

CONFLICTING SIGNS—AND SIGNS OF CONFLICT

BY MATTHEW P. GOODMAN

The drumbeat on China: After a year of eerie calm in U.S.-China trade relations, Washington and Beijing are bracing for impact. Having imposed **safeguards on imports of washing machines and solar panels** in January, the Trump administration is set to roll out a series of new trade remedies soon: some combination of tariffs and quotas under the **Section 232 national security** cases on steel and aluminum, and a range of actions under the **Section 301 investigation** on forced technology transfer and intellectual property theft, which could include higher tariffs on Chinese imports, restrictions on inbound investment, and denial of visas to Chinese visitors. The Chinese authorities are finally showing signs of serious concern that U.S. action is imminent.

Many in Washington will quietly cheer the administration's actions. More than a decade and a half after China joined the World Trade Organization (WTO), a broad consensus has emerged in the United States that the commitments to market opening and reform that Beijing made back in 2001 are inadequate to constrain a more mercantilist China under Xi Jinping. Even many U.S. corporations with enormous stakes in China privately believe it is time for the Trump administration to move beyond bluster and push back against Beijing's heavy-handed treatment of U.S. exporters and investors.

But worries abound regarding the specific actions the administration might take and the rationales used to support them. A broad interpretation of national security as a pretense for reducing import competition will likely invite imitation by other countries. Tariff hikes would raise costs for downstream producers and final consumers and likely violate U.S. obligations in the WTO. Even less-problematic actions from a WTO perspective—say, broad restrictions on Chinese investment in the United States—are likely to invite retaliation by Beijing against U.S. export interests, notably in the aircraft, consumer goods, and agricultural sectors. Some cost is inevitable if Washington is going to shift Beijing's calculations, but there is unease about whether the Trump administration has the ability to act judiciously, and whether it fully appreciates (or cares about) the potential impact on third countries and the global trading system at large.

Even more worrisome is that the administration hasn't made clear—and may not know—what it wants from China. President Trump and Trade Representative Robert Lighthizer **have complained** about the large bilateral trade deficit and about Chinese overcapacity in steel and other commodities that leads to dumping in the U.S. market. But last year the president **reportedly rejected** a deal to cut excess Chinese steel capacity negotiated by Commerce Secretary Wilbur Ross; he later turned up his nose at a **Chinese offer of \$250 billion** in “new” purchases of U.S. exports and a **partial opening of the financial services market**. Given the level of distrust in the White House about Beijing's motives, it isn't clear what would satisfy the administration and persuade it to pull back from escalating trade conflict with China.

Judging from the high-level officials it dispatched to Washington this month—first, top foreign policy adviser Yang Jiechi, then senior economic adviser **Liu He**—it is clear that Beijing is worried, too. Good. The White House should tell these officials in no uncertain terms what it wants—removal of equity caps and other market access restrictions in China, an end to forced technology transfer and intellectual property theft, a rollback of subsidies that feed overcapacity, greater regulatory transparency—and the consequences if Beijing does not act. The administration should also press allies in Europe, Japan, and Australia to deliver similar strong messages to China. ■



Upcoming Events

- February 25–March 5: Seventh Round of NAFTA Renegotiation Talks (Mexico City, Mexico)
- March 8: TPP-11 Signing Ceremony (Santiago, Chile)
- March 9: The Return of Marco Polo's World: A Book Launch & Reception with Robert D. Kaplan (CSIS)
- March 19–20: G20 Finance Ministers and Central Bank Governors Meeting (Buenos Aires, Argentina)

CONFLICTING SIGNS—AND SIGNS OF CONFLICT *(continued)*

On one hand, on the other: The *Economic Report of the President (ERP)* released on February 21 raised eyebrows in Washington. The thick volume on the U.S. economy and economic policy, produced this time each year by the president's three-member Council of Economic Advisers (CEA), struck a very different tone on trade and globalization than other White House pronouncements—not least President Trump's Twitter feed.

Seeming to contradict the president's protectionist impulses, the ERP declares, "Trade and economic growth are strongly and positively correlated." It goes on to argue that "policies that try to affect the trade balance without considering the broader current account balance, or vice versa, will be hard-pressed to succeed in the long run." Moreover, despite the administration's skepticism about WTO dispute-settlement procedures, "The United States gets better outcomes via formal WTO adjudication than negotiation, increasing the probability that the complaint will be resolved and decreasing the time it takes to remove the barrier in question." And as for trade agreements like the North America Free Trade Agreement (NAFTA), variously described by the president as "terrible" or "**the worst trade deal ever made,**" the ERP clinically states, "Studies suggest the existence of net positive gains from NAFTA for U.S. GDP and employment."

Together with President Trump's **comments at Davos** in January hinting at a possible U.S. return to the Trans-Pacific Partnership (TPP), could the ERP be another sign that the balance of opinion in the White House is shifting toward a more traditional stance on trade? Probably not: it was reported late this month that presidential adviser Peter Navarro, producer of the alarmist video "**Death by China**" and a notorious trade skeptic, **was being elevated** to the rarified rank of "assistant to the president." This suggests that Trump continues to value Navarro's counsel despite earlier rumors that the adviser had been sidelined. It also suggests that CEA's ability to get out a more pro-trade line likely reflects a different kind of "clearance problem" at the White House. ■

Pouring the foundations: The domestic infrastructure plan rolled out by the White House this month has been **met with almost universal skepticism**. By contrast, the administration seems to be making some headway in refining its plans to promote "quality infrastructure" around the world. Since the president marked this as a priority in a **speech in Vietnam** last November, three notable developments have occurred.

First, the **White House budget proposal** released in early February called for creation of a new "Development Finance Institution" (DFI). This would combine the Overseas Private Investment Corporation (OPIC), the quasi-governmental entity that provides sovereign risk insurance and debt finance for large projects in developing countries, with the Development Credit Authority (DCA) funds administered by the U.S. Agency for International Development (USAID), and give the new entity greater resources and authorities (for example, an ability to take equity positions in projects).

The White House has been supporting a **bipartisan legislative effort** led by Senators Bob Corker (R-TN) and Chris Coons (D-DE) to establish the DFI. The next step, reportedly, is to work with other G7 members—this year's host, Canada, as well as Japan and Europe—to make a concerted effort to promote alternative financing mechanisms to those being expansively offered by China under its Belt & Road Initiative (BRI).

The second notable development occurred at a **public event at CSIS** in early February, when Under Secretary of the Treasury for International Affairs David Malpass announced a new strategy for the Western Hemisphere called "The Americas Grow" (*America Crece* in Spanish) that incorporated as one of its 11 pillars a major push on energy infrastructure in Latin America. Again, this was framed by Malpass as an effort to push back against Chinese use of concessional finance to make commercial and strategic inroads in Latin America.

Then in late February, a **senior Australian official told the press** that the revived "Quad" arrangement bringing together the United States, Japan, India, and Australia would include cooperation on "quality infrastructure." Like the month's other developments in this area, questions remain about the details and scale of funding that might be forthcoming under this initiative. Nevertheless, these are all promising signs that the administration "gets" that a strategic response—not opposition, but an appealing alternative—to China's BRI is critical for U.S. interests. ■

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