

# The future of the US-China relationship under Joe Biden

Lizzy Burden

November 26, 2020

Joe Biden is not a 'tariff man', but he inherits a trade war with the world's next largest economy that will make him one by default if he isn't careful.

The President-elect has said he would prefer to focus on returning the US to health and prosperity – as China already has. But alas, the legacy of Donald Trump's 'America First' trade agenda will be hard to shake off as the hostility towards Beijing on which it is based is now shared by much of Congress and the American public, as well as the unions and left-wing groups to whom Mr Biden owes his victory.

Having helped China join the World Trade Organisation, paving the way for it to become a manufacturing superpower, and having as recently as May last year laughed off the suggestion that “China's going to eat our lunch”, Biden will need a shrewder eye on the competition in 2021.

As a parting gift, Mr Trump will leave Mr Biden a trap. Phil Levy, a former trade official in the George W Bush administration and chief economist at Flexport, warns: “Just as he takes office, he will face these numerical targets, which the Chinese won't meet.”

Part of Mr Trump's Phase One deal with Beijing demanded China purchase an extra \$200bn (£150bn) worth of American goods and services in two years. However, less than a half of this year's target had been bought 10 months into 2020, according to the Peterson Institute for International Economics.

“So, does Biden reject the whole process because it was misguided and hurt Americans more than anyone else? If he does, he will be pilloried for being weak on China,” says Mr Levy. “Or does he stick with Phase One? Then all of a sudden he'd have adopted Trump trade policy.

“Unlike many of his predecessors, if President Biden does not change course, that in itself is a major decision.”

The Regional Comprehensive Economic Partnership (RCEP), agreed this month between China and 14 other East Asian countries that together account for almost a third of global economic output, will force trade in the Pacific Rim further up Mr Biden's agenda. After Mr Trump withdrew the US from the Trans-Pacific Partnership (TPP), negotiated by the Obama administration but never approved by Congress, RCEP was the second mega Asian trade agreement in the region to leave the US on the sidelines.

Most significantly, RCEP establishes a single rule of origin for the goods that members produce, meaning qualifying products will be able to access 15 markets on beneficial terms. Even if China

did not drive the negotiations, its influence over standards is evident by the lack of rules on state-owned enterprises and state subsidies for RCEP products.

“It’s been a wake up call for the new administration,” says former acting deputy US trade representative Wendy Cutler, of the Asia Society Policy Institute.

While few see Mr Biden joining RCEP or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the renegotiated TPP) any time soon given the legwork it would require, his multilateralism will be what separates his approach to China from his predecessor’s.

“Trump genuinely believes the rest of the world, including our allies, are all cheating us on trade,” says Simon Lester, a trade policy expert at the US’s libertarian Cato Institute. By contrast, Mr Biden has declared the US “strongest when we work with our allies”. It’s a view his choice for secretary of state Anthony Blinken, echoed: “Most of the world’s problems are not about us, even as they affect us. We need to partner with others.”

Mr Biden will have more clout to deal with China if he heals the rift with the EU. For Lester, removing tariffs on steel and aluminium would be an easy first step. Although doing so risks alienating industrial workers in the Midwest, who were key to Biden’s win.

He could sweeten the pill by giving “something else to the companies and labour unions who’ll lose out”, Mr Lester says.

Trickier will be resolving the Boeing-Airbus dispute, a battle in the transatlantic trade war that long predates the Trump administration. Mr Levy suggests President Biden could call a truce and set up a special committee on the issue, but admits: “That’s what they did all through the Nineties, and it absolutely is kicking the can down the road.”

Ms Cutler is more optimistic: “We’re in a unique position because both sides have tariffs in place and the desire to get the other side to lift those tariffs. There’s a new feature to the dispute which lends itself to trying to find a landing zone.”

While the WTO could help in this regard, having authorised those tariffs, it is paralysed and in desperate need of reform itself.

A new director-general would help, and the US backing the consensus candidate Ngozi Okonjo-Iweala, the former Nigerian finance minister, would end the leadership race. However, Mr Biden’s support in January is by no means a given. “He has been silent on the issue, but it would be an enormous early sign of goodwill to allow Ngozi to take charge so we can get working on the substance,” says Ms Cutler.

The third main sticking point with the EU is digital services taxes. Mr Trump withdrew from negotiations, claiming the levies hit US tech giants disproportionately, but experts hope President Biden will re-engage in talks at the Organisation for Economic Co-operation and Development to find a solution.

Nonetheless, even if Mr Biden manages to repair relations with Europe, his emphasis on human rights, labour rights and the environment, and the degree to which he pressures allies to adopt it, could ignite more tension with Beijing.

“Is Europe really willing to put its commercial ties at risk?” asks Marianne Schneider-Petsinger, a fellow on the Global Trade Policy Forum at think-tank Chatham House.

The person responsible for persuading partners to the cause, the US Trade Representative or 'trade czar', is typically one of the last appointments made by a President-elect.

Ms Cutler characterises the role as a consolation prize for someone rejected from other positions – “like the last man or woman standing in musical chairs”.

The hot favourite is Katherine Tai, the Democratic trade counsel on the House of Representatives' Ways and Means Committee, who was previously head of China enforcement for the USTR and a fluent Mandarin speaker, having taught university English for two years in Guangzhou.

In August, Ms Tai outlined her approach at a Centre for American Progress event, claiming the Trump administration had been “very strong” on confronting China, but that such tariff actions were largely “defensive”.

“The offence has got to be about what we are going to do to make ourselves and our workers and our industries and our allies faster, nimbler, able to jump higher and able to compete stronger,” she said.

Other runners and riders include Representative Jimmy Gomez, a Ways and Means Committee Democrat from California, who has no background in trade other than a brief stint as a negotiator on the United States–Mexico–Canada Agreement.

An even longer shot would be Michael Wessel, a member of the US-China Economic and Security Review Commission and leading activist trade lawyer. Apart from him, there are understood to be no other progressives under consideration because the Clinton and Obama administrations hired so few progressives on trade there are none experienced enough now to promote to senior roles.

Whoever is chosen may be less prominent than current czar Robert Lighthizer, the man who put trade at the top of the agenda for the Trump administration.

“Trump has given us this legacy of protectionism,” Mr Lester says.

“Somebody will have to unwind that. You need people there who understand the substance of the law, the economic theory and the politics of dealing with Congress and trading partners, both allies and rivals.

“You need some really talented people. It may take many years to unwind all that Trump has done.”