

Trump Is Ready to Turn Up the Heat on China Over IP Transfers

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- President to ask USTR to consider investigation, officials say
 - Moves comes amid tension over North Korea nuclear threat
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President Donald Trump is stepping up pressure on China over what the U.S. perceives to be the theft of intellectual property, opening a new front of trade friction even as the world's largest economies try to work together to contain North Korea's nuclear threat.



Robert Lighthizer Photographer: Andrew Harrer/Bloomberg

Trump will sign an executive memorandum on Monday directing U.S. Trade Representative Robert Lighthizer to consider investigating China over its IP policies, especially the practice of forcing U.S. companies operating in China to transfer

technological know-how, administration officials said Saturday on a conference call with reporters.

If China is found to be flouting the rules on U.S. intellectual property, the administration has a range of options, including imposing import tariffs, said the administration officials, who weren't authorized to speak publicly about the matter. If USTR moves forward, the investigation could take as long as a year.

The move comes amid growing tension over the threat of North Korea using nuclear weapons, and a week after the U.S. received China's help in the United Nations Security Council to impose tougher economic sanctions on Pyongyang. Nikki Haley, the U.S. ambassador to the UN, said at the time that she wanted to "personally thank" the Chinese delegation.

[The U.S. Firms at Risk from China Trade War: QuickTake Scoreboard <https://www.bloomberg.com/news/articles/2017-07-21/the-u-s-firms-at-risk-from-china-trade-war-quicktake-scorecard>](https://www.bloomberg.com/news/articles/2017-07-21/the-u-s-firms-at-risk-from-china-trade-war-quicktake-scorecard)

[Chinese President Xi Jinping moved <https://www.bloomberg.com/politics/articles/2017-08-12/trump-and-xi-say-north-korea-must-stop-provocative-behavior>](https://www.bloomberg.com/politics/articles/2017-08-12/trump-and-xi-say-north-korea-must-stop-provocative-behavior) to calm nerves on Friday, telling the U.S. president during a phone call that all sides should maintain restraint and avoid inflammatory comments. While the White House said the leaders reaffirmed their commitment to rid the Korean peninsula of nuclear weapons, Trump has previously criticized China for not reining in North Korea, and threatened trade measures if Xi fails to act.

The announcement expected Monday comes amid sharply escalating tensions, with Trump warning that U.S. military options are "locked and loaded" if North Korean President Kim Jong-Un acts unwisely.

It further complicates the already taut U.S.-China relationship, which took a [frosty <https://www.bloomberg.com/politics/articles/2017-07-19/trump-s-honeymoon-with-china-ends-as-economic-talks-turn-frosty>](https://www.bloomberg.com/politics/articles/2017-07-19/trump-s-honeymoon-with-china-ends-as-economic-talks-turn-frosty) turn last month when officials from both nations couldn't agree on a joint statement over economic issues after high-level talks in Washington.

"This action would represent a sharp escalation of pressure on China on two fronts -- the China-U.S. bilateral trade relationship, and China's role in managing the volatile situation on the Korean peninsula," said Eswar Prasad, a professor in the Dyson School at Cornell University, and a senior fellow at the Brookings Institution.

Still, Trump's actions stop short of what some analysts had been expecting him to do on intellectual property. Rather than launching straight into a probe, USTR will merely consider whether to begin an investigation under Section 301 of the 1974 Trade Act.

Administration officials declined to say how long it will take before a decision is made whether to start a probe.

Long-Time Irritant

U.S. officials also sought to downplay any link between the North Korea issue and the IP action, which they called a response to the long-standing irritant of China's lack of respect for American intellectual property.

Section 301 allows the president to impose tariffs on foreign products in response to unfair or discriminatory restrictions on American commerce. The provision has fallen into disuse <<https://www.bloomberg.com/politics/articles/2017-08-02/trump-may-toughen-trade-threats-on-china-as-relationship-cools>> since the mid-1990s after the creation of the World Trade Organization.

The U.S. could file a trade complaint on IP with the WTO or take action outside the WTO process, one administration official said.

“A joint action at the WTO with allies would be the strongest position for the U.S.,” said Robert Holleyman, who was a deputy U.S. trade representative under former President Barack Obama. “A unilateral action by the U.S. will be challenged in the WTO by China.”

In a report <<https://www.bloomberg.com/politics/articles/2017-07-31/u-s-says-it-will-fight-distortions-caused-by-china-s-economy>> to lawmakers released in July, the USTR accused China of engaging in “widespread infringing activity, including trade secret theft, rampant online piracy and counterfeiting, and high levels of physical pirated and counterfeit exports to markets around the globe.”

Earlier this year, an independent commission <http://www.ipcommission.org/report/IP_Commission_Report_Update_2017.pdf> on U.S. intellectual property estimated that the annual cost to the U.S. economy in counterfeit goods, pirated software, and theft of trade secrets from all sources exceeds \$225 billion and could be as high as \$600 billion. China is the world's principal IP infringer, the commission said.

Washington Visit

USTR argues Beijing uses a range of practices to force U.S. companies to transfer IP, such as by granting regulatory approvals to drug makers that shift production to China or requiring that the designs of foreign products be replicable in China.

Trump is expected to be in Washington on Monday, breaking into what he's termed a working vacation at his Bedminster, New Jersey, golf club. The Chinese trade announcement is expected to be part of his agenda.

Speaking to reporters on Thursday, Trump twinned the issues of China's help with North Korea and the U.S.-China trade imbalance. “We lose hundreds of billions of dollars a year on trade with China. They know how I feel. It's not going to continue like that,” he said. “But if China helps us, I feel a lot differently toward trade.”

— *With assistance by Jennifer Epstein*