

Event Report

**Trump's Tariffs and Trade Doctrine
Responses from China & the EU**

EIAS Briefing Seminar

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As the Trump Doctrine develops around the principles of homeland protection, the promotion of American prosperity, and the preservation of peace through strength, the international world trade environment has already been affected by the consequences of the application of tariffs by the US on Chinese steel and aluminium. In this context, the EU is looking at the development of trade negotiations between the US and China hoping that long-term solutions will be preferred to quick fixes that will dwarf the competitiveness of American and European businesses in the future.

Welcome speech by

Mr Axel Goethals, CEO, European Institute for Asian Studies (EIAS)

After welcoming the speakers and the audience, Mr Axel Goethals opened his speech by addressing the goal of the event: understanding President Trump and his policies regarding trade. He addressed one important aspect of Mr Trump's policies: the fact that they are built on creating contradictions - even contradiction within contradictions - and that the purpose of this approach is to create confusion on the "other side". Additionally, Mr Goethals noted that President Trump is predictable, even though a perception is created that he is not. He went on to question whether or not President Trump is, in fact, exceptionally different from former US presidents in the inherent nature of his domestic and foreign policies, or if it is just the aggressive façade that he developed when making deals in the real-estate sector in Queens, New York. Citing examples of such strong-man behaviour by Mr Trump, Mr Goethals mentioned the way he dealt with the North Korean nuclear crisis and now that he is imposing tariffs on China and Europe.

As Mr Goethals pointed out, domestically, Mr Trump has stimulated the US economy by introducing a massive tax cut for the wealthiest taxpayers that is projected to add more than 2 trillion dollars to the national debt over the next ten years. Could it be that he is imposing tariffs on products imported from abroad, thus treating the tariffs as taxes? The blame for the increase of such "taxes" can easily be put on China and other trading partners. This model that Mr Trump is using to shape trade policies sees the US at the centre, and the rest of the world as its clients - a so-called hub-and-spoke model.

To conclude, Mr Goethals went on to highlight the consequences of the imposition of tariffs by the Trump administration. Firstly, the projected rise of inflation in the US - which was kept low by the cheap manufacture of products by China. Secondly, the US, as the whole world, is part of a global supply chain mechanism: even if production moves to the US, it still has to import components for the manufacturing process, which will be subject to tariffs. Lastly, a big part of the collected tariffs would go in farm subsidies: China is and will continue to retaliate by imposing its own tariffs on US agricultural products, such as soy and soy products, thus inducing the Trump administration to spend billions of dollars to keep American soy farmers from selling their soy to China, adding to the national debt. However, as Mr Goethals pointed out, China is making propositions to soften these tariffs and their possible consequences.

Panel Discussion

Presentations by Mr Peter Chase, Senior Fellow, German Marshall Fund of the US

After a brief introduction of himself and of the GMF, Mr Chase started explaining his views on President Trump Administration's approach to trade. He stated that the Trump Administration believes that the US is the "victim of itself". In fact, according to Mr Trump and those who work around him, for over 70 years American presidents have been lowering tariffs, opening markets and liberalizing the economy, hoping that the rest of the world would follow suit. Although Europe, Japan and other countries have followed the USA's lead, a lot of countries have been more reluctant. This is what prompted President Trump to put at the top of his trade agenda that never again, for putative geopolitical advantages, the US will endure unfair trade practices from its partners. The message is: whatever previous presidents have done for the sake of geopolitical advantage; it is going to stop if the economic cost is too high. In order to accomplish this task, the Trump administration has utilised both traditional and non-traditional methods.

Traditional steps that Mr Trump has taken to change the situation in which other countries rely on the United States as an export market include enforcing anti-dumping and countervailing duty laws, the imposition of tariffs on imports, and the changes in procurement laws. Such tariffs are seen as "penalties" that foreign countries have to pay back because they already impose their own form of "penalties" – such as tariffs of their own – on American exports. Similarly, in changing the procurement laws, this administration made it harder to evade or relax regulations for imports and rendered the process of requesting exceptions more bureaucratic.

Non-traditional ways in which the Trump administration is trying to accomplish its goal include placing safeguards – on washing machines, solar panels, etc. – and imposing Section 232 of the Trade Expansion Act of 1962 on steel and aluminium (different from what Europe is experiencing today, with the application of Section 232 on automobiles). Section 232 is, under US law, a provision that allows the President to take certain measures with respect to imports for national security reasons. The President has used that provision under US law to argue that the steel and aluminium industries in America are so important that they need to be profitable; in order for them to be profitable, imports need to be cut. This is why that particular provision needs to be applied to all foreign suppliers.

Additionally, Mr Chase explained why, in his opinion, the current administration is re-negotiating already existing trade agreements. He showed how making new bilateral deals goes along with Trump's theory that previous governments were giving away too much.

This administration pulled out of NAFTA, the TPP (Trans Pacific Partnership), and is re-negotiating FTAs (Foreign Trade Agreements) with Japan, Malaysia and Vietnam. Mr Chase believes that the prime reason for this is because they have been done by previous administrations, and therefore they cannot be good enough in Trump's worldview. Whereas burden-sharing is the by-word which has been used by this administration in many contexts, Trump prefers the tactic of bilateral confrontation.

Mr Chase continued by explaining that China is the biggest target by the current administration – not just because it has the biggest trading surplus with the United States, but also because it has adopted a totally export-driven approach by not abiding by the same rules that the US and Europe have been playing by. Mr Trump does not see the Chinese economy from a global – multilateral – point of view, but strictly from a bilateral perspective. He sees it more as a balance of payment matter rather than a balance of trade with the US. Mr Chase also noted how there are a lot of complaints the US raised which are shared by many other countries: not only about China's market access, but also about the nature and the distortions in the Chinese economy itself. However, it is Mr Chase's belief that most of these distortions and issues need to be addressed from within the Chinese economic context, and not, like the Trump administration wants, to be imposed from the outside. In fact, Mr Trump wants to coerce China in order to make it undertake certain reforms. That being said, Mr Chase also thinks that other countries that experience the repercussions and certain distortions within the Chinese economy have a right to say that they are affected by them. It is not simply a domestic issue for China, as it has international repercussions.

Mr Chase concluded his speech by manifesting his support for the former TTIP (Transatlantic Trade and Investment Partnership) negotiations, explaining that he thought it was the proper response to the Chinese distortions that the US and the EU are subject to. Although the Trump's administration has stated that it would like to negotiate an agreement that would cover more than what the TTIP was covering, with more countries involved, Mr Chase pointed out, however, that the Europeans might not be inclined to participate in new trading negotiations unless the US President removes the threat of invoking national security on the auto industry, which would mainly affect three trading blocs: Europe, Japan and South Korea, which are major allies.

Presentations by Mr Zhang Yun, International Law Expert at the Economic and Trade Office, Mission of China to the EU

Mr Yun begun his speech by addressing the hard work that his former colleagues at MOFCOM (Ministry of Commerce) in Beijing are putting into negotiating with the United States on trade issues and to terminate the frictions between China and the US.

Next, Mr Yun stated that, because nowadays people gather information on US foreign policy from Twitter, it is worth looking at what President Trump had tweeted in the days preceding this event. Firstly, Mr Trump asserted that both China and the US have made substantial progress in trade talks – so much so that the trade talks in Washington DC had been extended for two more days; secondly, that he will meet with President Xi Jinping in late March to finalize a trade agreement; finally, that the US is planning to delay the expected increase and imposition of more tariffs on Chinese products. Furthermore, Mr Yun is pleased to know that President Trump has stated that he would like to see the US win through competition, and not by blocking other countries from acquiring new technologies. Further frictions and tensions between the US and China might create problems within the international world order.

Concerning how China is impacted by, and is reacting to, Mr Trump's trade policies, Mr Yun highlighted a few considerations. Firstly, China's trade and economic relations should be a win-win situation; the Chinese government would never consider it a zero sum game because this trade relationship is important for the world. In all the years that China has opened up and reformed its market and economy, the US has benefitted too. Secondly, China recognizes that frictions between great trade partners are a normal occurrence. The US and China have substantial trade and investment volumes, different economic systems, and they are at different development stages. According to Mr Yun, China believes that the key to overcome these frictions is in how they will decide to promote cooperation, trust and mutual respect. Thirdly, according to Mr Yun's personal view and understanding, the America First policy adopted by the Trump Administration, especially on the international stage, has brought Mr Trump to raise substantial accusations – such as of economic aggression, unfair trade, and IP theft – to a number of countries, including China. He has intimidated trading partners by imposing his interest through the impositions of tariffs and other extreme pressures, such as accusing China of unfair trade practices.

Finally, Mr Yun elaborated on the Chinese attitude towards US trading policies. The Chinese government has responded to the challenges presented by the US counterparts by upholding mutual interests and the international trade order, as well as by observing the basic principles of mutual respect and consultation. China continues to promote high-level talks between the two countries to increase cooperation, and proposes practical solutions to resolve the issues and remove frictions. China hopes that the world trade order will be brought "back in the right direction". Mr Yun's personal belief is that it is not acceptable for a big economy to walk backwards, through adopting protectionism and other antiquated policies. All the players involved have to move forward to develop even stronger trade relations. The Chinese government does not want a trade war, but it is not afraid of one.

To conclude his speech, Mr Yun addressed the Chinese government's future work: no external influence will stop Chinese development because its consumer market is enormous and its people are resilient. China has the intention to formally promote cooperation with the EU and the US, and to protect the interests of foreign investors, deepening domestic reforms and, finally, work closely with global trade partners such as the EU to uphold the reform and development of the international market and trading system.

Ms Eleonora Catella, Senior Advisor, Business Europe

Ms Catella began her intervention by acknowledging that, in this trade dispute, Europe lies somewhere in the middle between the US and China. She pointed out how the EU is directly affected by these duties that the US has imposed and would like to increase on China, and also by the tariffs that Mr. Trump is threatening to put on European products. European businesses are directly feeling the economic impact of such policies, together with the global economic slowdown.

Then, Ms Catella added that the EU is eager to see how the China-US trade talks will be concluded. The main concern that the EU has is that these frictions between China and the US will find a quick-fix; a solution that will benefit only China and the US and will undermine everybody else, including Europe. What the EU wants to see happen is the reaching of an agreement that will benefit other countries besides the US and China. If the trade talks just aim to solve the short-term issues, both American and European companies will suffer in the long-run because their competitiveness will be affected. A quick fix would also be detrimental for the international trade system in general, because it may imply a lack of rules to regulate new realities that have developed in the last decade. Thus, the EU is hoping for substantial changes to happen in the international world trade and WTO arenas.

The changes that Ms Catella outlined include a reform of the WTO's (World Trade Organization) rules, to halt the regression back towards a bipolar international economic system, and to have China acknowledge the frustration of its trade partners in realizing how much slower than expected China has been in enacting market reforms. Firstly, the rules that the world has given itself to trade at the WTO are over 15 years old; they belong to an age where the internet was not such an important tool within international trading, and they resultantly do not reflect contemporary global value chains. There is an urgency to adapt the rules to the world's current and emerging realities. Secondly, it is important to consider that the self-imposed rules of the WTO were agreed upon collectively by all of its members, for all of its members, to benefit all of its members. Europe, the US and China have all benefitted from this multilateral system. Therefore, it is important not to fall into the trap of letting the two strongest economies dictate the rules and to be the only ones

benefitting from the system because it would set a bad precedent for the future. Lastly, WTO rules were based on the assumption that China will evolve into a pure market economy; however the delivery has not been as fast and as far-reaching as anticipated and promised. China should reflect on this and keep it in mind throughout future negotiations. Europe is pleased to know that in recent years, China has been carrying out reforms at a faster pace.

Ms Catella agreed with Mr Chase in recognizing the distortions in the Chinese economy – while also acknowledging the ones in Europe's. All three trading partners (together with the rest of the world) should be looking into regulating new areas of trade such as e-commerce and those areas where possible distortions may happen in the future. The considerations that the EU has regarding the recent rise of tensions are that all partners need to level the playing field and look at the tools that are available to deal with trade as it is happening today.

Additionally, Ms Catella explained the three fronts on which the EU is working in relation to the US-tariffs and the possible trade war between China and the US. Firstly, at the WTO level, the EU believes it to be necessary to create and pass more rules and it hopes to see the US and China cooperate together. The EU also encourages all countries to take an active role in the reforms. Secondly, at the bilateral level, the EU is building up both leverage and a network of likeminded trading partners through bilateral relations and agreements. Lastly, at the unilateral level, the EU is enacting a series of reforms of its trade defence instruments because they were old tools that needed to be modernized. Other tools and reforms are being considered at the moment so that the EU can adapt to this changing reality and look at the future.

To conclude, Ms Catella asserted that the EU is looking to continue actively shaping its agendas with both its great economic partners, the US and China. Europe has a positive agenda with both of them, as well as untapped potentials. She agreed with Mr Chase that, although the TTIP was a good agreement, the current conditions are not ideal to conclude a deal of that magnitude. The EU looks at the current avenues in a positive way, wishing to get even closer ties with the US and further deepen this economic partnership. Concerning the EU's agenda vis-à-vis China, negotiating an IPA (Investment Protection Agreement) is a key priority. In her final statement, Ms Catella asserted that the EU hopes to realise increased access to the Chinese market, as it is worried that if it happens too slowly there will be no more room for European companies.

Q&A

At the end of the panel discussion, some questions from the audience were gathered. During the first round of questions, it emerged that Mr Trump can be both predictable and unpredictable because of his swift in application of measures. In an intervention by the public, the Trump Doctrine was then further discussed. It stands on three principles: protecting the homeland, promoting American prosperity, and preserving peace through strength. Replying to a question about trade negotiations, Mr Chase stated that a deal with China would definitely enhance the chances of the US concluding a deal with Europe. Next, Mr Yun pointed out that even if China has become powerful and developed as an industrial conglomerate, a part of the country is still struggling to get out of poverty. Ms Catella conclude the first round by pointing out that, nowadays, American infrastructure and US products are not as modern and competitive as they once were, and that the US is not the leading power in all sectors.

During the second round of questions the audience asked about the extent of the validity of the WTO, the possible reaction of the EU to future tariffs by the US on its cars and auto components, and to fact that the EU has to look for closer economic ties with China and Russia. Mr Chase observed that China is acting according to WTO rules (which he agrees need to be updated) and that other countries will not liberalize because they are afraid of China – which is to the detriment of China as well as for international trade. Mr Yun gave some statistical details to provide a better understanding of why China is still considered a developing country. Ms Catella reiterated the necessity to change the rules that govern international trade and the EU's disappointment at how issues have been handled by threatening a trade war that would affect the world economy.

In the final round of questions, the audience asked about the feasibility of reverting to a WTO that resembles the past, the possibility of China addressing its systemic issues, and the fact that Mr Trump seems to excuse any policy he enacts by claiming he does it for “national security” reasons. Dr Yun acknowledged that both the US and the EU fear China in terms of reciprocity, excessive production and unfair trade practices, to which he proposed mutual trust and equal consultation as solutions. Next, Mr Chase admitted that whilst the tariffs on steel and aluminium can enjoy a certain credibility when pinned on national security, those that are threatened to be imposed on EU cars have no foundations. He then added that Huawei may be a risk for European security, to which Dr Yun promptly replied that there is no evidence to sustain such claims. Finally, Ms Catella concluded the session by reminding the audience of the high hopes that the EU has in the development of a positive multilateral framework for future negotiations and agreements.

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