

# Trade Policy Developments Affecting China

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# Flashpoints in trade conflicts with China



## China's non-market economy (NME) status

- Antidumping
- Countervailing duties
- WTO dispute settlement

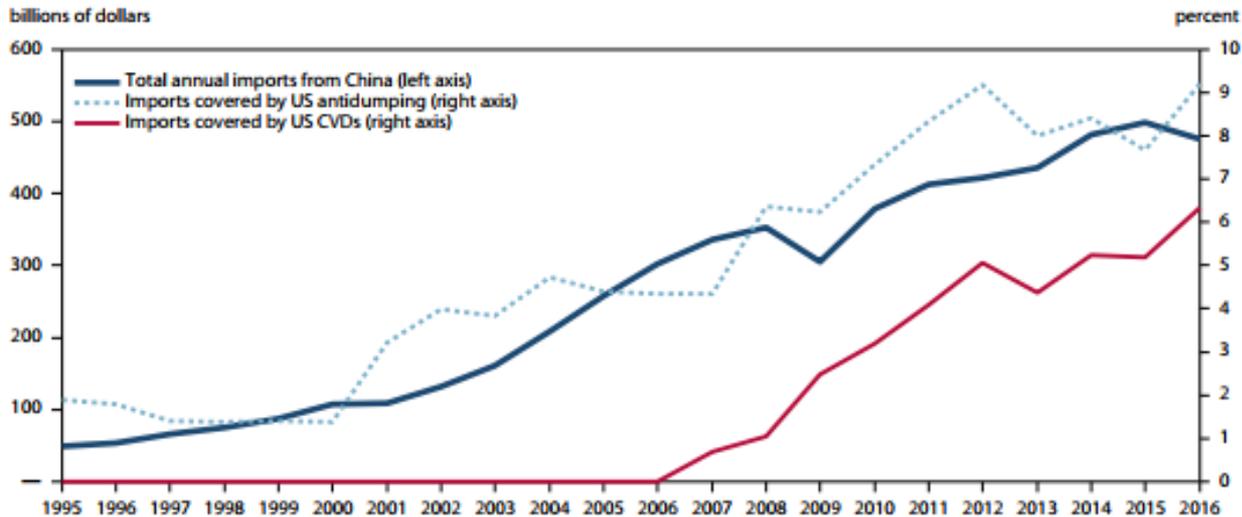
## “New” US trade policy tools

- **Section 301** – China's unfair treatment of IP & forced technology transfer
- **Section 232** – Imports of steel & aluminum threaten US national security
- **Section 201** – Global safeguards on solar panels



# How important is the China NME issue economically?

**Figure B1.1 US Imports from China and the share covered by US antidumping and countervailing duties, 1995–2016**



CVD = countervailing duty  
Source: Author's calculations.

Source: Bown, Chad P., "Steel, Aluminum, Lumber, Solar: Trump's Stealth Trade Protection," *Peterson Institute for International Economics Policy Brief 17-21*, June 2017.

**US: 9% of imports from China are subject to antidumping as of 2016**

- 6% of US imports from China are subject to countervailing (anti-subsidy) duties

**EU: 6% of imports from China are subject to antidumping as of 2016 (not shown)**



# China's non-market economy status

## EU: New antidumping (AD) policy

- “significant distortions”
- EU applies AD toward China similar to how the US does CVD (anti-subsidy)

## US countervailing duty (CVD) approach

- “surrogate input” instead of “surrogate country”
- Wherever US sees an input (rents, upstream inputs, labor, etc.) with a price not determined by the market, US constructs a “surrogate” price from alternative (out of country) sources



# China's non-market economy status

## WTO dispute settlement

- China challenging both EU and US AD procedures
- China also challenging US CVD procedure
- Suppose **China wins** – the risks
- Suppose **EU/US wins** – the risks
- Need a negotiated/political compromise

# Section 301 – Unfair Trade



## Policy concern: China engaged in unfair trade

- Western companies “forced” to
  - Locate production locally – i.e., not export to China from home
  - Local production done through joint ventures only, typically partner is Chinese SOE
  - Forced technology transfer to the local partner

## Section 301 of the US Trade Act of 1974

- **History:** “Aggressive unilateralism” – used heavily in 1980s in early 1990s when...
  - GATT trading rules more limited - nothing on services, intellectual property protection, investment
  - GATT dispute settlement procedures ineffective
- **Today:**
  - Will US use WTO dispute settlement provisions to get China to “stop?”
  - Or, suppose US decides that what China is doing is unfair – but not WTO-illegal. Then, will US come up with a way of doing something similarly unfair to China – but also WTO legal – as a remedy?

# Section 232 – National Security



**Policy concern:** Chinese state involvement has led to **overcapacity** of steel and aluminum production with global implications

- Section 232 of the Trade Expansion Act of 1962

# Section 201 – Global Safeguards

**Policy concern:** Chinese state involvement has led to **overcapacity** of solar panel production with global implications

- Section 201 of the US Trade Act of 1974

## Other similar products?

- US imports from China already covered by AD/CVD, but imports **from other countries** at low prices – tied back to original Chinese policy actions

# Conclusion



## **Tensions: Is this a turning point for China vis-à-vis *the rest of the world?***

- US-EU cooperation on China NME dispute
- US-EU-Japan joint statement at WTO Ministerial

“We shared the view that severe excess capacity in key sectors exacerbated by government-financed and supported capacity expansion, unfair competitive conditions caused by large market-distorting subsidies and state owned enterprises, forced technology transfer, and local content requirements and preferences are serious concerns for the proper functioning of international trade, the creation of innovative technologies and the sustainable growth of the global economy.

We, to address this critical concern, agreed to enhance trilateral cooperation in the WTO and in other forums, as appropriate, to eliminate these and other unfair market distorting and protectionist practices by third countries.”

## **If not, then what?**