



## New Tensions with China on Trade

*Jeffrey J. Schott says China is sending a message of displeasure on commercial trade issues that is as much political as it is trade-related.*

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Steve Weisman: Tensions between China and the United States seem to be on the rise over the latest action by the Chinese government imposing tariffs on sport utility vehicles and mid-sized and large cars from the US. Jeffrey Schott, senior fellow at the Peterson Institute, how serious is this latest development and is it likely to last?

Jeffrey Schott: It's a serious action to be sure. It's much more of a political action and its economic consequences I think will not be of long duration. Essentially, what the Chinese have done is impose anti-dumping duties, and it's hard to see how those are justified.

Steve Weisman: What's the definition of anti-dumping and why is it not justified?

Jeffrey Schott: What they're claiming is that there are US products sold in the Chinese market being sold at below fair value, so they're being dumped, and they can be dumped because they are being subsidized. But the requirement under WTO [World Trade Organization] rules is that a country wanting to impose these penalty duties has to demonstrate both a finding of the illegal practice, the dumping or the subsidy, plus injury to its domestic industry, and it's very hard to see how China can justify injury to its industry at a time when it is still growing much stronger than any other country in the world and when its industry doesn't produce the types of cars that we're selling in China.

Steve Weisman: That would seem to be the salient point, they don't even produce these cars?

Jeffrey Schott: It's not a large segment of their market. I think the US trade officials can make an extremely strong case that the Chinese action is in violation of its WTO obligations.

Steve Weisman: You think, in other words, that the WTO will throw this action out?

Jeffrey Schott: It will take some time to go through the procedures, to set up a panel, and have a dispute ruling that says that the Chinese have violated their obligations. We've done this in the past in other cases. What has happened is that the Chinese have been able to maintain their protection until the WTO ruling, and then the Chinese have said, "Whoops, we're sorry," and they take it off. But the damage has been done over a short period of time. More importantly the Chinese have sent a signal of their displeasure when we impose various types of trade measures against their products.

Steve Weisman: What prompted this signal of displeasure?

Jeffrey Schott: I think there's been a variety of actions that the United States has been taking. Recently, USTR [United States Trade Representative] has ramped up its enforcement activities and has targeted China for a number of cases in the WTO.

Steve Weisman: Like steel pipes and things like that?

Jeffrey Schott: Also wind and solar subsidies and other products. There have been about ten or twelve cases that USTR has brought against China in recent years. It hasn't been a truckload of cases, but they have been significant and USTR is on its toes to get lawyers there to make sure that China is living up to its obligations. The key salient point is that in almost every instance, the United States has won its case.

Steve Weisman: The Chinese must be watching the presidential campaign or the congressional debate, which is revolving around the currency issue. But that's not an issue here, I take it?

Jeffrey Schott: No. I think this is more in the realm of just commercial relations and showing some irritation against the US trade policy. But it's coming at a time when overall Chinese exports to the United States are still growing quite significantly, and indeed third-quarter shipments from China were up substantially over second quarter shipments. So it's not like the Chinese are doing badly in the market. I find their action a bit puzzling and probably related more to Chinese domestic politics than to international trade politics.

Steve Weisman: As the Chinese sometimes say, "We have politics too."

Jeffrey Schott: They have politics and they're having a new regime coming to power next year. So I think a lot of the officials are ramping up their CVs to show that they're good pro-China policies.

Steve Weisman: How serious is this turn for the worse?

Jeffrey Schott: Again, I think the political costs of this action are more serious than the economic costs, if you assume that these duties are only going to be in place for less than a year. It will perhaps limit the growth in US car exports to China, which is not a good thing. But the fact that the Chinese are using these commercial actions to convey political dissatisfaction, I think, is not the way you're supposed to use the WTO, and that is an ominous signal for broader trade relations going forward.

Steve Weisman: Thank you, Jeff.

Jeffrey Schott: Thank you very much.

