The US-China trade war

*Stormy-Annika Mildner and Claudia Schmucker**

The battle of the giants: US trade policy vis-à-vis China

Stormy-Annika Mildner
Federation of German Industries, Berlin

Claudia Schmucker
German Council on Foreign Relations, Berlin

INTRODUCTION

US President Donald Trump sees China as a major economic adversary—and he has done so for quite a long time. In an interview in 2015, he stated: "because it's an economic enemy, because they have taken advantage of us like nobody in history. They have; it's the greatest theft in the history of the world what they've done to the United States. They've taken our jobs".[1] In a similar tone, Trump's National Security Strategy of 2017 criticizes that China challenged American power, influence, and interests, attempting to erode American security and prosperity.

Many share Trump's threat perception in the United States. According to a report of the polling institute Pew Research Center, a majority of Americans view China unfavorably. The top issues Americans are concerned about include the large US debt held by China, cyberattacks from China, the country's impact on the global economy, the loss of US jobs to China, and the US trade deficit.[2]

The United States has had a large deficit in merchandise trade with China for many years. Amounting to USD 382 billion in 2018, the deficit in trade in goods is higher than that with any other country in absolute numbers.[3] Trump finds the causes mostly in unfair trade practices abroad: subsidization of domestic companies, overcapacities, forced technology transfer, and theft of intellectual property rights. But the trade conflict is about much more than the US trade deficit; it is about power and economic dominance. This was reinforced by the Made in China 2025 strategy, which aims to make the country a 'manufacturing superpower'.

In parts, Trump is right (although, without doubt, the trade deficit has many causes, which rather lie within the United States). China has become a heavyweight in the world economy but has yet to assume responsibility for the global economic order. Quite the contrary: the country frequently fails to adhere to the rules of the World Trade Organization (WTO) and its own accession protocol to the organization.

Nonetheless, Trump's goals are fundamentally flawed. The President wants to 'decouple' the United States from China, or in other words, massively reduce the interdependence between the two countries. Not only will this strategy not work, the policies of the President are dangerous and could easily backfire. Trump's tariff war has already taken its toll both in the United States and globally. While China has made some concessions, none of these are legally binding. Any US-China deal is unlikely to address the underlying problems, rooted in China's economic model. What's more, it will not end the competition between the two superpowers for dominance in the international system.

NEITHER CAN DO WITHOUT THE OTHER: ECONOMIC INTERDEPENDENCE

If President Trump aims to decouple the United States from China, he is bound to have a tough time. US-China economic ties have expanded substantially since the two countries began to normalize their relationship in the late 1970s. With China's accession to the WTO in 2001, the interdependence between the two superpowers has only accelerated.

With an export value of USD 188 billion, China is the third most important market for US goods and services after Canada and Mexico (8% of total). Regarding imports of goods and services, China ranks first (USD 523.7 billion), which makes the

* The opinions expressed in the article belong solely to the authors.
[1] Stracqulursi, V., *10 Times Trump Attacked China and Its Trade Relations with the US,* abcNEWS, 9 November 2017, https://abcnews.go.com/Politics/10-times-trump-attacked-china-trade-relations-us/story?id=46572567.
[2] Winke, R. and K. Devlin, *As Trade Tensions Rise, Fewer Americans See China Favorably,* 28 August 2018, http://www.pewglobal.org/2018/08/28/as-trade-tensions-rise-fewer-americans-see-china-favorably/.
[3] Source: US Census Bureau, https://www.census.gov/foreign-trade/balance/c5700.html.

Table 1
The ascent of China within the world economy 1990–2017

		US	EU28	China
Share of world GDP measured at PPP (%)				
1990		21.8	27.4	4.1
2001		20.2	23.5	7.8
2017		15.3	16.5	18.2
Share of world trade in goods and services (%)				
		US	EU28	China
1999	Exports	13	42	3
	Imports	17	42	3
2005	Exports	10	40	6
	Imports	15	40	6
2017	Exports	10	36	11
	Imports	13	34	10
Share of world FDI stocks (%)				
		US	EU28	China
1990	Inward	25	40	1
	Outward	32	43	0
2001	Inward	34	32	3
	Outward	32	42	0
2017	Inward	25	29	5
	Outward	25	34	5

Sources: IMF; WTO; UNCTAD.

country the most important overall trading partner for the United States (in the case EU countries are considered separately; if the EU is taken as a whole, the EU is the most important trading partner of the United States).[4]

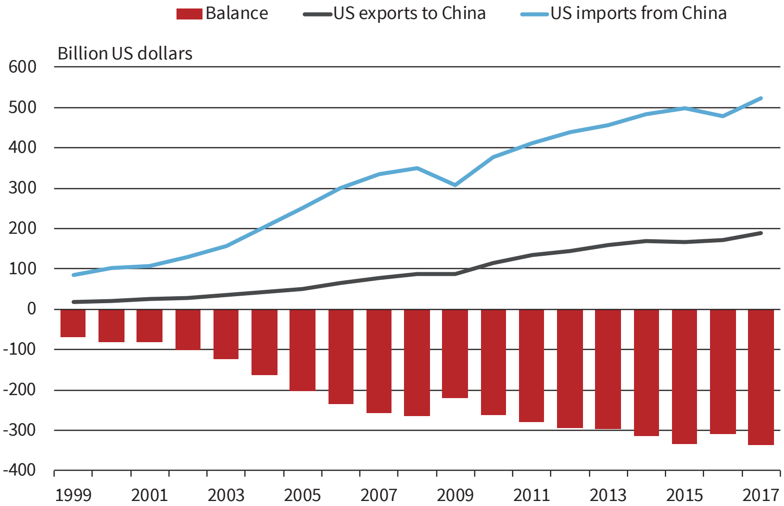
The United States runs a significant trade deficit with China. While US imports from China expanded rapidly in the first years of this millennium, import growth met a first dent in the midth of the financial crisis in 2009; a second dent occurred in 2016. Nonetheless, imports of goods from China to the United States reached a new record high of USD 506 billion (2.6% of GDP) in 2017. The bilateral deficit in trade in goods amounted to USD 376 billion, or 1.9% of GDP in 2017 (see Figure 1). When considering trade in goods and services separately, the picture looks slightly different: the United States is consistently running a surplus in trade in services with China. Growing significantly since 2008, the surplus amounted to USD 40 billion in 2017 alone.[5]

The large deficit with China has many causes, such as the role of the US dollar as dominant global reserve and transaction currency, the size of the US market and its attractiveness for foreign capital, US consumer spending and saving behavior, as well as macroeconomic policies, to name a few. In addition, the sharp increase in US imports from China can be explained by the relocation of production facilities from other (primarily Asian) countries to China. Furthermore, it has a lot to do with the country's place in global value chains. According to a study by the OECD and WTO (2015), 32.2% of the overall value of China's gross exports (40.2% for China's total manufactured exports) was comprised of foreign imports in 2011. Furthermore, US companies localize in China in order to better serve the local and Asian markets. This type of US production is not reflected in trade statistics and balances.

The widening bilateral trade deficit can also be attributed to strong economic growth, high employment rates, and stable domestic demand in the United States. At the same time, there was a considerable decline in US exports to China in certain sectors such as machinery and equipment, fuel and agriculture products, starting July and August 2018 subsequent to the implementation of retaliatory tariffs in China.

Financial interdependence is also increasing, although China still does not rank among the top five destinations or sources of foreign direct investment (FDI) for the United States, neither in stocks nor in

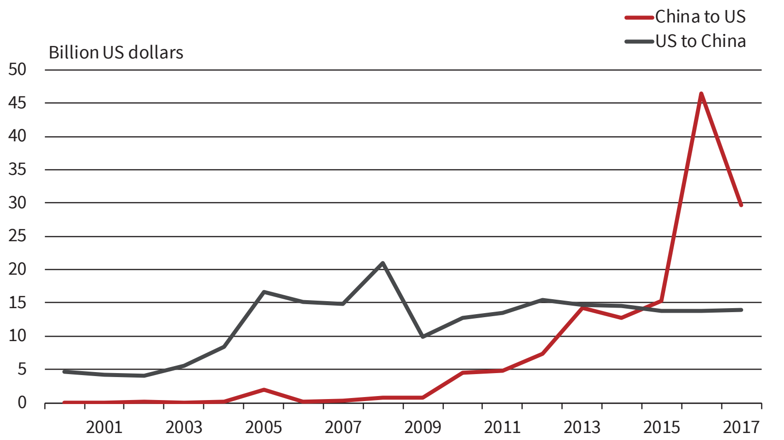
Figure 1
US-China trade in goods and services
1999–2017



Source: Bureau of Economic Analysis.
© ifo Institute

[4] Source: Bureau of Economic Analysis, https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services.
[5] Source: Bureau of Economic Analysis, https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services.

Figure 2
FDI flows in all industries between the United States and China
2000–2017



Source: Rhodium Group. © ifo Institute

percentage of US debt owned by China highlights once again the mutual dependency of the two economies. A rapid Chinese sell-off, for example, of Treasury securities would harm both parties, as the interest on Treasuries would rise while their price would go down, thereby decreasing their value.

WHO WILL BLINK FIRST? TIT-FOR-TAT PROTECTIONISM

President Trump wants to place America first. According to his Trade Policy Agendas of 2018 and of 2019, trade policy must focus more on the national interests of the United States and for this reason must be in harmony with the country's national security strategy. The National Security Strategy of 2017 states: "we will insist upon fair and reciprocal economic relationships to address trade imbalances" (Whitehouse 2017, 4).

The Trump administration is thus much more aggressive than many of its predecessors, rigorously applying national trade laws. One such law is the Trade Act of 1974. Under Section 301 of that law, the president can take retaliatory measures, including tariffs and quotas, if a country denies the United States its rights under a free trade agreement or takes measures that are unjustified, unreasonable, or discriminatory. Another of these laws is the Trade Expansion Act of 1962 with its Section 232, which allows tariffs for national security reasons. Trump has already imposed tariffs on steel and aluminum imports; an investigation of car imports is pending.

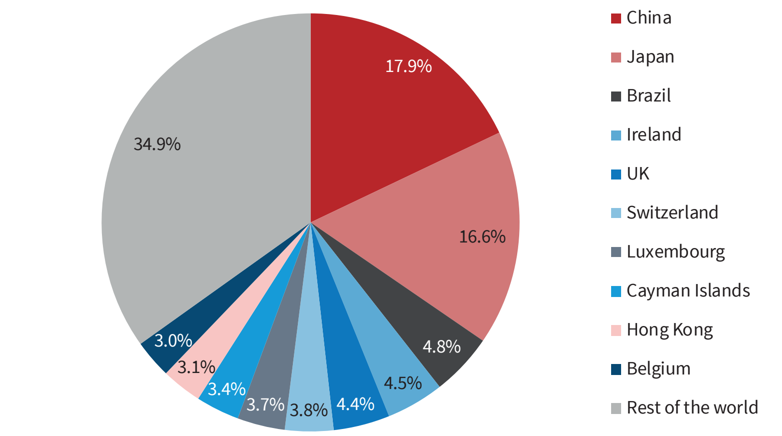
flows.[6] In 2017, China ranked 13th regarding US FDI stocks abroad and 9th concerning outward flows. In the same year, China placed 15th in FDI stocks in the United States. As FDI flows from China to the United States were negative in 2017, the country placed only 126th.

FDI flows between the United States and China (in both directions) stood at USD 43.47 billion in 2017. While this is the second-highest year to date, it marks a 28% drop from the USD 60 billion total in 2016. This decline was due to a change in Chinese policy, tightening controls on outbound investment, as well as heightened investment screening undertaken by the Committee on Foreign Investment (CFIUS) in the United States. Although Chinese FDI flows to the United States overtook US-to-China flows in 2015, American FDI stocks in China are historically and consistently higher, at USD 256.5 billion from 2000 to 2017, compared to USD 139.8 billion (China to US) over the same time period. For China, FDI sourced from the United States ranked in sixth place. The Chinese statistics, however, are significantly skewed as the biggest investor is identified as Hong Kong with a share of 75.5% of all FDI inflows.[7]

China is the greatest creditor of the United States. In December 2018, China held USD 1.124 trillion in US Treasury securities (17.9% of securities issued). The high

[6] Numbers for FDI flows from the Bureau of Economic Analysis (financial transactions without current cost adjustment), unless otherwise indicated.
[7] Ministry of Commerce People's Republic of China, *News Release of National Assimilation of FDI From January to December 2017*, http://www.fdi.gov.cn/1800000121_49_4690_0_7.html.

Figure 3
Foreign holders of US securities
December 2018



Source: US Department of Treasury. © ifo Institute

Table 2
Degree of trade openness: United States and China

	Simple average final bound tariff rate: total trade	Simple average final bound tariff rate: agri-cultural trade	Simple average final bound tariff rate: non-agricultural trade	Simple average MFN applied tariff rate (2017): total trade	Simple average MFN applied tariff rate (2017): agricultural trade	Simple average MFN applied tariff rate (2017): non-agricultural trade
US	3.4	4.9	3.2	3.4	5.3	3.1
China	10.0	15.7	9.1	9.8	15.6	8.8

Source: WTO

China ranks top on Trump's agenda. The country's market is much less open than that of the United States. In terms of the simple average MFN applied tariff rates, China's rates are approximately three times those of the United States for total trade (9.8% vs. 3.4%) and both agricultural (15.6% vs. 5.3%) and non-agricultural trade (8.8% vs. 3.1%). Differences are starkest in seven categories (China's tariff rates are ten or more percentage points higher than those of the United States): cereal and preparations, cotton, sugars and confectionary, animal products, coffee and tea, other agricultural products, and fish and fish products.

In its Foreign Trade Barriers Report 2018, the United States Trade Representative (USTR) identified several areas of concern (Lighthizer 2018). Pointing at 'Made in China 2025', a long-term strategy targeting ten strategic industries, the USTR criticizes that domestic companies—especially state-owned enterprises (SOEs)—are protected and promoted by a wide range of industrial policies. The report further criticizes the numerous restrictions on the level and types of FDI allowed in China, the joint-venture obligations, and forced technology transfer. Violations of intellectual property rights are another area of concern. The United States is also disappointed with China's mixed implementation record of WTO obligations. For example, it still employs export restrictions like export tariffs and has yet to join the Government Procurement Agreement.

The UNCTAD finds that out of seven categories of non-tariff measures imposed on all UNCTAD members, the United States has imposed measures for only one category more frequently than China (sanitary and phytosanitary measures). Most notably, China has imposed 553 more export-related measures and 1,628 more technical barriers to trade than the United States.

It thus does not come as a surprise that the United States and China have been engaged in several trade conflicts. Between 2001 and 2018, the United States has filed 64 dispute settlement cases before the WTO against 18 countries and the European Union, with the highest number (23) against China, followed by nine against the EU. In contrast, in the same time period, China has filed only 22 cases against three countries and the European Union, 15 of which were against the United States.

Of the dispute settlement cases filed by the United States against China, ten involved violations of Article VI of the General Agreement on Tariffs and Trade (1994), the article that deals with anti-dumping remedies, and of the Agreement of Subsidies and Countervailing Measures (otherwise known as the SCM Agreement), which covers illegal subsidies and countervailing. The other 13 cases filed by the United States against China primarily cited violations of the GATT (1994) and GATS, the Protocol of Accession, and the Agreement on Trade-Related Aspects of Intellectual Property Rights. Of the cases filed by China against the United States, eight cases (53%)—more than half—cited violations of GATT Article VI, also concerning the methodologies used by the United States in anti-dumping proceedings against China. In 2018 alone, China filed as many complaints as ever before against the United States, including the complaint against recent safeguard measures on silicon photovoltaic products as well as the tariffs on steel and aluminum.

While relations between the United States and China have thus been strained for years, recently they have worsened considerably. In late 2018, Kevin Hassett, chairman of the President's Council of Economic Advisers, said China had 'misbehaved' as a member of the WTO and hinted that there might be a case for evicting the country from the WTO.

In early July 2018, the United States imposed import duties of 25% on Chinese imports worth USD 34 billion on the basis of Section 301. The duties relate primarily to high-technology product groups such as aircraft parts, batteries, flat-screen televisions, and specialist medical equipment—products that China has identified as being particularly important in its Made in China 2025 strategy. The Chinese government immediately imposed retaliatory tariffs covering a trade volume of around USD 30 billion. Trump turned up the heat by extending tariffs to imports worth USD 16 billion in late August 2018. Again, China imposed retaliatory tariffs, also covering a trade volume of around USD 16 billion.

A few days after the first 301 tariffs, the USTR published a further list featuring 6,000 Chinese merchandise goods. The list comprised a trade volume of USD 200 billion, on which duties of 10% were levied in late September 2018. The tariffs were to increase to 25% starting on January 1, 2019. In total, US imports from China worth USD 250 billion, or almost 50% of US goods imports from China in 2017, are now burdened with additional tariffs. Trump has repeatedly signaled that, if necessary, tariffs could be imposed on imports from China worth USD 500 billion.

When the United States and China reached a ceasefire at the G20 summit held in Buenos Aires late 2018, the United States agreed to hold off on plans to raise tariffs from 10% to 25% on Chinese imports. The two countries also agreed to negotiate a deal on issues such as intellectual property protection, forced technology transfers, non-tariff barriers, and cyber theft of trade secrets until March 1, 2019. China committed to increase imports of agricultural, energy, industrial, and other products from the United States to gradually ease the trade imbalance.

In early January 2019, when the two superpowers met in Beijing to work on the details of the deal, the Trump administration showed optimism—without doubt also to calm the stock markets. The Chinese government announced that it would open China's market for five genetically modified crops, which the United States had demanded for years. However, differences persisted over more complex issues such as the protection of intellectual property and subsidies to Chinese SOEs. USTR Lighthizer and Secretary of Commerce Ross emphasized that China needed to credibly commit to buying more US goods and services but also pursue a serious reform agenda. They further asserted that any agreement needed to encompass a monitoring and enforcement mechanism. On the 25th of February 2019, Trump announced to extend the deadline of 1 March 2019, because the negotiations with China had made 'substantial progress'. Both sides stressed that they had reached a deal on currency manipulation and were negotiating additional agreements on agriculture, services, non-tariff barriers, intellectual property rights, forced technology transfers and cyber security. However, it remains unclear, how far-reaching and enforceable the final deal will be.

PUBLIC OPINION ON CHINA

President Trump is not alone in perceiving China as a threat. According to the aforementioned Pew survey, there has been a general downward trend since 2011 in the number of Americans who view China favorably (see Figure 4).

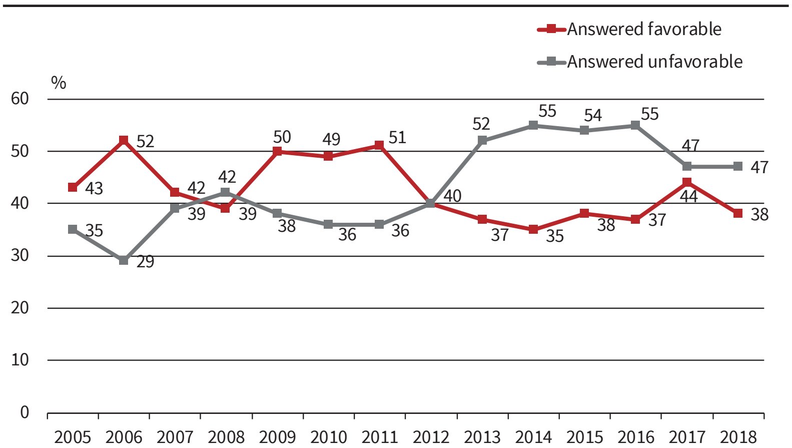
Americans are concerned about both economic and political issues. Compared to 2017, there was a 6% increase in the number of Americans who believe that China's economic power is of greater concern to the United States, and a 7% decrease in those who believe that Chinese military might is more concerning. This corresponds with Trump's increasingly tough rhetoric on China's trade surplus.

There are marked partisan differences. Republican respondents tend to be more worried about the threat posed by China's economic strength (American debt held by China, loss of US jobs, the trade deficit) while Democrats are more concerned with China's impact on the global environment, on human rights, and the tensions between China and Taiwan.

Public opinion on Trump's trade policy measures *vis-à-vis* China is much less decisive, on the other hand. Again, respondents are divided along partisan lines. According to a 2018 Gallup poll, more Republicans foresaw short-term positive effects on their family's financial situation than Democrats (11% to 2%); and more Republicans (28% to 5%) than Democrats believed they were helpful to the US economy. Some 57% of Democrats found them to be detrimental to the American economy, compared to only 16% of Republicans polled. This strong partisan divide can partially be attributed to the polarization in the United States, currently at an all-time high—but it remains an interesting new trend. Thus, traditionally, Democrats were more skeptical regarding free trade than Republicans.

The business community is strongly critical of Trump's trade policy, but shares many of his views on China. The US Chamber of Commerce, for example, has taken a clear stance against the new tariffs, calling them "the wrong approach to

Figure 4
American opinions on China (favorable vs. unfavorable view of China)
2005-2018



Source: Pew Research Center. © ifo Institut address unfair trade practices”.[8] The farm sector has been hit particularly hard by the tariff conflict. It is thus not surprising that the American Farm Bureau Federation (AFBF) also urged US trade officials to “engage in discussions with our trade partners to resolve trade concerns before resorting to tariffs”.[9]

The risks of Trump’s trade policy are great. But did this lead to a change in voting behavior in the latest mid-term elections held in November 2018? The Brookings Institution highlighted the geographical effects of retaliatory tariffs on the United States. Substantial job losses are to be expected, particularly across rural and midwestern states (especially Michigan, Indiana, Ohio, Illinois, and Pennsylvania), affecting the traditional manufacturing base (foremost automotive production), as well as production hubs for corn and soybeans. Out of the ten most affected states, only one was won back by the Democrats in the mid-terms: in Minnesota, the Democrats gained control of the State House of Representatives. In Pennsylvania and Michigan, the Republicans defended the Senate and House, but the Democrats were able to reduce the margin. Thus, despite its risks to the national economy, Trump’s trade policy seems not to have had a major impact on voting behavior in the recent midterm elections.

CONGRESS AND CHINA

In Congress, views on China are fairly consistent across partisan lines. Many prominent Democrats agree with Trump regarding China’s unfair trade practices. Ahead of the G20 Summit, Democratic Senate Minority Leader Chuck Schumer (D-NY), Senator Ron Wyden (D-OR), and Senator Sherrod Brown (D-OH) criticized China’s ‘predatory’ practices and urged the President to take aggressive actions against Chinese “efforts to steal and extort US intellectual property”.[10] According to Schumer, “China is our real trade enemy, and their theft of intellectual property and their refusal to let our companies compete fairly threatens millions of future American jobs”.[11] Democratic Speaker of the House Nancy Pelosi (D-CA) called the tariffs a ‘leverage point’, stating that the United States “must take strong, smart and strategic action against China’s brazenly unfair trade policies”. She also spoke out against human rights violations in China.[12]

However, there are also critical Democratic voices: for example, the new Chairman of the House Ways and Means Committee, Richard Neal (D-MS), criticized the seemingly erratic imposition of tariffs against Chinese imports. Many Republicans, including Senate Majority Leader Mitch McConnell (R-KY) and the former Republican Chair of the House Ways and Means Committee Kevin Brady (R-TX), have similarly called for more aggressive actions against China. In general, the House Republicans seem to be more in line with the President’s trade policy towards China, while many Republican Senators are more skeptical. The Senators Mitt Romney (R-UT), Bob Corker (R-TN), and former Senator Orrin Hatch (R-UT) have all spoken in opposition of the tariffs.

That the majority of Congress is tough on China is underlined by two legislative reforms in 2018 on investment screening (FIRRMA) and export control (ECA), both passed within the National Defense Authorization Act (NDAA) with bipartisan support. Thus, Congress expanded the powers of CFIUS, which carries out the screening of foreign investment for national security reasons. Covered transactions now include real estate acquisitions in sensitive areas and non-passive but non-controlling investments in US businesses involving sensitive personal data, critical infrastructure, or critical technology. The reform of export control of dual-use items was met with similar support. It explicitly calls on the president to use export controls to maintain US economic leadership in science and engineering, industry, and basic research. Furthermore, the ECA transfers the competence for export control permanently to the president. A cross-departmental body under the direction of the DOC is to identify technologies that are relevant to national security and that are not already covered by FIRRMA as sensitive technologies.

THE FUTURE OF THE MULTILATERAL TRADING ORDER

Apart from the bilateral trade tensions, the United States pursues a second line of attack against China in the context of the WTO. Many of the complaints that the United States has expressed against the functioning of the WTO are more or less directly related to China. As such, the future of the multilateral trading order very much hinges on the two adversaries. The Trump administration is frustrated with the functioning of the WTO dispute settlement system, in particular the Appellate Body. Another point of contention

[8] See US Chamber of Commerce, *International Trade and Investment*, https://www.uschamber.com/international-trade-and-investment.

[9] American Farm Bureau Federation, Farm Bureau Details Trade, Tariff Impacts on Agriculture, 17 September 2018, https://www.fb.org/news/farm-bureau-details-trade-tariff-impacts-on-agriculture.

[10] Senate Democrats, Ahead of G-20 Summit, Schumer, Wyden and Brown Urge President Trump to Not Back Down on Further Action against China for Sake of Weak and Meaningless Agreement, https://www.democrats.senate.gov/newsroom/press-releases/ahead-of-g-20-summit-schumer-wyden-and-brown-urge-president-trump-to-not-back-down-on-further-action-against-china-for-sake-of-weak-and-meaningless-agreement.

[11] Senate Democrats, *Schumer Statement on New Tariffs on Chinese Imports*, https://www.democrats.senate.gov/newsroom/press-releases/schumer-statement-on-new-tariffs-on-chinese-imports.

[12] *Pelosi Statement on Trump Administration’s New Tariffs on China*, Congresswoman Nancy Pelosi, https://pelosi.house.gov/news/press-releases/pelosi-statement-on-trump-administration-s-new-tariffs-on-china.

is the inability of the organization to deal with trade distorting measures by non-market economies such as China. Furthermore, the Trump administration is unhappy with a deadlocked negotiating pillar and a lack of transparency due to a disregard of the notification requirements.

If the United States continues to block the appointment of members to the Appellate Body, there will be less than three members left in December 2019, which is the minimum number required for an appeal. Without a functioning Appellate Body, any party to a dispute can block the adoption of panel rulings by appealing them. This undermines the whole WTO dispute settlement procedure. US concerns refer to: (a) the disregard for the 90-day deadline for appeals (Art. 17.5); (b) continued service by persons who are no longer Appellate Body members (Rule 15); (c) the issuing of advisory opinions on issues, which are not necessary for the solution of the dispute; and (d) supposed judicial overreach by treating reports as precedents.[13] In September, the EU proposed concrete reform measures addressing many of the aforementioned concerns (European Commission 2018). The EU proposal is now officially sponsored by eleven other countries, including China, Canada, India, Australia, South Korea, Singapore and Mexico. So far, the United States has objected to the reform proposals, so the future of the Appellate Body is still undecided.

The Trump administration further criticizes the WTO for not being sufficiently equipped to prevent market-distorting practices. US frustration is exacerbated by rulings of the Appellate Body. In its ruling of March 2011 on Chinese SOEs and the use of anti-dumping and countervailing measures, the Appellate Body issued a very narrow definition of what constitutes a 'public body'. Contrary to US reasoning, the ruling states that a 'public body' needs to 'possess, exercise, or be vested with governmental authority'. This does not cover SOEs, although they are controlled by the Chinese government. The US claims that this restrictive definition reduces the scope of the WTO SCM Agreement and puts an additional burden on any country, which wants to issue countervailing duties to provide adequate data. The European Union and Japan share many concerns regarding trade-distorting measures. In response, the three partners created a Trilateral Initiative at the WTO Ministerial Conference in Buenos Aires in December 2017.[14] On January 9, 2019 EU Trade Commissioner Malmström, USTR Lighthizer, and Japanese Minister of Commerce and Trade Seko met once again in Washington, DC. According to a joint statement, the three countries agreed to deepen cooperation in the areas of industrial subsidies, third-country non-market-compliant practices, forced technology transfer, e-commerce, and WTO reform. This important work needs to be continued and deepened and carried over to other global governance fora.

The United States is also unhappy with the lack of progress in the negotiating pillar of the WTO, namely the Doha Development Agenda (DDA). The United States has long since lost interest in the multilateral negotiations rounds, as the large emerging market economies such as China and India failed to make any ambitious concessions. The Ministerial Conference in Buenos Aires in December 2017 was therefore a breakthrough, because members including the United States and others broke with the concept of single undertaking and opened the way for plurilateral agreements in the areas of e-commerce, services, investment facilitation, and MSMEs. USTR Lighthizer underlined: "MC11 will be remembered as the moment when the impasse at the WTO was broken. Many members recognized that the WTO must pursue a fresh start in key areas so that like-minded WTO members and their constituents are not held back by the few members that are not ready to act".[15] The plurilateral agreements are one way forward to keep the United States engaged (even though the country participates in only two of them) and to negotiate modern trade rules that are relevant for the new realities in trade. Central to US frustration with the WTO is further the definition of developing countries and the special and differential treatment that comes with it: there are no WTO criteria; countries self-determine whether they are a developing country or not. In September 2018 the Trilateral Initiative therefore called on advanced emerging economies to "undertake full commitments in ongoing and future WTO negotiations".[16] In November 2018, China also issued a proposal how to reform the organization. Even though it stressed its support for reform, it opposed any changes to its developing-country status. Underlining the interests of developing members, China pointed at the problem of agriculture subsidies of industrialized countries (such as the United States) instead.[17]

A fourth point of contention for the United States is the unwillingness of members such as China to comply with the notification requirements. As part of the Trilateral Initiative, the United States together with the EU and Japan criticized that the present lack of transparency regarding subsidies

[13] See the USTR's *2018 Trade Policy Agenda* and *the 2017 Annual Report of the President of the United States on the Trade Agreements Program*, March 2018, https://ustr.gov/sites/default/files/files/Press/Reports/2018/AR/2018%20Annual%20Report%20FINAL.PDF.

[14] See Joint Statement by the United States, European Union and Japan at MC11, 12 December 2017, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/joint-statement-united-states.

[15] USTR Lighthizer Statement on the Conclusion of the WTO Ministerial Conference, 14 December 2017, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/ustr-robert-lighthizer-statement.

[16] Joint Statement on Trilateral Meeting of the Trade Ministers of the United States, Japan, and the European Union, 25 September 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-trilateral.

[17] See China Supports Necessary WTO Reforms: MOFCOM, 23 November 2018, http://www.xinhuanet.com/english/2018-11/23/c_137627374.htm.

notification had undermined the ability of WTO committees to properly fulfill their monitoring function. Therefore, the partners co-sponsored a transparency and notification proposal at the WTO Council on Trade in Goods. This is a first step to improving the monitoring function. However, in the end, the WTO SCM Agreement must be updated.

OUTLOOK: GO-IT-ALONE IS BOUND TO FAIL

Trump's China policies are rightly controversial. But will the president change his course? This is anything but certain. Not just Trump, but also his key economic advisors perceive China as an adversary. Congress supports a tough stance towards the country. While polls show that a majority of Americans objects to Trump's tariff war, this did not lead to a major change in voting behavior in the latest mid-term elections. The United States experienced dynamic economic growth in 2018, and employment is strong. Many analysts expect a slowdown in 2019 with increasing risks towards the end of the year and in 2020. Stock markets have already become skittish. Support for the president, which has reached a low point due to the recent government shutdown, could thus further weaken. As a consequence, Trump might ease his stance on China—or he might not. The President might try to blame the economic situation on the country's trading partners and get even tougher on China. Last but not least, the relationship with China is about much more than just economics. China has not only become an economic superpower that threatens the United States and its role as economic hegemon, it also challenges the country in security matters. The conflict is thus far from over.

Without doubt, China does not always play by the rules. This needs to change. Tit-for-tat protectionism is not the right way forward, however, as it does not address the underlying problems. The ongoing trade conflict between the United States and China has already taken its toll. In its world economic outlook of January 2019, the IMF emphasized that the risks to global growth tilted to the downside. Particularly an "escalation of trade tensions beyond those already incorporated in the forecast remains a key source of risk to the outlook".[18] In addition, China's economic growth dropped in 2018 to its lowest rate since 1990.

Decoupling is not a sensible strategy. China is an important market and will remain so. Additional tariffs will make the United States neither more competitive nor secure. The Chinese market is critical to the global competitiveness of US companies, and US consumers benefit greatly from imports of lower-cost goods from China. Rather, the United States needs to invest more in education and infrastructure and seriously address the skills gap to boost its own competitiveness.

In addition, market-distorting practices such as forced technology transfers, intellectual property rights violations, and state subsidies need to be addressed within the WTO. The organization, which for three decades has ensured predictable and open trade relations, is in dire need of reform. The Trump administration should thus engage in a constructive and serious reform debate. At the same time, the EU and the United States should work more closely together on advancing national policy instruments such as competition law to address unfair trade policies.

[18] See IMF World Economic Outlook Update, January 2019, https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019.

REFERENCES

European Commission (2018), *Concept Paper: WTO Modernization*, September, http://trade.ec.europa.eu/doclib/html/157331.htm.

Lighthizer, R. (2018), *National Trade Estimate Report on Foreign Trade Barriers*, https://ustr.gov/sites/default/files/files/Press/Reports/2018%20National%20Trade%20Estimate%20Report.pdf.

OECD and WTO (2015), *Trade in Value-Added*, Paris.

Whitehouse (2017), *National Security Strategy of the United States*, https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf.