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Meet the new boss: a Biden Administration doesn't mean a return to Obama-era China policy

NAB Group Economics

Despite a change in government in the United States, following the election of Joe Biden as US President and Democratic Party control of Congress, US trade and foreign policy with China appears unlikely to revert to its earlier openness. While the Biden Administration is less likely to engage in aggressive rhetoric and the unilateral imposition of tariffs than the previous Trump Administration, it appears that pressure on China's trade and technology policies (among other areas) will persist.

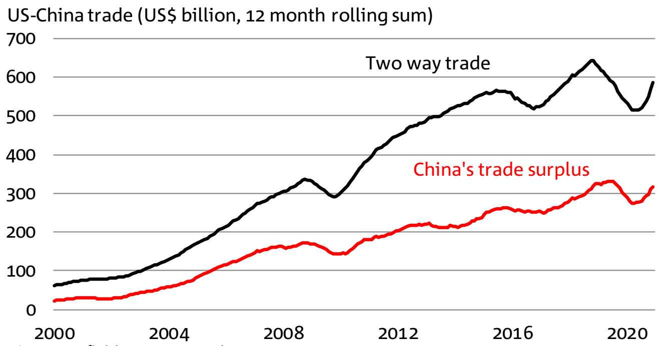
TRADE SURPLUS JUST ONE PART OF GROWING US-CHINA TENSIONS

Tensions between the United States and China have risen gradually over recent decades as China has emerged as a global power. These tensions have extended across a broad range of areas, including domestic and international politics, intellectual property protection, market access and protectionism, state subsidies and intervention and trade policies among others. As noted by the Brookings Institution, depending on the area of focus, China can be a partner, a competitor or a challenger to US interests. In recent years, the trade relationship has been a major area of focus.

A key concern of the former Trump Administration was the scale of China's trade surplus with the United States. As China's rapid industrialisation over the past three decades transformed it from a relatively small, low cost producer to the world's largest exporter, the trade surplus with the US rose to a record US$331 billion in the twelve months to June 2019. This imbalance contributed to the tensions between the two countries that culminated in the 2019 trade war. The increases in tariffs imposed by both countries resulted in a sharp decline in two-way trade and a more modest narrowing in the surplus.

TRADE SURPLUS WIDENING

Supported by COVID-19 related demand



Source: Refinitiv, NAB Economics

Following months of failed negotiations regarding a comprehensive agreement, which saw tariffs between the two countries climb significantly, the trade war was concluded with the so-called Phase One trade deal in January 2020, leaving more complicated matters such as intellectual property protection and industrial support for state owned enterprises to a theoretical future Phase Two deal. Critical to the agreement was increased purchases of a range of specified US exports as a way to address the trade imbalance. Failing to comply with these terms would risk reigniting the trade war.

Between July 2019 and March 2020, China's trade surplus with the United States narrowed significantly – with both trade measures and the impact of COVID-19 restrictions impacting the flow of goods and services. Since March 2020, when the twelve-month rolling surplus was just US$274 billion, an expansion in China's exports, in part due to increased demand for medical equipment and electronics to support a vast increase in the number of people working from home, has seen the surplus gradually widen once again. In December 2020, the rolling surplus totalled US$317 billion, just 4.2% below its pre-trade war peak.

HOW IS CHINA TRACKING AGAINST ITS TRADE DEAL TARGETS?

Under the terms of the Phase One trade deal, Chinese authorities committed to increase their imports of a specified range of US goods and services across 2020 and 2021 by around US$200 billion above 2017 levels (with an increase of at least US$63.8 billion required at the end of 2020). The Peterson Institute for International Economics (PIIE) has been regularly updating a database the tracks China's monthly imports from the United States, with the annual target for 2020 applied each month on a pro-rata basis. It is worth noting that this approach is for the ease of analysis – with the Phase One deal only including the annual targets.

According to the PIIE analysis, China's total imports of specified US goods was US100.0 billion in 2020 – around 58% of the target specified in the Phase One trade deal (US$173.1 billion). In part this reflects the impact of COVID-19 restrictions in both countries disrupting trade activity – with cumulative imports between January and May at just 47% of the target – meaning that imports increased more strongly as China recovered from COVID-19. However, it also reflects the difficulty in meeting the requirements, which PIIE described as unrealistic in early 2020.

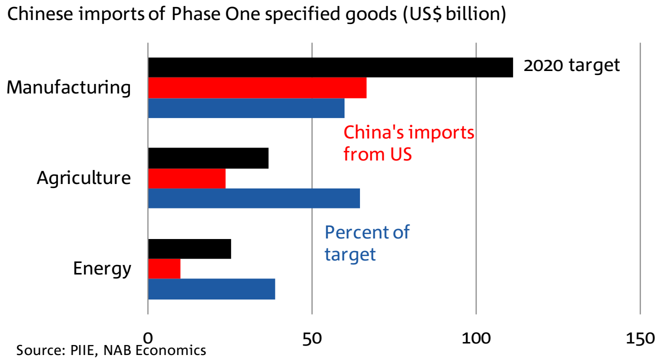
CHINA'S IMPORTS VERSUS TARGET

2020 imports well below Phase One requirements

By sector, agricultural imports were marginally closer to their target levels than manufacturing imports in 2020 – at 64% of the target level versus 60% – while energy imports significantly lagged behind (just 39%).

IMPORTS BY CATEGORY

China's energy imports lagged behind



CONCLUSIONS

The recent upward trend in China's trade surplus with the United States, and its failure to meet targets specified in the Phase One trade deal, has the potential to reignite the trade tensions. That said, the newly installed Biden Administration is likely to have a less aggressive stance with China – meaning that a return to the full-blown trade war appears less likely than had President Trump been re-elected.

In the near term, it appears likely that the Biden Administration will have a domestic focus – primarily related to roll out of COVID-19 vaccines and supporting the recovery of economic activity – however policy towards China is likely be a key component of its overall foreign strategy. The tariffs imposed by the Trump Administration will remain in place in the interim, along with technology bans and financial restrictions.

While the Biden Administration is likely to be more cooperative with China, the tone of statements in its early days differ significantly from the more open Obama era. In late January, White House Press Secretary Jen Psaki stated that strategic competition with China is a defining feature of the 21st century and the Administration would be "holding China accountable". That said, Biden will approach trade policy from a multi-lateral approach with trade partners and allies, in stark contrast to the unilateralism seen under President Trump.

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