

Hearing On “Key Economic Strategies for Leveling the U.S.-China Playing Field: Trade, Investment, and Technology”

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Commissioner Miller, Commissioner Wessel, and members of the Commission, thank you for inviting me to testify today. I appreciate the opportunity to appear before you to testify about US trade policy and its effectiveness in addressing China’s nonmarket practices. In this testimony, I describe and evaluate US trade policy toward China, omitting discussion of export controls and investment restrictions. This omission does not imply that such efforts are unrelated to economic resilience, only that they are grounded in national security concerns and, thus, more appropriate for discussion in that context.

The objective of US trade policy toward China has shifted over the past two decades, from seeking to bring China into compliance with its treaty obligations to a protracted trade war to strategic decoupling. Detailed bilateral trade data shows that the US has reduced both its imports from and exports to China since the onset of the 2018-19 trade war. A review of recent research on these developments finds that decoupling from China has been costly for US consumers and producers.

The recent Biden administration decision to maintain existing Section 301 tariffs on China necessitates an inspection of the structure of these taxes. Analysis of the four waves of trade-war tariffs finds that they fall heavily on producer inputs, that they tax imports that have no obvious relation to the cause for action, and that they omit exports that may have unfairly benefited from the practices identified by the investigation. This pattern of levies raises basic questions about the efficiency and fairness of their design.

Tariffs on China has allowed a set of third countries to increase their share of US imports. Recent analysis of their trade patterns finds that they have raised the share of their imports from China in pace with gains in the American market. Countries replacing China tend to be deeply integrated into China’s supply chains and are experiencing faster import growth from China, especially in strategic industries.

This review leads me to offer four recommendations to the Commission. My first recommendation is that the US clarify and communicate its strategic intent with respect to trade with China. Secondly, I argue that Section 301 tariffs should be reformed to target Chinese technology related practices. Thirdly, I argue for greater clarity concerning US intentions to reduce Chinese content in global supply chains. Finally, I argue for limiting executive discretion as currently exercised under Section 301.

The Shifting Objectives of US Trade Policy Toward China

After its accession to the World Trade Organization (WTO) in 2001 and prior to 2017, US trade policy sought primarily to bring China into compliance with its international treaty obligations while defending US producers from unfair trade practices. Through a sequence of bilateral efforts, including the Strategic Economic Dialogue initiated by the George W. Bush administration and the US-China Strategic and Economic Dialogue, initiated by the Barack Obama administration, the US maintained high-level consultations with the Chinese government on economic and financial issues. These forums covered cross-cutting issues, including climate change, energy security, bilateral investment, technology transfer, and trade imbalances.

During this period, US imports from China rose quickly, increasing fourfold, from [\\$102 billion](#) in 2001 to [\\$427 billion](#) in 2023. In the process, China became America's top import source, (a status lost only in 2023) and a dominant supplier in many individual products. According to Bown (2021), after a five-year grace period during which China phased in its WTO accession commitments, the United States brought 20 formal WTO disputes against China between 2006 and January 19, 2017. Over that period, the United States filed only 12 disputes total against all other WTO members.¹ Of those cases brought by the US against China, Bown and Keynes (2020) note that 18 reflected systemic issues, those in which the concern is violation of national treatment or discrimination between foreign producers and domestic producers. The US has brought more systemic cases against China than any other WTO member, far more than the second most active complainant, the European Union, which joined the US on 5 systemic cases against China (Bown and Keynes, Figure 6).

While tackling systemic issues at the WTO, the US also deployed trade remedy tools available under various trade statutes. Bown (2019) finds that between 2001 and 2017, the United States launched 130 antidumping and 69 countervailing duty investigations of imports from China, resulting in 103 and 55 restrictions imposed, respectively. He also finds that the average US antidumping duty in force against China in 2018 was 151.5 percent, and the average US countervailing duty was 72.4. By his count, 8.6 percent of US imports from China were subject to antidumping or countervailing duties in 2018.

In recent testimony before this Commission, Elizabeth J. Drake (2024) describes the application of antidumping orders and countervailing duty orders on Chinese exports compared to their total use. She notes that in fourteen of the twenty years from 2000 to 2019, new antidumping and countervailing duty orders on imports from China accounted for half or more of new orders imposed each year. While noting areas where further action is needed to counter circumvention and evasion, she argues that these duties have proved effective in disciplining surges of unfairly traded imports from China.

¹ According to the US-China Economic and Security Review Commission (2017), by the start of the trade war, the US had brought 21 cases against China to the WTO, with US claims upheld partly or in whole in those cases brought to a decision.

Over time, the frequent use of domestic trade remedies brought complaints against the US by other members of the WTO. US officials became increasingly disillusioned by the WTO's repeated rulings against American use of trade remedies. The chief US complaint was that the Appellate Body had added to or diminished the rights and obligations laid out under the WTO agreement, especially in cases challenging anti-dumping, countervailing, and safeguard measures (Bown and Keynes, 2020). This frustration culminated in 2016 with the Obama administration's decision to block appointment of a new judge to complete the three-member roster. In late 2017, with two spots on the Appellate Body roster unfilled, the Trump administration made clear that it would block all future candidates until its complaints had been resolved.

As this brief overview of US trade policy indicates, until the Trump administration, US actions toward China centered on its compliance with WTO obligations created by its 2001 accession and related agreements as well as pursuit of domestic remedies for unfair foreign trade practices. Other important economic issues, such as exchange rate manipulation and intellectual property protections, were addressed in bilateral talks, but did not drive US trade policy.

The failure of China to liberalize investment rules in sectors deemed important for American companies, particularly financial services, and its treatment of US foreign affiliates were discussed in bilateral dialogues throughout the Bush and Obama administrations. However, the trade tools used during this period, namely domestic unfair trade remedies and WTO complaints, were deemed insufficient to address US concerns about Chinese practices limiting US export sales and foreign affiliate activities inside its home market. In 2017, the Trump administration initiated a complaint under Section 301 of the Trade Act of 1974, alleging that Chinese acts, policies, and practices burdened US exports, investment, and use of intellectual property. The subsequent investigation examined Chinese practices related to technology transfer, intellectual property, and innovation. The findings, issued on March 22, 2018, asserted that China's use of foreign equity restrictions forced technology transfer within Sino-American joint ventures, that its use of discriminatory technology licensing restrictions prevented US firms from fully benefiting from their own property, that Chinese firms undertook outbound investment to acquire foreign technology and engaged in cyber-enabled theft of intellectual property.

The United States imposed the first trade war tariffs on July 6, 2018, levying 25 percent duties on \$34 billion of imported products (now known as List 1 products). China responded with 25 percent tariffs on \$34 billion of US exports.² Escalation continued throughout the summer of 2018. The United States and China followed with duties on \$16 billion of imports in August 23 (known as List 2 products). In September, the United States imposed 10 percent tariffs on an additional \$200 billion of imports, rising to 25 percent in June 2019 (known as List 3 products). The last round of tariffs was imposed by the US in September 2019, with a levy of 15 percent on another \$100 billion of imports (known as List 4A products). China levied new tariffs on US exports in retaliation for these last two rounds.³

² Chad P. Bown (2021) provides a detailed timeline of the sequential trade war tariff hikes.

³ List 4 tariffs were ultimately split into two parts, known as List 4A (\$101 billion) and List 4B (\$151 billion). As detailed by Bown (2021), List 4A included some clothing and footwear and the imposition of tariffs was delayed

Plans for additional tariff hikes were shelved when the US announced agreement with China on a “phase one” deal in January 2020. By February 2020, as listed in table 1, the US had placed average duties of around 20 percent on two-thirds of imports from China while China levied an average tariff of 21 percent on 58 percent of imports from the United States.

While the Section 301 investigation focused on Chinese practices related to US intellectual property, reasons given by the Trump administration for the trade-war tariffs went far beyond the findings of the formal investigation. At various times, members of the administration pointed to the bilateral trade imbalance, industrial subsidies, non-tariff export barriers, and various domestic distortions in output and input markets as justification for the aggressive remedies applied to Chinese imports. The Phase 1 agreement perhaps best reflects the weight given by the Trump administration to these various factors. It includes chapters addressing intellectual property protection, technology transfer, trade in food and agricultural products, new access in China for financial services, exchange rates and transparency, and a government-to-government enforcement mechanism. Announcements of the agreement emphasized the Chinese commitment to purchase an additional \$200 billion of US goods and services in 2020 and 2021.

The Biden administration inherited the trade-war tariffs when it came into office in January 2021. As a candidate, Biden [criticized](#) them as a burden on Americans and promised to remove them if elected. With the Covid-19 pandemic, however, came a focus on economic security and resilience that provided a new rationale for the tariffs already in place. Citing China’s unfair trade practices and forced technology transfers, President Biden announced on May 14, 2024 that the Trump trade war tariffs would remain in place.⁴ In addition, the President levied new tariffs on imports from China of steel and aluminum, semiconductors, electric vehicles, batteries, critical minerals, solar cells, ship-to-shore cranes, and medical products. Almost immediately, China signaled it will retaliate against new trade barriers as the Ministry of Commerce announced the launch of an anti-dumping probe into imports of polyoxymethylene copolymer, a thermoplastic widely used in the consumer electronics and automotive industries, from the EU, the US, Japan and Taiwan.⁵

The Biden administration has offered three main economic (exclusive of national security) arguments to support its view that China’s role in US supply chains must be reduced to increase

until September 1, 2019, after back-to-school shopping was done. List 4B contained imports of consumer electronics and toys and no tariffs on this bundle was delayed until December, after shipments for the Christmas season would be on shore. With the completion of the Phase One agreement in December, however, List 4B tariffs were cancelled.

⁴ See The White House. 2024. Fact Sheet: President Biden takes action to protect American workers and businesses from China’s unfair trade practices. May 14. <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/>

⁵ Anti-dumping investigation reported by Eleanor Olcott and Paola Tamma, “China retaliates against the US and EU with anti-dumping probe,” [Financial Times, May 19, 2024](#).

economic resilience. The first concern is that China's dominating presence in global markets is itself a source of economic risk. China now accounts for about 17 percent of the world's manufactured good exports, with its share of some individual products exceeding three-quarters of the world total.⁶ Secondly, despite China's compliance with most WTO dispute settlement rulings, US officials frequently state that China abuses the norms of the international trading system in ways that reduce the resilience of partner economies.⁷ Because of the important role played by the state, both through state-owned enterprises and by state purchasing behavior and regulatory action, Fang (2023) argues that China's economy is increasingly directed by nonmarket practices rather than market forces, and that foreign firms in sectors with such state dominance are unable to compete against Chinese firms, both at home and abroad, based on underlying capabilities and market conditions. A third argument sees the Chinese government itself as a source of supply shocks. Concern about the concentration of production in China has grown along with its propensity to use trade as an instrument of economic statecraft. In recent years, a growing number of US partners have been on the receiving end of China's leveraging trade to further its political goals.

The objectives of US trade policy toward China have been transformed by both the US-China trade war and the pandemic's elevation of economic resilience as a policy goal. Bown (2021) argues that the Trump administration fundamentally changed US trade policy toward China. In particular, he notes that contrary to prior efforts to change Chinese policies the administration "did not bring any meaningful WTO disputes against China, nor did it make any policy progress addressing China's subsidies, even with the US-China phase one agreement" (p. 2). The Biden administration has maintained a similar posture toward trade with China, while adding significant restraints on semiconductors and semiconductor manufacturing equipment and services based on national security concerns. Fundamentally, US trade since the onset of the trade war has shifted away from attempts to change Chinese behavior through dialogue, defensive trade remedies, and dispute settlement to one aimed at reducing the level of bilateral economic integration.

⁶ Trade shares based on author's calculation using information on trade flows from the CEPII BACI dataset. China is defined to include Mainland China, Hong Kong, and Macao. See Gaulier and Zignago (2010) for details on the dataset.

⁷ A recent example of US views on the impact of China's economic policies on other economies is the statement released by the Office of the US Trade Representative following a WTO dispute settlement panel's rejection of China's argument that US Section 232 tariffs on steel and aluminum imports are permissible under WTO rules. United States Trade Representative spokesperson Sam Miche (2023) writes that "the United States condemns China's refusal to correct its severe and persistent nonmarket excess capacity for steel and aluminum that is at the heart of a global crisis that led to the U.S. Section 232 national security actions." The statement fails to note that a WTO panel found that US Section 203 tariffs on steel and aluminum could not be justified on national security grounds and were therefore impermissible under the terms of the General Agreement on Tariffs and Trade 1944. More details on that ruling can be found at "Dispute Settlement 544: United States—Certain Measures on Steel and Aluminium Products," World Trade Organization, panel report under appeal on January 26, 2023, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds544_e.htm.

The Impact of the Trade War on Consumers, Jobs, and Trade Flows

The trade war has been costly for US consumers and businesses. To date, US Customs and Border Protection has collected \$215 billion in tariff revenue from imports taxed by the trade war, an amount largely borne by American consumers and businesses.⁸ In theory large countries may experience some “terms of trade” benefits from tariffs (since reduced demand from a sufficiently large buyer may reduce the price exporters are able to charge for their products). In practice, no study of recent rounds of Trumpian tariffs has found any evidence that US tariffs result in lower prices for US importers. On the contrary, study after study has shown that new tariffs levied by the US since 2017 have instead been fully “passed through” to American buyers.⁹

As reviewed in Meng, Russ, and Singh (2024), the literature has consistently found that tariffs are regressive taxes in the United States, with no notable exceptions. Clausing and Lovely (2024) distribute import taxes across income groups, using the U.S. Treasury method for assessing the distribution of excise taxes. Tariffs are a regressive tax on consumption, reducing the after-tax income of the lowest quintile of households 4 times more than that of the top quintile.

Russ and Cox (2020a, 2020b) demonstrate job loss from the tariffs due to harmful effects on producer input prices. Their findings echo other careful work by researchers that has failed to find beneficial effects for workers from these waves of protection, and more often found serious harms. For example, Flaaen and Pierce (2024) find that the post 2018 tariffs were associated with reduced manufacturing employment, in part due to the complexities of supply chains, competitiveness, and retaliation.

US export competitiveness is harmed by tariffs on intermediate inputs, which increase firms’ costs. Handley, Kamal, and Monarch (forthcoming) directly link US firms’ performance to their exposure to the 2018-2019 tariff increases. The products most exposed to US tariff increases had lower exports; the resulting decline in exports is equivalent to what would be caused by a foreign tariff of about 3 percent. In terms of US export competitiveness, tariffs on inputs used by US manufacturers and other businesses are clearly an own goal.

Trade war tariffs did affect the volume of trade between the U.S. and China, most clearly in flows of newly taxed goods. According to an influential academic study of the trade war that used advanced econometric methods, the value of newly taxed US imports fell by an estimated 32 percent.¹⁰ The drop in US imports from China is visible even in simple graphs, as seen in Figure 1. Starting as soon as the first trade-war tariffs were levied, US imports departed from their prior trend, falling sharply and then recovering somewhat during the pandemic. The trend in US imports from China has fallen since mid-2022 as precipitously as in the early months of

⁸ Customs and Border reports revenue collected on imports from China under Section 301 separately. See “Trade Statistics,” US Customs and Border Protection, accessed May 19, 2024.

<https://www.cbp.gov/newsroom/stats/trade>.

⁹ See, e.g., Fajgelbaum et al. (2020), Fajgelbaum and Khandelwal (2022), Amiti, Redding, and Weinstein (2019, 2020), Cavallo et al. (2021), Flaaen Hortaçsu, and Tintelnot (2020), and Houde and Wang (2023).

¹⁰ The reduction in US import value from trade-war tariffs is estimated by Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020). A discussion of economic studies of the trade war appears in Fajgelbaum and Khandelwal (2022).

the trade war with a recent leveling out at about 80 percent of their June 2018 value. In contrast, US import purchases from the rest of the world have returned to a level above what one would expect based on pre-trade-war trends.

Figure 2 provides a more detailed look at how US imports from China have moved since June 2018. Imports of goods subject to tariffs of 11-25 percent, those on Lists 1, 2, and 3, have not exceeded 80 percent of their pre-trade-war levels since the onset of the trade war and they remain at 60 percent of their June 2018 value. In contrast, US imports of the same set of goods from other countries soared after April 2021 and remain about 40 percent higher than their June 2018 value. A similar pattern is seen for imports on List 4A, which are subject to a 15 percent tariff, although the decline in imports of these products relative to their June 2018 value is less pronounced than for those on other lists. Like imports on Lists 1, 2, and 3, imports from the rest of world rose rapidly in spring 2021 and remain elevated. It is noteworthy that imports from China of products not subject to any trade-war duties soared during the pandemic period but began a steep decline once the crisis was past, while imports of the same goods from other countries remain elevated. These trends indicate that tariffs have depressed US imports from China relative to other trading partners.¹¹

After falling in 2019 and 2020 from its 2018 high, the nominal value of US imports from China grew during the pandemic years of 2021 and 2022, as seen in Figure 3. In particular, the value of goods not subject to trade-war tariffs rose above \$200 billion for the first time in 2021. However, in 2023 the nominal value of US imports from China fell for all three categories of goods, shrinking back to 2020 levels. This shrinkage may reflect a permanent reduction in bilateral trade, or it may reflect factors peculiar to 2023, such as the rapid loosening of Covid-19 restrictions and the subsequent spread of the virus throughout the population. Only time will tell.

US exports reacted strongly to the imposition of tariffs by China in retaliation for American actions. As seen in Figure 4, the total value of US exports fell sharply during the trade war, remained depressed for almost two years and reaching the June 2018 value only in March 2021. American farm exports were targeted by Chinese retaliatory tariffs, but exports of planes and helicopters also fell sharply in 2019 and 2020.

Trade war tariffs are scattershot, not strategic

The Trump administration deployed tariffs as a “crowbar” to force China to change practices it saw as harmful to American interests. As seen in the Phase One agreement, the administration also wanted to raise purchases of US exports to ameliorate some of the commercial damage done by China’s retaliatory tariffs and in an ill-fated attempt to reduce the bilateral trade imbalance. Product groupings for each round were set to meet the former President’s demand for new taxes on bundles of a specifically stated value. With each new round of tariffs, the administration stated the value of goods to which the new tariffs would be applied, as well as the threatened tariff rate. The process behind the identification of these products bore no resemblance to processes used for other forms of administered protection in the US.

¹¹ Price changes cause movements in trade flows that may obfuscate changes in import quantities. However, the US does not import much energy or food from China, two product groupings that have experienced significant price swings in recent years.

The issue now, as the Biden administration has decided to maintain the Section 301 tariffs, is that these tariffs were not chosen to send a strategic message to China, to strategically decouple from China, or to otherwise serve the long-term goal of increasing the resilience of the US economy. There are three features of the bundle of imports currently being taxed that suggests it can be reformed to better service US strategic concerns.

First, the tariffs fall heavily on sectors that are not knowledge intensive. They do not hit sectors where China may have profited from forced or stolen technology transfer. Thus, they do not send China (and the world) a clear message about what the US wants or can accept in the intellectual policy policies of its partners. Lovely and Liang (2018a) analyze the List 1 products and find that the bulk of the trade flows taxed in this round were in knowledge-based activities but covered only about one-third of exports of computers and electronic products. The set of products targeted in List 2 consists of less knowledge-intensive goods. Lovely and Liang (2018b) find that List 2 greatly expanded coverage of apparel and accessories while hitting technology sectors lightly.

As Figure 5 shows, once all 4 tariff rounds were complete, labor-intensive and resource intensive manufactures imported from China face an average tariff of 12 percent. Low-skill and medium-skill technology intensive manufactured goods imports each face an average tariff of 18 percent, while high-skill technology-intensive manufactures face an average tariff of 15 percent. More granular examples make the issue readily apparent. Eighty-eight percent of clothing and textiles imports and 100 percent of hide and skins imports are subject to trade-war duties even though they contain very little intellectual property for Chinese manufacturers to steal.¹² What strategic purpose do tariffs on labor-intensive manufactures serve?

Secondly, some IP-intensive products were not hit with new tariffs during the trade war. Overall, 49 percent of trade in electronics and electrical machinery was not subject to Section 301 tariffs (Bown, 2021). Notably, laptops, monitors, video game consoles, and smart phones have been spared, despite their obvious link to strategic competition in technology sectors. As chronicled by Bown, “the United States periodically created new tariff codes when the administration wanted to exclude certain products from its trade war duties that were lumped with others in the official US tariff schedule. The most prominent was the desire to exclude tens of billions of dollars of smartwatches (e.g., Fitbit and Apple Watch) from the List 3 tariffs in September 2019.” The political economy of their exclusion is not difficult to figure out, but the action left largely untouched some firms that benefitted heavily from offshoring production to China. This feature of Section 301 tariffs raises basic questions of fairness. Clausing and Lovely (2024) show that tariffs are a regressive tax that falls more heavily on less affluent Americans. How can it be fair that tariffs are levied on products sold at Walmart, but not on fancy computers sold at specialty stores?

Third, trade-war tariffs hit intermediate goods very hard. To investigate the extent to which Section 301 tariffs land on capital and intermediate goods purchased by US-based producers, targeted tariff lines can be viewed through the lens of the United Nations’ broad economic categories (BEC).¹³ The BEC groups transportable goods according to their main end use,

¹² Shares of taxed import value by sector drawn from Figure 2 in Bown (2021).

¹³ We use the United Nations’ concordance to take the HTS data into the BEC classifications, <https://unstats.un.org/unsd/trade/classifications/correspondence-tables.asp>.

separating consumer goods from other products. At the end of the tariff escalation, as seen in Figure 6, 93 percent of US imports from China of intermediate inputs faced new tariffs. By contrast, 69 percent of imported final consumer goods, and 47 percent of imported capital equipment were taxed.

Tariffs on intermediate inputs hurt US manufacturers and, as discussed above, have led to a decrease in export competitiveness and American job losses. Tariffs on intermediate inputs have led to a robust exemption process, so that manufacturers who would otherwise be hurt by tariffs can request relief. The exemption process is opaque and it creates administrative, fairness and governance problems.

Are global supply chains moving away from China?

The 2018-19 trade war undoubtedly reduced the US reliance on China both as an import source and an export destination. In its place, the US increased its trade with other exporters, notably Vietnam, Taiwan, and Mexico. Lovely, Xu, and Zhang (2021) employ detailed trade data to find that the trade war raised the US market share of those countries that were already exporting similar products to the US. Alfaro and Chor (2023) also see a “reallocation” of global supply chains, finding that while direct US sourcing from China has decreased, the import shares of low-wage locations (principally Vietnam) and nearshoring/friendshoring alternatives (notably Mexico) have increased.

This reorganization of supply chains is also affecting the composition of US imports from China, as they are driven by the availability of alternative low-wage location and investment decisions by multinational firms. As shown in Figure 7, China has lost US market share in all four degrees of manufacturing exports, as categorized by UNCTAD, with the decreases largely taking place since 2017.¹⁴ The largest declines in market share between 2013 and 2023 have occurred in relatively labor-intensive activities.¹⁵ These declines can be seen in the shares for labor-intensive and resource-intensive activities, where the share of US imports from China declined by 18 percentage points (the first columns in Figure 7) and the high-skill and technology-intensive manufactures, where the share of US imports from China declined by 13 percentage points (the last columns in Figure 7). That China would be losing ground in the first of these categories is not surprising, given rising costs in China and improving conditions for production in alternative low-middle income countries. That China has lost in the high-skill, high-tech product category needs a bit more explanation. This category is dominated by electronics, and it contains many intermediate steps that can be performed with lower-wage workers skilled in labor-intensive segments of the global industry, such as cell phone assembly.

While bilateral trade with China appears to be diminishing, there is little evidence that China’s place in global supply chains is being dislodged. The evidence shows that (a) China maintains its dominant share of global manufactured goods exports; and (b) third countries have raised the

¹⁴ The manufacturing sectors assigned to each category are listed in Table 2.

¹⁵ The longer time frame used for this figure reflects the fact that US tariffs are not the only reason for a lower China share of US imports, although they certainly appear to have accelerated these trends. Some labor-intensive production has been slowly relocating in response to changing underlying cost fundamentals, a trend that was visible before the trade war.

share of their imports from China in pace with their share of the American market; and (c) it is likely that some transshipment of exports from China to third countries is occurring.

That China maintains its share of global manufactured good exports may be surprising to some, given the fall in its American market share. Chinese imports fell from 21.6 percent of US total import value in 2017 to 14 percent in 2023. Nevertheless, China has been able to quickly reroute its exports, and as seen in Figure 8, its share of global exports reached 27 percent in 2021 and 2022 (the more recent year for which global data is available.)

Third countries have raised the share of their imports from China in pace with their share of the American market. Freund, Mattoo, Mulabdic, and Ruta (2023) show that countries replacing China tend to be deeply integrated into China’s supply chains and are experiencing faster import growth from China, especially in strategic industries.

Additional evidence that possible “friendshoring” locations are more deeply integrating with China comes from Dahlman and Lovely (2023), who show that almost all middle-income countries in the Indo-Pacific region have increased their reliance on Chinese intermediate goods imports since 2010.¹⁶ Countries experiencing increased sales to the US are being supported by both inward foreign investment and increases in intermediate goods imports from China. The upshot is that as the US relies more on alternative trading partners, it continues to rely on China because of the intermediate goods these countries use to produce the goods they ship to America.

An additional explanation for China’s ability to maintain its weight in global supply chains may be rerouting of exports to third countries for transshipment to the US. The level of such transshipment is not known, but it is consistent with trends in Southeast and South Asian imports from China that track trends in these countries’ exports to the US.

Recommendations for the Commission

There are several steps that Congress and the Administration can take to reform US trade policy to better serve US strategic goals in its relationship with China. My assessment of alternative actions reflects two features of the global economy that constrain US policy. First, as noted repeatedly by Treasury Secretary Janet Yellen, the Chinese economy is too large and too intertwined with the global economy for the US to decouple from China. Therefore, I prioritize policies that acknowledge China’s continuing presence in global supply chains, while reducing the harm of Chinese practices on the US economy. Secondly, I prioritize policies that reduce the current level of uncertainty in US-China commercial relations. Commercial policy toward China implicitly and explicitly relies on the private sector to decide how to alter supply chains given tariff levels, export controls, and other restrictions. Trade policies that embody greater clarity in the US position on its relationship with China will reduce the uncertainty that dampens the international flow of capital and diminishes global growth prospects.

1. Clarify and communicate US strategic intent with respect to trade with China.

¹⁶ China is the most important trade partner for almost all countries joining the US in IPEF negotiations. Indeed, 11 of these 13 countries are already members of the Association of Southeast Asian Nations–led Regional Comprehensive Economic Partnership (RCEP), which binds them to China through a preferential trade agreement. Importantly, generous rules of origin contained in RCEP encourage development of supply relations among its members.

The United States has consistently communicated to China and the rest of the world the intent and extent of the export controls placed on semiconductor exports beginning in October 2022. This clarity provides a firm basis for technology companies as they adjust their business operations to comply with US rules and formulate plans for future capital expenditures. In these ways, a clearly stated US policy objectives reduces the long-term costs of decoupling from China in this sector.

The targeted design of export controls also eases coordination with partners abroad, whose participation is key to the policy's effectiveness, and in our relations with the Chinese government. Strategic clarity validates official US claims that export controls are a form of "derisking" and not "decoupling." In the words of US National Security Advisor Jake Sullivan, "Our export controls will remain narrowly focused on technology that could tilt the military balance. We are simply ensuring that U.S. and allied technology is not used against us. We are not cutting off trade."¹⁷

US trade policy objectives with respect to China and US trade policy tools do not exhibit the same level of strategic clarity. We have deployed many tools to reduce trade in many sectors. As described above, Section 301 duties hit all types of products and have been justified by many different complaints against China. While US officials repeatedly state that the US is not attempting to decouple from China, there has been little clarity on what objectives vis-à-vis China that American trade policy is meant to achieve. This ambiguity creates uncertainty for friends and allies and hinders private investment in new locations in activities designated as strategically important. US policy will be more effective if it reflects clearly communicated strategic intent with respect to the bilateral economic relationship.

2. Reform existing Section 301 tariffs to target Chinese technology related practices.

In contrast to export controls, US trade policy objectives have not been clearly linked to the trade policy instruments we currently deploy. The recently released review of the Section 301 tariffs found that China had not eliminated its technology transfer related practices and that the country persists in attempts to acquire foreign technology through cyber intrusions and cyber theft. In other words, the report finds that Section 301 tariffs levied in 2018-19 have simply not been effective in achieving their stated aim. Nevertheless, rather than reforming US policies to target trade that has benefited from forced technology transfer, the US continues to levy the same set of tariffs on Chinese exports to the US, albeit with some new exclusions for machinery imports.

The Commission should recommend that the US Trade Representative advise the President to relieve the burden of Section 301 tariffs by removing taxes on imports with no strategic value. Tariff relief can center on final consumer goods and on intermediate inputs and machinery that fall outside the scope of Section 301 violations. As discussed in Clausing and Lovely (2024), tariffs are a regressive tax that places an uneven burden on working Americans. Continuation of tariffs that tax working families for no strategic gains should be removed.

¹⁷ Quote taken from *Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution*, April 27, 2023. <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>

At the same time, the coverage and rate of tariffs on goods that reflect forced use or theft of US technology should be increased. If the objective is to reduce sales of Chinese firms that have profited from ill-gotten technology, coverage of high-technology imports should be increased. Because much of this trade occurs within the global value chains of multinational technology firms,¹⁸ higher tariffs on these products will undoubtedly have costs for American consumers and firms. These burdens should be acknowledged as the cost of protecting US interests in these sectors.

The US should expect China to also reduce the scope of its tariff on US exports, at least on a proportionate basis. Further, because China reduced average tariffs on exports from other partners since 2017, the US should expect that the tariff facing many American exporters will fall to a lower level than that levied before the trade war.

3. Clarify US intentions to reduce Chinese content in global supply chains

As described above, third countries have raised their share of American imports as the China share has fallen. The US now seeks to ensure that these emerging exporters meet an ambitious set of standards related to labor conditions, environmental standards, and decarbonization. The difficulty of building a high-standard network as an alternative to China is exemplified by the limited progress made to date in negotiations on the Indo-Pacific Economic Framework.

In addition to labor, environmental and decarbonization conditions, there is growing demand for these countries to also decouple from China. The claim is that the presence of Chinese investment or Chinese value added in third-country exports to the United States is suspect. Chinese presence in supply chains may transfer unfair practices to third-country production, depressing the price at which such exports enter the US.¹⁹ Such concerns have led to demands that US trade policy promote third-country decoupling by aggressively countering suspected duty circumvention, adjusting CV and AD procedures to permit consideration of transnational subsidies embodied in input and equipment from China, or by renegotiating rules of origin in trade agreements.

Such concerns seek to extend US jurisdiction to the foreign value-added content of our trading partners' exports. While it is desirable to ensure that import prices are not distorted by China's non-market policies and transnational subsidies, there is an obvious tradeoff between the need to create new locations for production and attempts to remove China from the supply chains of other countries. While many nations want to bolster defenses against Chinese coercion and aggression, it is doubtful that they share the US view that China can or should be excluded from supply chains. Chinese foreign investment is already flowing into East and Southeast Asia and eastern Europe. Integration with China is not limited to middle-income countries, however. Japan exports almost as much to China as it does to the United States and imports almost twice as much. Much of this bilateral trade feeds Japan's onshore production.

¹⁸ Lovely and Huang (2018) provides a detailed description of foreign participation in China's high-technology manufacturing industries.

¹⁹ Drake (2024) provides a clear discussion of these concerns.

Uncertainty about the US position on this issue likely slows investment into countries that could serve as alternative sites for production for the American market. The US should clarify its position on Chinese content in third-country exports, recognizing that tracing and eliminating such content may be counterproductive in the quest to diversify global supply chains.

4. Restore Congressional oversight of US trade policy by limiting executive discretion exercised under Section 301.

The US Section 301 statute does not require the executive to disclose to Congress the scope of products being investigated and thus did not constrain how much, or the type of, trade that might be affected by tariffs, let alone what level or for how long the tariffs might be imposed. These decisions are at almost complete discretion of the executive —discretion President Trump took full advantage of during the trade war and which President Biden used to place additional tariffs on US imports of Chinese steel and aluminum, semiconductors, electric vehicles, batteries, critical minerals, solar cells, ship-to-shore cranes, and medical supplies. This extensive power to tax usurps powers reserved by Article 1, Section 8 of the Constitution for the US Congress. It sidesteps constraints built by Congress into safeguards, antidumping, and countervailing duties investigations. While the use of an existing platform for new tariff hikes is expedient, it makes a mockery of the US administered protection system erected by Congress, alerts our friends and allies to the capriciousness of US trade laws, and injects additional growth-retarding uncertainty into the global economy.

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Tables

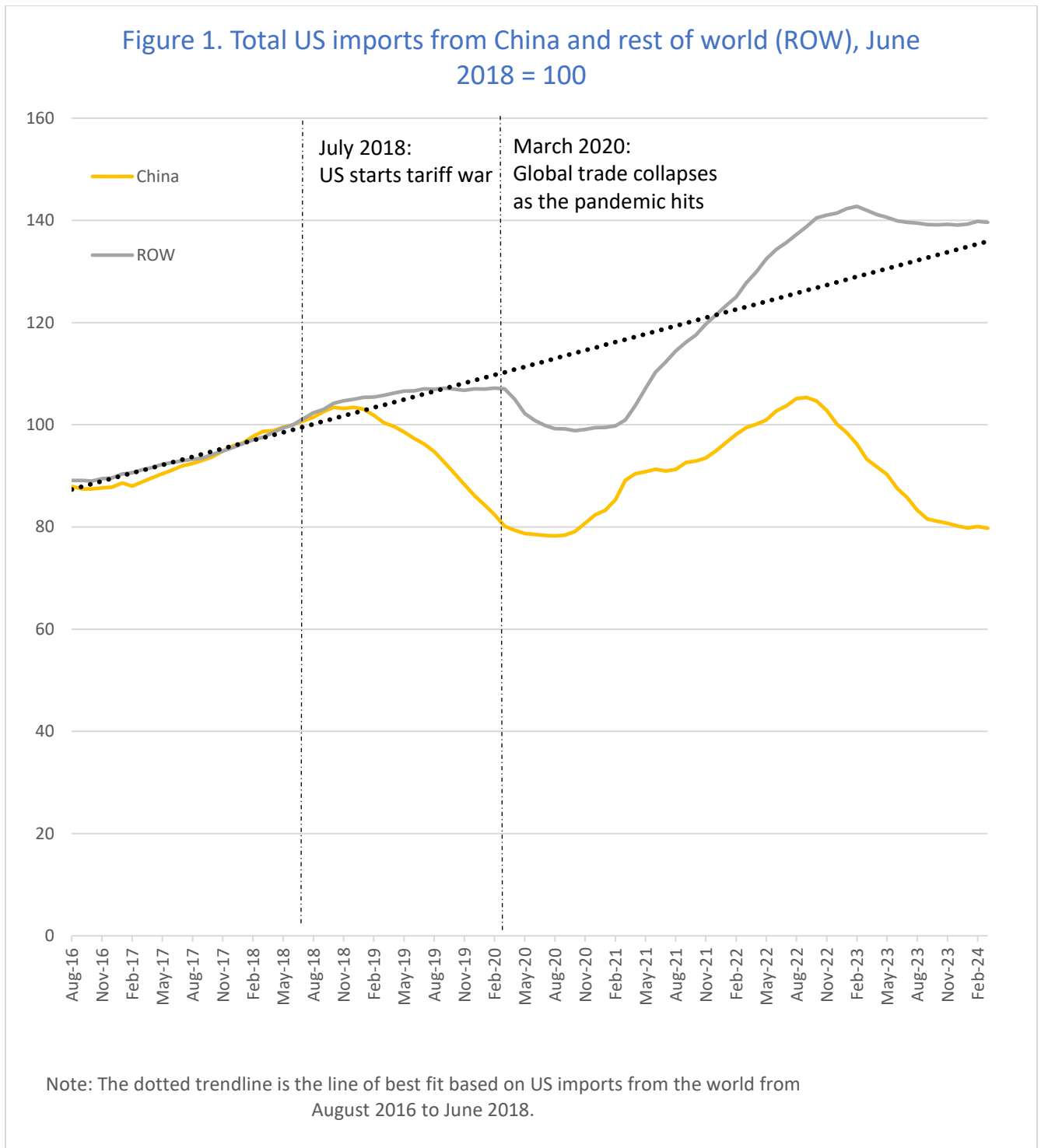
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|--|--|---|--|--|--|
| 66.4% | 19.3% | 3% | 58.3% | 21.1% | 6.5% |

Source: Bown (2023)

| Degree | Goods |
|---|--|
| Labor-intensive and resource-intensive manufactures | Manufactures of Leather, Fur, Cork, Wood, Paper, and Non-metallic Minerals (Glass, Pottery, etc.); Textiles; Furniture; Travel Goods; Bags; Clothing; and Footwear |
| Low-skill and technology-intensive manufactures | Iron, Steel, Manufactures of Metal, Motorcycles, Cycles, Trailers, Railway Vehicles, Boats, Office and Stationary Supplies, and Miscellaneous Manufactured Articles n.e.s. |
| Medium-skill and technology-intensive manufactures | Manufactures of Rubber; Power Generating, Metal Working, Electrical, Specialized, and Other Industrial Machinery and Equipment; Road Vehicles and Parts (excl. Motorcycles and Trailers); Prefabricated Buildings; Sanitary, Heating, and Lighting Fixtures; Plastic Articles n.e.s., and Toys |
| High-skill and technology-intensive manufactures | Chemicals, Office Machines and Automatic Data Processing Machines, Telecommunication and Sound Recording Apparatus, Cathode Valves and Tubes, Aircraft, Professional and Scientific Instruments, Photo Apparatus, Optical Goods, Watches and Clocks, Arms, Ammunition, Printed Matter, Art, Antiques, Jewelry, Musical Instruments |

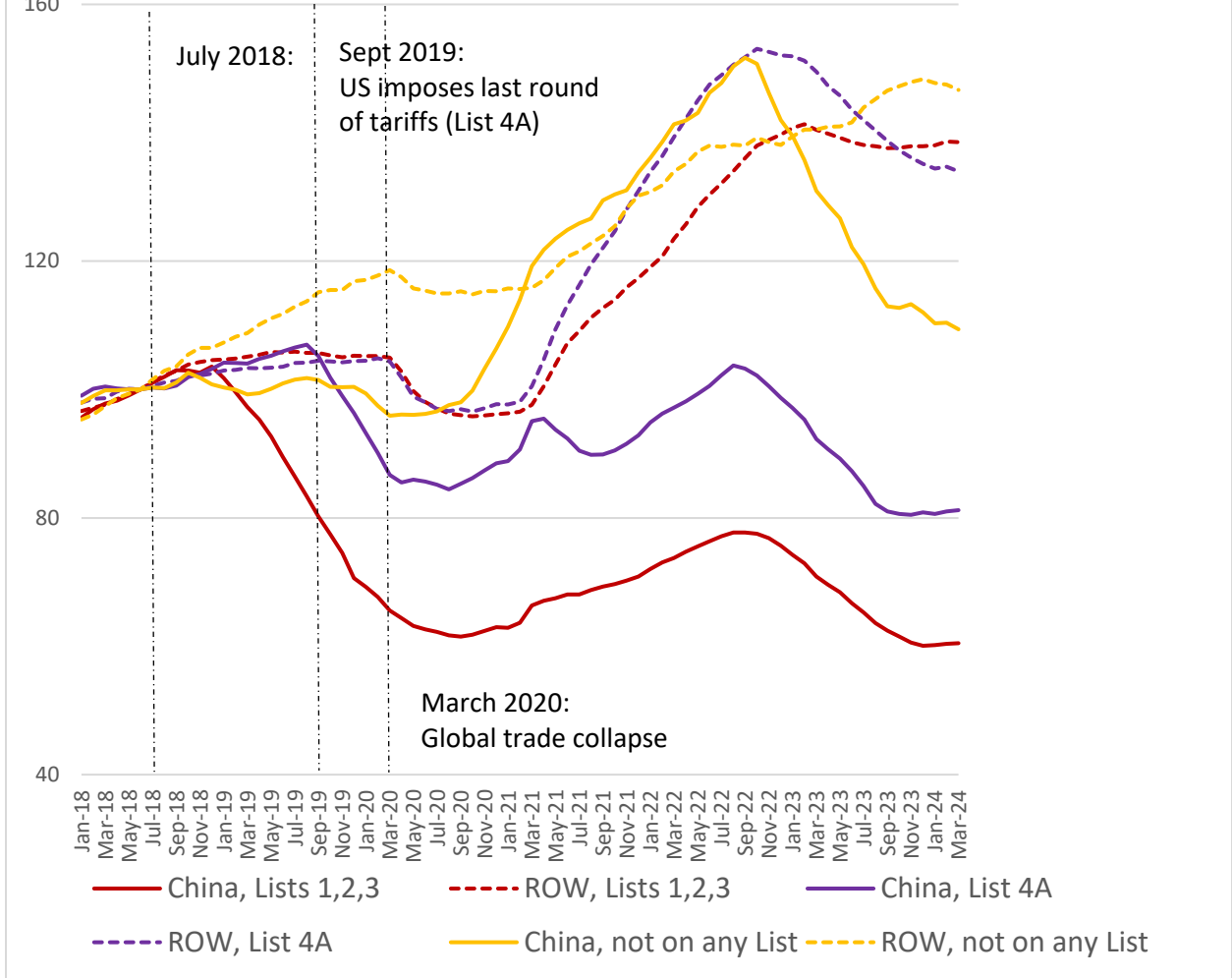
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Figures



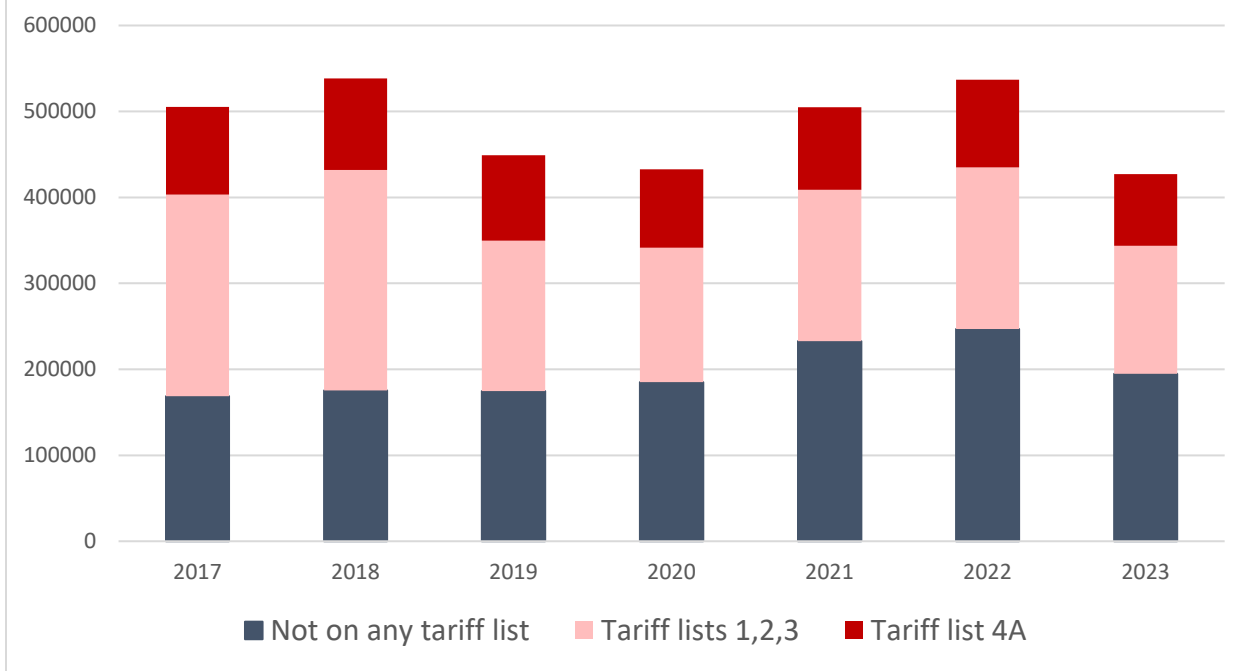
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Figure 2: Value of US imports from China and rest of world by trade war tariff list, 2018–2024
(June 2018 = 100)



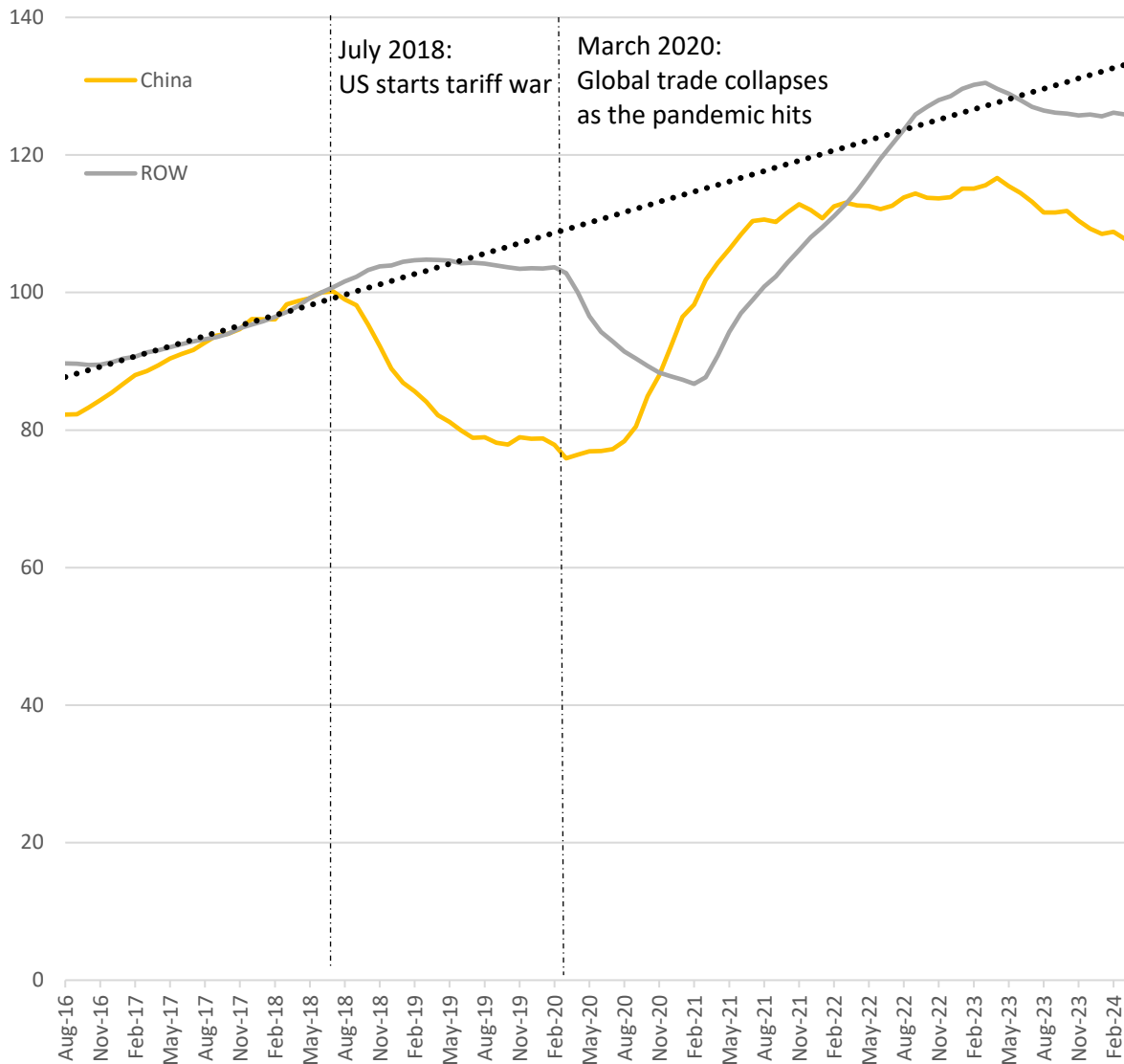
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Figure 3. U.S. annual goods imports from China by trade war tariff list, millions of US dollars (current), 2017-23



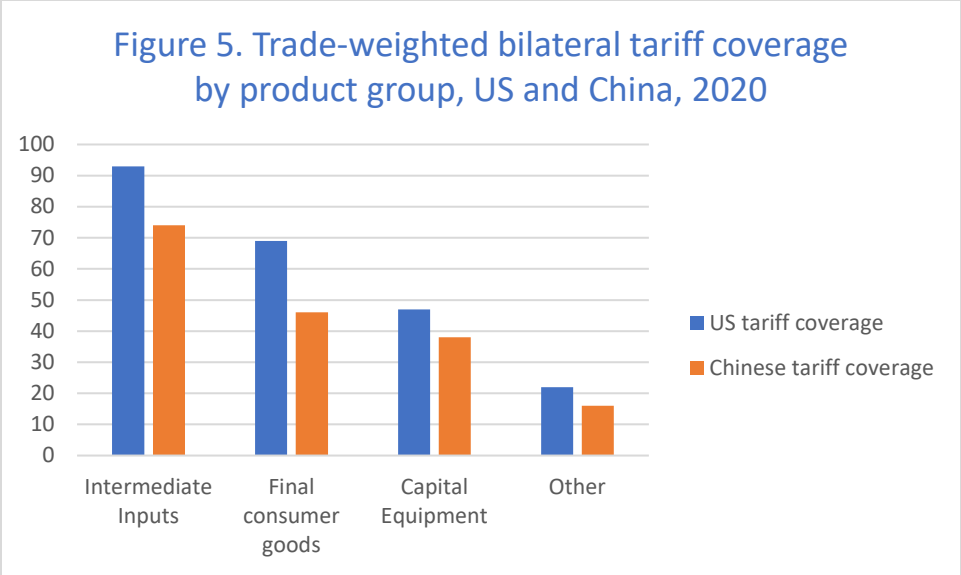
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Figure 4. Total US exports to China and rest of world (ROW), June 2018 = 100

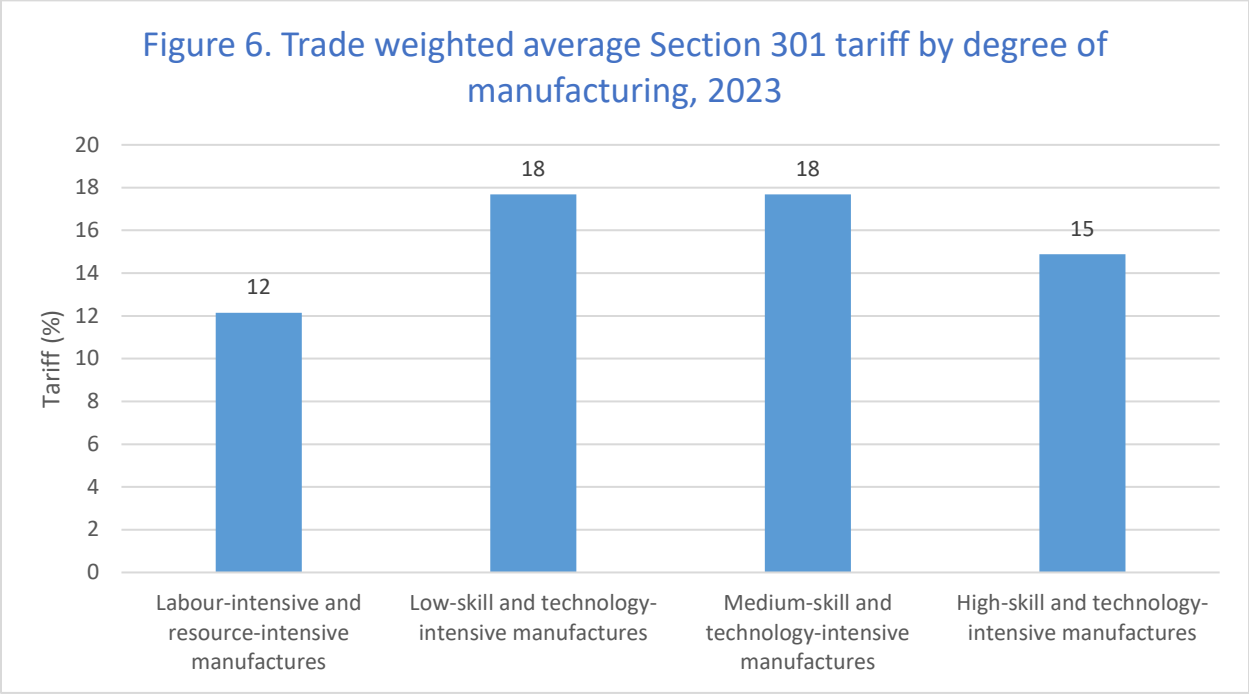


Note: The dotted trendline is the line of best fit based on US imports from the world from August 2016 to June 2018.

Source: Constructed by the author with US import data from US Bureau of the Census, updating an original graph in Bown (2022b).

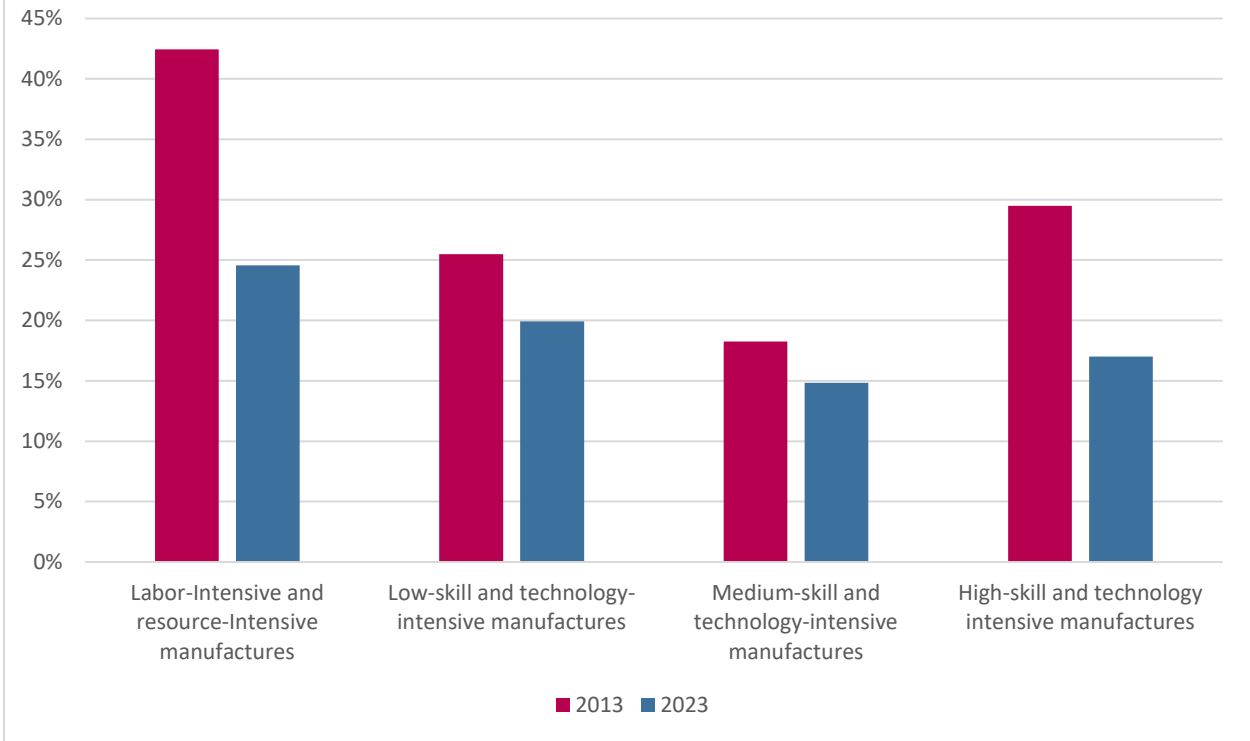


Source: Data taken from Bown (2021)



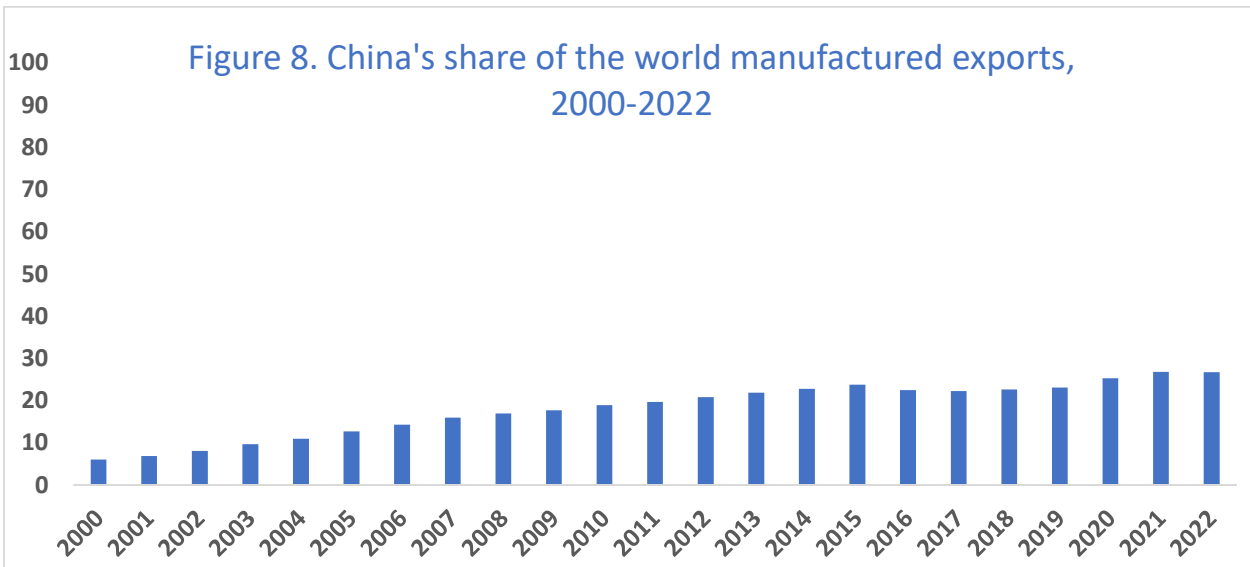
Source: Constructed by the author with US import data from US Bureau of the Census.

Figure 7. Share of US imports from China by degree of manufacturing, 2013 and 2023



Source: Constructed by the author with US import data from US Bureau of the Census,

Figure 8. China's share of the world manufactured exports, 2000-2022



Source: WTO Stats and calculations by author. Note that the EU is treated as one trading region for this calculation.