

## What are the trade cards Donald Trump could play against China?

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When US President Donald Trump slapped “safeguard” tariffs on imports of solar panels and washing machines on Monday, to China’s “strong dissatisfaction”, was he firing the first shots in a bigger trade war?

University of Maryland business professor Gary Cohen warned in an opinion article for *The Hill* that Trump could “open the flood gates to counterproductive trade battles”.

But Dan Ikenson, a director for trade policy studies at the Cato Institute in Washington, said on Twitter that Trump’s two predecessors had also imposed discretionary safeguard duties.

However, unlike Barack Obama and George W. Bush, who had more favourable attitudes towards the multilateral trading system and its rules, Ikenson said Trump had been “more assertive” in invoking seldom-used unilateral trade weapons, such as a “Section 301” investigation into alleged Chinese theft of intellectual property, a “Section 232” national security probe on steel and aluminium imports, and a government-initiated anti-dumping and anti-subsidy case targeting Chinese aluminium alloy sheets.

Of those three Trump cards, action under Section 301 of the US Trade Act looms as the biggest potential game-changer.

Derek Scissors, a trade specialist at the American Enterprise Institute in Washington, said the other avenues were “too small” to have much impact, but the Section 301 investigation was “big enough to possibly matter” because it could “justify sweeping American sanctions” worth “many billions” of dollars on Chinese telecoms and semiconductor products, including consumer electronics.

According to the latest data from the US Census Bureau, US computer imports from China were valued at US\$400 billion in 2016, with computer accessories worth US\$280 billion, telecommunications equipment US\$280 billion and semiconductors US\$80 billion.

Trump told Reuters last week the US had a “very big intellectual property potential fine going, which is going to come out soon”.

Trade analysts say Trump is showing signs of becoming more confrontational, with Ikenson saying he was “more inclined toward protectionism than Obama and Bush”, but still limited “by statute, economics, and politics”.

Trump’s first trade action of the year, targeting solar panel and washing machine imports, was based on Section 201 of the Trade Act of 1974.

That section authorises the Office of the United States Trade Representative (USTR) to investigate whether “increased imports” harm American manufacturers. The USTR can impose “safeguard” duties on imports to provide “relief” to American domestic industries.

China fought back on Monday, accusing the US of threatening the global trading system.

Foreign Ministry spokeswoman Hua Chunying told a regular news briefing in Beijing: “I think everyone has seen that it’s precisely the United States’ unilateralist methods, and the sounds it’s made on unilateralism, that are an unprecedented challenge to the multilateral trade system.”

Trump’s ratcheting up of trade pressure on China is a reflection of the “America First” policy he campaigned on. As a presidential candidate he said “we can’t continue to allow China to rape our country” and proposed a 45 per cent tariff on all Chinese imports.

After Trump’s inauguration a year ago, his administration focused on reducing America’s trade deficit with China by demanding reciprocal access to the Chinese economy for US firms, but it hit a record high US\$275.8 billion last year according to China’s General Administration of Customs.

In early November, during his first state visit to China, Trump and Chinese counterpart Xi Jinping witnessed the signing of more than US\$250 billion worth of bilateral business deals.

“I don’t think the trade deficit is a problem because China can really buy a lot,” Li Bin, chief of the economic affairs section at the Chinese embassy in Washington, said after Trump’s China visit, adding he was “sure China is going to do more next year [in 2018]”.

Liu He, the leader of the Chinese delegation at the World Economic Forum in Davos, Switzerland, said on Wednesday that China was committed to further opening up its domestic markets.

Professor Graham Allison, a political scientist at Harvard University’s Kennedy School of Government, said the US was set to demand more Chinese adjustments on trade issues because “Trump is determined to shrink the bilateral trade deficit”.

The Trump administration has shown signs it could release the conclusions of the Section 301 investigation into alleged Chinese intellectual property theft ahead of schedule, allowing the USTR to put punitive actions into motion.

Anna Ashton, a director at the US-China Business Council in Washington, said there were three ways the US government could proceed after the release of findings: lodge a lawsuit against China with a view to settling the dispute at the World Trade Organisation (WTO), start

negotiating a solution with the Chinese government, or proceed with unilateral sanctions against China.

If it chose the latter option, Ashton said, there was a risk the US would not be complying with its international obligations to the WTO. “Then we will be starting a trade war, perhaps.”

The US Commerce Department is also moving quickly on its investigations under Section 232 of the Trade Expansion Act of 1962, initiated by US Commerce Secretary Wilbur Ross in late April last year to determine the effects of imports of steel and aluminium on US national security.

Ross singled out China as a main target of the investigations, but US International Trade Commission data shows China is not among America’s top 10 import sources for steel and primary aluminium. It is, however, the top supplier of aluminium plate, sheet and strip products.

The Commerce Department submitted reports on the Section 232 investigations to the White House in the past fortnight, giving Trump 90 days, until early May, to select responses from his trade arsenal.

In November, the Commerce Department launched another trade weapon aimed at China: a “self-initiated” anti-dumping investigation into Chinese aluminium alloy sheet. It was the first such action taken by the US against a trading partner since 1991.