



# Why Did Donald Trump's Trade War on China Fail?

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Whatever you thought of Donald Trump's trade policy, it is fair to say that he had an aggressive trade strategy: imposing tariffs, renegotiating trade agreements, and generally accusing other countries of taking advantage of the United States. While he pointed fingers at many people, without a doubt his main target on trade was China. To be sure, he had harsh words for the Europeans, Canadians and others. But his words and actions were most often focused on China. And yet after four years of the Trump administration, China's trade practices remain largely the same. That leaves us with two big trade policy questions to ponder now: Why did Trump's trade strategy fail? And what should the Biden administration do instead?

The Trump administration's efforts to address Chinese trade practices started with an investigation, turned to tariffs (and retaliatory tariffs by China, and then more tariffs by the Trump administration), and concluded with a "Phase One" trade deal (bigger issues were left for a "Phase Two" deal, but there are no signs that it is coming any time soon). However, it's not clear how much was achieved. Most of the extra tariffs and retaliatory tariffs are still in place. Exports to China have not met expectations. And except for a couple of sectors, China's market has not been opened much.

The pandemic gets a bit of the blame for this, of course, as economies around the world have stalled and trade has slowed. But the failure was evident before that. The question then arises, with so much emphasis placed on China, why did the Trump administration achieve so little with its efforts?

## What Did the Trump Administration Do Wrong?

A big part of the answer is that the administration thought it could solve the “China problem” on its own. Instead of working with other countries, and going through the WTO or some other multilateral forum, the administration made its own unilateral determinations with regard to China and imposed tariffs pursuant to a domestic statute. That approach simply does not carry much weight anymore (if it ever did). If governments want China (or the EU or Canada or any other sovereign nation) to take complaints about "unfair" trade practices seriously, then they have to pursue them in a neutral forum. Acting as both the prosecutor and the judge in a trade case, as the Trump administration did here, is just not credible. It may very well be that China (or the EU or Canada) is violating trade obligations or otherwise behaving unfairly. But that question cannot be decided by looking only at one side’s legal briefs. And this sort of unilateralism may actually backfire and make the desired reforms less likely, by making it politically difficult for the offending party to change its policies.

The Trump administration and its supporters might argue that past administrations tried the multilateral approach and it didn’t work, or they might even claim that these administrations "did nothing" about China. But the history here tells a more nuanced story. China has only been a Member of the WTO since 2001, so there are only two other administrations to consider on this point.

The Bush administration was the first to deal with China as a WTO Member. China had, at least informally, a grace (transitional) period before it was pressed on compliance with its obligations. By the time that ended, however, the United States was bogged down in the War on Terror, and could not give China the emphasis it deserved. To some degree, the Middle East adventurism of that administration needed China’s consent, so the Bush trade team was not in a position to push China too hard. They brought a few WTO cases against China (after the grace period), but their efforts were fairly limited. Thus, it’s not that the Bush administration tried the multilateral approach and it failed. When they tried it, the results were actually pretty good. Rather, they were simply distracted by other issues and could not give Chinese trade practices the attention they deserved in WTO litigation (they did, however, actively apply anti-dumping/countervailing duties to Chinese imports).

The Obama administration was up next. The Obama foreign policy team was looking to escape the Middle East quagmire, and the so-called Pivot to Asia was a key part of the foreign policy they chose as a possible way out. China was a big focus of this effort, and the Obama administration put forward a trade deal among Pacific nations known as the Trans-Pacific Partnership that would have put economic pressure on China: China would have been placed at a disadvantage in its backyard if it didn’t step up and liberalize more. The Obama administration was able to complete the negotiation with 11 other countries, but unfortunately, the deal fell victim to U.S. domestic politics, with Republicans in Congress reluctant to give the Obama administration a "win," and the left rebelling against the whole exercise. Thus, while the Obama administration did try the multilateral approach, it never took effect due to political opposition at home.

What we have, then, are three attempts to push China to liberalize further and to uphold the spirit of its WTO accession, all of which fell short. Each failure came from its own particular set of circumstances. What the Biden administration needs to do now is learn from these mistakes and do better this time.

### **What Should the Biden administration do differently?**

The place to start is China's WTO accession commitments. These commitments are broader than many people realize and remain useful for opening China's market. However, at this point, they are becoming a bit dated and could use supplementing with new obligations. That sets up the following agenda for a Biden administration to follow on Chinese trade practices: Work with allies to litigate against and negotiate with China to promote further liberalization. The specific steps to take are the following.

First, the Biden administration should drop the various trade fights with allies, and focus on working together with them on China issues instead. The obvious candidates for fights to drop are the Section 232 "national security" tariffs and the U.S. decision to block appointments to the WTO's Appellate Body and to the Director-General position. But a trade truce could go much further than this. For example, if the main concern of U.S. trade policy is issues such as European reluctance to buy hormone-treated beef, that's a choice trade officials can make. They can litigate and impose tariffs and demand compensation. But if they believe China is the biggest protectionist problem in the world today, as many people do, they should drop the smaller trade disagreements like "food fights" with Europe and focus on China instead.

Second, the Biden administration should lead a coordinated effort to litigate cases against China under existing WTO provisions. This approach has had success in the past, and if given a greater emphasis and done jointly with like-minded governments, it could be even more fruitful.

Third, the Biden administration should also lead a coordinated effort to press China to sign on to new commitments. For example, it is time for China to join the WTO's agreement on government procurement, and open more of its procurement contracts to foreign suppliers. China is much wealthier than it was at the time of its WTO accession and additional market liberalization is appropriate now. If China resists this push, then the group of countries can consider a joint approach to ratcheting up the economic pressure on China.

With this coordinated effort, the United States and others can send a clear signal about what is required of China to play an appropriate role in the trading system. President Trump demanded that Chinese state-owned enterprises buy more American soybeans, which sent a signal to China that its state-led economy was acceptable. By contrast, a Biden administration should focus on a push for restructuring the Chinese economy into something more market-oriented, with private enterprise and market forces playing a greater role.

This would be a significant change for China, and there will be domestic hurdles the Chinese government would face even if it wanted to do this. But a clear and united message from the leading democratic market economies is the most effective way to pursue this agenda.

A dose of realism is required here, as the issues with China go far beyond trade at this point. Human rights, democracy, territorial, and security issues have all grown more serious in recent years. To some extent, trade may be subordinated to these broader concerns. But with regard to the goal of addressing Chinese protectionism and other bad trade practices, the reasons for past failures are clear and a possible strategy for success is available if the Biden administration wants to take it.

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