCTOBER 6, 2021

## Executive Summary

- On October 4, 2021, United States Trade Representative Katherine Tai revealed the Biden Administration's highly anticipated strategic plan on U.S.-China trade policy, which set an overall goal of "building resilience and competitiveness" for American workers and the economy overall.
- The plan lays out four steps to achieve this goal but offers little detail on how the administration plans to implement the steps.
- The lack of specifics suggests that much of the administration's trade strategy has yet to be decided and depends on the outcome of future discussions between the United States and China; the specifics it does offer imply that the Biden Administration will continue many of the Trump Administration's protectionist policies toward China.

## Introduction

On October 4, 2021, United States Trade Representative Katherine Tai announced the Biden Administration's long-awaited strategic [plan](#) on reformulating U.S.-China trade policy. The plan's objective is to formulate a U.S.-China trade policy that builds "resilience and competitiveness — including with our allies and partners — on diversifying markets, and limiting the impact of Beijing's harmful practices."

The plan outlines, in order, four steps the Biden Administration will take in the coming months:[\[1\]](#)

- Revisit the "Phase One" trade deal originally negotiated under the Trump Administration and "emphasize" that China holds up its end to the agreement;
- Reinstate a "targeted" Section 301 tariffs exclusion process;
- Continue high level discussions with China to address more and broader trade concerns; and
- Work more closely with allies to counter China's unfair trade practices.

Although the plan outlines the steps, it provides little detail on how USTR and the Biden Administration will implement them. This lack of specificity suggests much of the Biden Administration's China trade strategy has yet to be decided and depends on the outcomes of steps 1 and 3. The specifics the plan does offer imply the Biden Administration will continue much of the Trump Administration's protectionist trade policy toward China.

## Revisit Phase One

The Biden Administration's first step in its initial China trade strategy is to revisit the "[Phase One](#)" trade agreement and "emphasize" that China upholds its provisions in the agreement. In 2018, the Trump

Administration levied Section 301 [tariffs](#) on \$360 billion worth of imports from China under the justification of punishing China for its forced technology transfer and intellectual property (IP) theft. These tariffs have since become known as the “China Tariffs.” Subsequently, the United States and China agreed to a [Phase One](#) trade deal, in which China agreed to reduce non-tariff barriers against U.S. exports and reform some of its unfair practices (such as IP theft) in exchange for the Trump Administration reducing a portion of its China Tariffs. The deal also outlined that China purchase \$200 billion of additional goods and services (over 2017 levels) from the United States through the end of 2021. The plan does not spell out what the Biden Administration will do if the Phase One agreement discussions fail; it simply notes the need for an “emphasis” on upholding the agreement.

Ambassador Tai stated Phase One is flawed because it focuses almost exclusively on China’s IP theft, while failing to address China’s industrial subsidies and state-directed approach. She also noted, however, that Phase One is beneficial for certain sectors of the U.S. economy, such as agriculture, because it increases market access. It would therefore make sense to pursue a Phase Two deal which builds on the provisions in Phase One that help the U.S. economy, while shifting the priorities toward addressing China’s unfair subsidies. Ambassador Tai ruled out pursuing a Phase Two deal, however.

### **Reopen “Targeted” Section 301 Tariff Exclusions**

The administration’s second step is to reopen a “targeted” exclusions process on the Section 301 China Tariffs. Through this process, U.S. companies can ask USTR to exclude or exempt them from paying certain China Tariffs. USTR evaluates exclusion requests on a case-by-case basis using several criteria, including import availability outside of China and the economic harm of the tariffs. This is the main way U.S. companies seek relief from tariffs. From 2018 to 2020, however, USTR denied 46,000 requests (87 percent) out of 53,000 submitted.<sup>[2]</sup> The Government Accountability Office also found USTR failed to document its internal process in granting tariff exclusions and was neither consistent nor transparent in the process.<sup>[3]</sup> The plan does not provide details on how the exclusions process will be different, only that the process will be reopened and possibly extended.

There is speculation that USTR will conduct a new Section 301 investigation with a focus on China’s industrial practices and how they have hurt U.S. business.<sup>[4]</sup> A new Section 301 investigation would allow the Biden Administration to adjust the current China Tariffs, keeping those it likes and removing those it does not. The new investigation could also simply result in more tariffs. Many were hoping the Biden Administration would completely rescind the China Tariffs. The reopening of the exclusions process and a new Section 301 investigation instead suggests the Biden Administration will continue the biggest and most damaging trade action of the Trump Administration. The White House and Ambassador Tai have not provided additional details when pressed on this issue.

### **Continue High Level Discussions with China**

The administration’s third step is to continue high-level trade discussions with China that go beyond the Phase One deal and cover broader trade concerns. These future discussions will therefore depend on the outcome of the discussion over the Phase One deal. And it is in this step that the administration will make more concrete decisions based on China’s response. Ambassador Tai noted she would emphasize to Beijing that the United States will use all tools available to pursue its trade interests while at the same time stating, “our objective is not to inflame trade tensions with China.”

## Work More Closely with Allies

The administration's fourth step is to work more closely with allies to counter China's unfair trade practices. Ambassador Tai pointed to the [agreement](#) between the United States and European Union to suspend tariffs that resulted from a dispute between Boeing and Airbus as an example of such cooperation. This example is flawed, however, because if the United States and European Union were serious about putting the issue to rest, they would have rescinded the tariffs rather than simply suspending them. Beyond emphasizing the importance of this step, the ambassador provided little detail.

One of the most effective ways the United States can work with its allies is to leverage current trade deals and pursue new ones. Trade deals allow large economies such as the United States to shape regional trade in its favor, while also providing a platform to consolidate and integrate trade practices. This is especially true in the Indo-Pacific region, which has one of the world's fastest-growing and increasingly influential economies. There are currently two major Indo-Pacific trade agreements in effect, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the [Regional Comprehensive Economic Partnership \(RCEP\)](#). China has officially applied to join CPTPP, while it is one of the original signatories to RCEP. The United States, on the other hand, is not a part of either. Ambassador Tai suggested the Biden Administration has little intent in joining CPTPP, deeming it outdated. She did not discuss pursuing another trade deal or joining RCEP.

## Conclusion

The U.S.-China trade relationship is the most important in the world, as it has significant economic implications across the globe. Following a nine-month wait, the Biden Administration finally released its strategic plan on U.S.-China trade relations, but the vague plan provided little new information to the American businesses that are severely impacted by the U.S.-China trade war.

This vagueness of the plan implies that the Biden Administration's strategy will not be clear until after future trade discussions between the United States and China. In the meantime, many of the protectionist trade policies started under the Trump Administration will continue under President Biden.

[1] <https://www.whitehouse.gov/briefing-room/press-briefings/2021/10/04/background-press-call-by-senior-administration-officials-on-the-administrations-trade-approach-to-china/>

[2] <https://www.gao.gov/products/gao-21-506>

[3] Ibid

[4] <https://www.politico.com/newsletters/weekly-trade/2021/09/13/white-house-trial-balloons-new-china-tariffs-797563>