

Global Economics Monthly

PICKING A LANE

BY MATTHEW P. GOODMAN

The eye of the Trump trade policy storm passed over CSIS earlier this month when U.S. ambassador to the World Trade Organization (WTO) Dennis Shea sat down with my colleague Bill Reinsch for an [armchair conversation](#). It was a moment of calm clarity on what the administration hopes to achieve on the interrelated issues of WTO reform and China. Shea made a number of reassuring points but also used a turn of phrase that—particularly when viewed in light of Vice President Mike Pence’s [forceful speech on China](#) this month—was worrisome.

The reassuring bits were Ambassador Shea’s description of U.S. activities and immediate priorities at the WTO. He made clear that his team of experienced officials at the U.S. mission in Geneva is deeply engaged in the day-to-day work of the organization, attending committee meetings, tabling proposals, and trying to shape the debate on WTO reform. Shea described the United States as playing a “disruptively constructive” leadership role in this regard—not necessarily a bad thing if true.

Many of the reform priorities Shea laid out are sensible. Top of the list is strengthening the WTO’s so-called “notification” disciplines, under which member countries are meant to—but often do not—disclose information about subsidies and other domestic policies that may affect trade. The United States also wants WTO members such as Singapore, South Korea, and China to give up their self-designation as “developing” countries and commit to the full range of WTO obligations as advanced countries. And the Trump administration wants to reform a dispute-settlement mechanism that many (including the Obama administration) feel has strayed beyond its original mandate—though by [blocking appointments to the Appellate Body](#), the current administration appears willing to “destroy the village in order to save it.”

Much of this reform agenda is echoed in a promising initiative among the trade ministers of the United States, Japan, and the European Union. Starting at the WTO ministerial meeting in Buenos Aires in December 2017, U.S. Trade Representative Robert Lighthizer has joined his EU and Japanese counterparts in issuing a series of four joint statements on shared concerns about the global trading system. The most recent [statement](#), on the margins of the UN General Assembly meeting in New York last month, was the most detailed so far, listing a range of concerns in several areas: industrial subsidies and state-owned enterprises (SOEs), forced technology transfer policies, and digital trade and e-commerce. As a first joint action, the three countries are expected to table a paper in Geneva next month on transparency and notification.

Although there are reports that the United States is the least enthusiastic participant in the trilateral grouping, this is one of the more promising foreign policy endeavors the Trump administration is engaged in, for two reasons. First, it covers the right issues. The major battles in the global economy over the next couple of decades will be fought over which rules should govern the role of the state in the marketplace (i.e., subsidies and SOEs), protection of intellectual property, and freedom of the internet and data flows.

Second, the trilateral initiative is the kind of approach the United States needs to use if it hopes to tackle today’s global economic problems—that is, working with allies and like-minded partners. Nowhere is this more true than in dealing with China’s problematic trade and industrial policies, which are the thinly disguised target of the four joint statements. No matter how intense, bilateral pressure from the United States is unlikely to cause a fundamental change in Beijing’s behavior; whereas presenting a united front with the European Union and Japan—which, together with the United States, represent [over half](#) of global economic weight—is something Beijing can’t ignore.



Upcoming Events

- November 6: U.S. Midterm Elections
- November 7-8: Federal Reserve Open Market Committee Meetings (Washington, D.C.)
- November 11-15: East Asia Summit and U.S.-ASEAN Summit (Singapore)
- November 12-18: APEC Economics Leaders’ Meeting (Port Moresby, Papua New Guinea)
- November 30 – December 1: G20 Leaders’ Summit (Buenos Aires, Argentina)

PICKING A LANE *(continued)*

The trouble is that the Trump administration is doing contradictory things that undermine allied cohesion. EU and Japanese steel exports to the United States are still subject to a 25 percent tariff (on specious national security grounds), and a U.S.-EU ceasefire on trade last summer now appears **at risk of breaking down**. Moreover, the **specter of tariffs on automobiles and auto parts** hangs over negotiations with both economic partners.

The Trump administration's escalating rhetoric on China presages a further possible rift with allies. The fiery speech by Vice President Pence on October 4 included a lengthy "bill of particulars," outlining complaints about Chinese behavior not only in the economic arena but also in matters of security, foreign affairs, and human rights. While the speech failed to lay out a strategy for dealing with these problems, the forceful tone signaled a turning point in administration policy, in which a decision appears to have been made to oppose or counter virtually every Chinese action. Talk of "containment" has resurfaced in Washington.

It is against this backdrop that a statement by Ambassador Shea near the end of his remarks at CSIS was particularly troubling. Chastising other WTO members for adopting a "middle of the road" position on China, Shea prodded them to "pick a lane." To be fair, he was speaking in the relatively narrow context of WTO reform, but when seen in light of the Pence speech and other recent actions by the administration, Shea's turn of phrase suggests a broader effort to force others to choose between the United States and China.

Something like this "pick a lane" approach was evident in a much-talked-about provision of the new United States-Mexico-Canada Agreement (USMCA). **Article 32.10** of the new trade agreement allows signatories to withdraw from the deal if another signatory pursues a separate free trade agreement with a "nonmarket economy"—a clear reference to China. As with threatened secondary sanctions on companies from third countries that deal with Iran, the Trump administration is clearly signaling to allies that deepening economic engagement with China may come at the cost of business with the United States.

The problem is that attempting to divide the world into two camps as the United States did during the Cold War is unlikely to work with China. To be sure, allies in Europe and Asia have similar concerns about China's industrial policies and disruptive role in the global economic order, but they are deeply interdependent with China economically in a way that was never the case with the Soviet Union. The fact is that

countries don't want to choose between the United States and China—and if forced, they may not always choose us.

The Trump administration is not wrong that the WTO needs reform, or that China needs brushing back on its disruptive trade and industrial policies. But forcing countries to "pick a lane" seems bound to fail and only to put global peace and prosperity at risk. The administration should focus instead on more constructive work with allies and partners to address the China challenge, as it is doing in its trilateral efforts with Japan and the European Union.

Matthew P. Goodman is senior vice president, senior adviser for Asian economics, and holds the William E. Simon Chair in Political Economy at CSIS. *Global Economics Monthly* is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author. © 2018 by the Center for Strategic and International Studies. All rights reserved.