

The EU and Japan struggle to harness Trump's China trade ire

Alan Beattie

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Japan and Europe are not used to thinking of themselves as collateral damage in other countries' trade wars. The EU in particular, the largest trading bloc by the amount of exports and imports for goods and services, is more used to dictating terms than to obeying them. So it is something of a comedown for Tokyo and Brussels to find their main role in the continuing US-China trade conflict is to try to duck out of the way and attempt to channel the torrents of American anger at Beijing down the canals of multilateralism.

Last week in Paris, the EU and Japan met with the US as part of a trilateral initiative first launched in 2017 when Donald Trump was ramping up trade tensions with China. Their aim is to persuade the US to create alliances rather than fight all-comers. They are offering Mr Trump a coalition to push for reform of China's trade-distorting economic model rather than hammering away alone with punishing tariffs on Chinese exports or disruptive bans on doing business with Huawei.

The EU and Japan have plenty at stake. Both have been hit directly by tariffs on their own steel and aluminium exports to the US, a measure Mr Trump threatens to extend to cars. European automakers with US plants exporting to China, and Japanese electronics companies which rely on Chinese companies to assemble their products for sales to the US, have also suffered in the Washington-Beijing crossfire.

The three have important interests in common. Tokyo and Brussels agree with Mr Trump that China has far too much leeway to funnel state subsidies or otherwise distort markets to help its companies. Their proposal is for the three authorities to come up with a new and broader definition of illegitimate payments. Once achieved, they would then work to persuade other big countries including China to join a collective binding pledge at the World Trade Organization not to use such handouts in future.

But the Trump administration has an instinctive aversion to anything leading toward multilateralism. People familiar with last week's discussions in Paris said that, while the US has engaged with the process, a strong common position remains elusive. The meeting finally produced only a thin statement of intent.

“The statement had multiple mentions of common concerns, but not much agreement over what to do about them,” Lourdes Catrain, a partner in the trade practice at the law firm Hogan Lovells in Brussels, says.

US officials put forward only a very broad definition of subsidies, for instance, one that observers criticise as being unrealistic. On the EU side, there are fears this definition could end up outlawing some government payments permitted by EU state aid rules - and ironically even state and federal support in the US.

Robert Lighthizer, the US trade representative, and Cecilia Malmstrom, the EU trade commissioner, clashed over the US’s use of emergency tariffs based on concerns about national security. And the EU and US continued to disagree about how to resolve a subsidy dispute of their own, the legal battle over handouts to Airbus and Boeing, which has now been running for nearly 15 years.

The US has recently shown signs of concentrating its fire and picking its enemies. Mr Trump elected to lift steel and aluminium tariffs on Mexico and Canada to get “Nafta 2.0” — the US-Mexico-Canada Agreement (USMCA) — through Congress. An optimistic reading is that he is grasping the importance of the US distinguishing between an economic rival like China and like-minded countries such as its North American neighbours.

But Simon Lester of the Cato Institute think-tank in Washington DC says: “I think dropping the tariffs on Canada and Mexico was a transactional move to get the new NAFTA through Congress rather than a broader recognition that China should now be the focus.”

At the same time, the White House gave the EU and Japan a six-month reprieve on imposing auto tariffs. Tokyo and Brussels will seize on any sign of co-operation to argue that the US is better off regarding them as allies in a campaign for a bigger prize — reform of world trade rules to constrain China — than as rivals. So far, however, that crusade shows limited signs of progress.