

Don't expect a U.S.-China trade war

By Eurasia Group analysts Damien Ma and Sean West

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After the Obama administration slapped 35 percent tariffs on Chinese tires over the weekend, China responded with hyper-charged rhetoric and its own investigation into U.S. chicken and auto parts exports. When the news broke, the world woke up to a scary possibility: What if these actions were the opening shots that would trigger a trade war?

Despite some serious media hype, we don't think a trade war is likely. But we also don't think it's outside the realm of possibility. If such a scenario occurred, it would have serious implications for global recovery, financing the U.S. debt, and even the stability of the Chinese regime. Therefore, it's clearly worth considering how this situation could occur, while also examining why it's unlikely that events will evolve in that direction.

The United States implemented tariffs on Chinese tires under section 421 of U.S. trade law, which was agreed to by the Chinese when U.S.-China trade relations were normalized and China joined the WTO. Until 2013, it allows the United States to tariff Chinese goods simply by showing that there has been a surge in imports from China with damaging effects for U.S. domestic producers. To put tariffs in place, the U.S. International Trade Commission makes an assessment of the import surge and recommends to the president whether and how large a tariff should be put in place. The president then determines what tariff to apply.

Until now, the U.S. president never put such tariffs in place; the Bush administration declined four ITC recommendations to do so during its tenure. The interesting twist about President Obama's decision to apply tariffs was that the case was filed by a U.S. labor union without the support of tire manufacturers. Thus, section 421 became a direct path from labor grievances about imports to domestic protection. It's hard to imagine labor groups not trying to push forward similar cases in the future.

Rampant enforcement of section 421 is the type of thing that could seriously anger the Chinese to respond outside of the global trade regime. This is because section 421 can be implemented even if China does nothing wrong -- other than becoming very efficient at exporting a particular good to the United States. Moreover, when 421 is invoked, there is little China can do to appeal or counter the action because the determination is not based on China doing anything forbidden, so China cannot undo any action. Challenging whether the United States is implementing the provision properly -- as China has recently announced it will do -- can take as long as the life of the tariffs.

It's reasonable, then, that politicians in Beijing are worried that the decision on tires will lead to China being singled out as the target of future trade actions. What's more, the simmering nationalism of the Chinese public forces the leadership to be more aggressive in its responses. A poll

on a state-run news site found that 90 percent of Chinese citizens believe that China can go toe-to-toe with the United States in a trade war. Thus, every time Section 421 is used, it will engender fiery retaliation from the Chinese. If the door the administration has cracked open is thrown fully ajar, trade tension could theoretically spill over into WTO-incompliant responses or responses that have nothing to do with trade. Thus, there is a chance -- though not a likelihood -- that section 421 could lead to a trade war if the United States repeatedly uses it and China responds through escalation.

The administration's recent demonstration that it is willing to apply section 421 and China's aggressive reaction moved the US-China relationship one step closer to that scenario. But it was a small step in a robust trading relationship with two sides that understand what's at stake. Top Chinese leaders have little interest in engaging in a trade war with the United States because they know it would hurt their heavily export-dependent economy. Washington is trying hard to make China a willing partner on a host of global issues, and China has been receptive to the idea if only for the recognition of its increased international stature.

During the first Strategic and Economic Dialogue in July, the two countries pledged to move toward a more mature relationship. In Washington, Obama -- despite how he appeared on the campaign trail -- remains committed to open markets and the national economic benefits the United States gets from trade. While a potential trade war is scary stuff, there is little reason to believe it is forthcoming.