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Biden to keep Trump tariffs on China as leverage against 'abusive' trade practices

Jeffrey Bartash - December 2, 2020

New president seen using tariffs as bargaining chip

President-elect Joe Biden plans to keep import tariffs on China in place early in his presidency, saying the U.S. needs more leverage to force the Asian giant to abandon "abusive" trade practices.

Biden revealed his plans publicly for the first time in an interview with New York Times columnist Thomas Friedman on Wednesday.

"I'm not going to make any immediate moves, and the same applies to the tariffs," he said. "I'm not going to prejudice my options."

Trade experts and international economists previously told MarketWatch they expected Biden to retain tariffs on \$370 billion in Chinese goods imposed by outgoing President Donald Trump as a bargaining tool to win concessions on trade and other disputes. The tariffs, first applied in 2018, set off the biggest U.S. trade war in decades.

"I think it would be impractical for Biden to do any tariff reductions immediately. I don't think he has the latitude to remove them right away," said Charles Skuba, a professor at Georgetown and former senior official at the U.S. International Trade Administration . "He also has some chips to play. You could consider the tariffs as a gift to Biden."

Biden said he will consult with allies and try to build a united front against China in an effort to get it to drop trade practices the U.S. and other countries view as unfair.

At the same time, though, experts predict he will try to improve diplomatic ties with China and tone down the harsh rhetoric used by Trump and his top aides.

The incoming president, a longtime supporter of free trade, signaled he would take a tougher stance during a bitter presidential election this year in which Trump repeatedly accused Biden of being "soft on China."

In an unusual step, Biden in February even called Chinese President Xi Jinping a "thug" over the country's treatment of its Uigher Muslim minority, a epithet that reportedly greatly angered the Chinese leader.

What's made Biden more leery of a quick rapprochement, experts say, is a growing distrust of China among the public and lawmakers in both parties in Washington.

Unfavorable views of China, for instance, have climbed to a record high, recent polls show. The international trade fight and the origin of the coronavirus pandemic in China have both played a role.

In Congress, leading Democrats such as Sen. Minority Leader Charles Schumer have long been critical of Chinese trade practices. And a new generation of Republican lawmakers are

also more skeptical, eroding the party's longstanding support for free trade.

"I don't think we are going back to the trade policy vis-a-vis the United States of Bill Clinton, George Bush or Barack Obama," said Jay Bryson, chief economist at Wells Fargo and an expert on global trade. "The rhetoric under a Biden administration won't be as hot, but it will take a skeptical look at China."

Biden is sure to face pressure from various business constituencies to relax at least some of the tariffs. Many are already lobbying the incoming administration.

China retaliated against President Trump's imposition of import tariffs by raising its own trade barriers and hurting American exporters. The Trump tariffs have also raised the cost of many imports that U.S. businesses and consumers have come to rely on.

While Trump insists China is bearing the costs of the tariffs, every major study has shown that it's American customers who are paying the price.

The trade war has also failed to achieve Trump's singular goal of reducing large and persistent U.S. international trade deficits.

Although goods imports from China sank 16% in 2019 and are on track to decline again in 2020, the U.S. overall trade deficit has risen sharply since Trump took office in 2017 and it came close to a new record high in August. Companies simply move production to other countries such as Vietnam and Mexico to escape the China tariffs.

Even Trump's signature "phase 1" trade win -- getting the Chinese to agree to buy a few hundred billion dollars in U.S. farm and industrial goods -- has fallen short. China has only purchased a little over half of what it promised to buy, in no

small part because of the damage done to global the trading system by the coronavirus pandemic.

One big step a Biden White House could take early on is to reduce or suspend import tariffs on steel and aluminum that Trump imposed on a number of countries aside from China on national-security grounds. These tariffs raised the cost on a variety of industrial products and consumer goods such as autos and appliances.

Trade experts say another move the new president is likely to make is to resolve other conflicts with Europe and allies in Asia that arose under Trump as part of a broader Biden strategy to raise pressure on China.

European countries have similar complaints about Chinese trade practices, but they were reluctant to team up with Trump when he was imposing tariffs on Europe as well for unrelated reasons.

"The way to really do it is in concert with your European allies," Bryson said. "Why are you picking a fight with Germany?"

Biden made the same point in the New York Times interview. "It's going to be a major priority for me in the opening weeks of my presidency to try to get us back on the same page with our allies," he said.

By teaming up with Europe and keeping the Trump tariffs in place, Biden will retain leverage over China, mute potential criticism in Congress and keep the public on his side, analysts say.

Trade experts expect him to use the leverage to press China to ease access to its markets, reduce financial support for state-run companies and end other unfair practices such as forced-technology transfers.

"We know the president-elect is not an enthusiast for using tariffs or other trade barriers as a geopolitical weapon," said **Bernard Baumohl, chief global economist at The Economic Outlook Group**. "Yet he and the Democratic Party do not want China off the hook that easily, especially given its malevolent behavior in international trade."

One wild card that could also come into play, meanwhile, is a renewed U.S. focus on human rights.

Trump gave short shrift to human rights in his dealings with China, but Biden and other Democrats have become increasingly critical of the country's treatment of the Uighurs, the Turkic-speaking minority ethnic group in Xinjiang in the west of China, amid reports of "detention" camps and forced labor.

In the longer run, Biden is also taking a few pages out of Trump's playbook by proposing measures to encourage manufacturers to relocate to the U.S. and boost government purchases of American-made products.

Yet efforts by a more business-friendly Trump administration bore little fruit and Biden's campaign promises to raise corporate taxes and increase regulations could pose a hurdle.

U.S. manufacturers have shifted domestic production overseas for decades in large part to take advantage of lower labor costs and less regulatory oversight.

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