

FBB FEDERAL RELATIONS

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Peter Friedmann's View from Washington DC

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China and Mexico Trade – Can Substance Prevail over Politics?

If there is bipartisanship on the Hill on anything, it's on the current US-China Tariff War, and now, in more recent weeks, on addressing China's human rights practices.

First, the US - China trade relationship, specifically, the US imposition of increased tariffs on imports from China. D's and R's both tell Trump to stay tough, don't do some minor deal and claim that you have negotiated the greatest deal of all time. Better come up with something really good -- China is a bad actor which needs to change its ways; we need to get something for the pain caused by the tariffs.

Let's remember, no trade deal has ever been popular on Capitol Hill. If they pass, they do so just barely, with vigorous and bitter opposition. Such was the case with NAFTA 30 years ago, and with allowing China into the World Trade Organization. The Trans Pacific Partnership was opposed by both the R and D Presidential candidates, and defeated by a razor thin margin in a test vote in the House. So whatever deal we get on NAFTA's replacement, the US-Mexico-Canada Agreement (USMCA) or with China on tariffs, half of Congress will bitterly oppose it – most for political reasons, some for substantive reasons. Nothing new.

It's now happening again with USMCA—Speaker of the House Nancy Pelosi saying that is “such an easy deal”. On the positive side for trade, I sense she is finally setting the stage for House passage in the next few months. But also preparing a line of attack: when the President claims a great victory, political opponents will say: ‘it's no big deal’. Meanwhile, all the rest of us care a lot more about the benefits of US, Canada, Mexico trade, than these petty partisan politics.

Turning back to China: Congress has already sent a veto-proof bill to the President addressing China's brutal repression of civil liberties in Hong Kong. This put the President in a tough position – sign the bill and anger China in the midst of trade negotiations; or don't sign it, angering all those who want the US to defend the liberties of Hong Kong residents, and get overridden by Congress anyway. He signed it. What this does to China's willingness to make the trade commitments we seek remains to be seen, but does not portend a rapid end to the tariff war, to say the least.

Now Congress is sending another bill to the President that will also anger China. It will set the stage for sanctions for China's treatment of ethnic minorities in eastern China (incarceration, forced labor, etc.) which has lately gained wider global concern/outrage. R's and D's joined to pass this by overwhelming majorities, putting the President in the same situation – stand up for human rights and anger China, thus jeopardizing the trade negotiations. My bet is he will do as he did with the Hong Kong bill – sign it.

All this may explain the President's insistence on referring to a potential first trade deal with China as “Phase One”. It leaves open the prospect, or hope, that if Phase One is not much, a “Phase Two”, will be the great deal he has promised.

But now, even “Phase One’ could be off the table. In the current environment, the elevation of human rights as the centerpiece of the US-China relationship conflict, makes it difficult to see much progress on the trade front.