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# Trade tensions a test of China's skill

## US attempts to contain its rising rival create opportunity to win further respect and goodwill within the global framework

On March 22, US President Donald Trump announced three measures in response to an investigation of Chinese intellectual property violations under section 301 of the Trade Act of 1974. His administration claimed that China's acts, policies and practices related to technology transfer, intellectual property and innovation had caused harm to US businesses. The three measures are:

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• Tariffs — The US Trade Representative (USTR) will publish a proposed list of products and any tariff increase within 15 days. After 30 days of notice and comment, the USTR will issue the final list of products under the particular tariff increase.

The Trump administration announced postponement on March 29.

• WTO complaint — The USTR will pursue dispute settlement in the World Trade Organization (WTO) to address China's discriminatory technology licensing policies and practices.

• Investment restrictions — The Treasury Secretary will determine the limitations on Chinese investment in US high-technology companies.

Initial press reports suggested that the USTR had identified 1,300 product lines with an import value of $50-60 billion in the high-tech areas to be targeted for special duty up to 25 percent. The covered products account for around 10-12 percent of American goods importation from China.

The unprecedented tariff action and other measures have dampened Sino-US relations to its nadir since their rapprochement in 1972. The trade sanction reflects the fact that China is rapidly closing its technological gap with the US and casting doubts on whether the US will be able to maintain its technological supremacy in the future.

The three announced measures carry significant geopolitical implications. The first tariff measure is not economically significant at this stage as the additional tariff is miniscule in the context of overall trade and Chinese growth is now mostly domestic-driven. However, the signal that the US is willing to use Section 301 means potential escalation could affect the bilateral annual goods trade of $635 billion.

Recent US trade actions on steel and aluminum under Section 232 of an arcane 1962 law and its Section 301 imposing new tariffs on China had disturbed the international trading order and raised the issue of American adherence to the multilateral trading order.

In response, the Chinese government announced a special tariff of 15 percent on 120 US products with an imported value of $1 billion and 25 percent on eight product categories worth a combined $2 billion. The targets of the special duty account for less than 3 percent of Chinese imports from the US.

The US case against China at the WTO is intended to show that the US is playing by the multilateral rules and hoping for other Western countries to join in the complaint against China.

The third measure on the restriction of Chinese investment in high-tech companies in the US applies to European companies in many cases as well. China's commitments in the US high-tech sphere are mainly through investing in startups and setting up laboratories. Chinese investment in European technology companies is different from its approach in the US and is often through mergers and acquisitions. Any US rules on Chinese high-tech investment will affect European companies with operations in the US and prohibit purchase of those operations by the Chinese.

From naming China as a strategic competitor in the National Security Strategy earlier this year, to the latest imposition of a special tariff, the American position on China in trade has changed from engagement to containment. The trade sanction and de facto technological embargo are attempts to slow Chinese economic growth.

It is by no means certain that the American attempts to contain China will work. When one looks at the trajectory of Chinese economic and technological ascendancy today and compares it to the rise of the US at the turn of 20th century, there are evident parallels in many areas. Both countries' trajectories were based more on a domestic buildup in human and physical capital, the vast local market providing a natural shield from the vagaries of international trade.

Great Britain failed to contain the US at that time. It is doubtful that Washington can succeed now with Beijing given that China's international influence is so pervasive.

News that Chinese Vice-Premier Liu He and US Treasury Secretary Steven Mnuchin are engaged in talks to resolve their differences has somehow calmed the market. It is believed that the current US policies reflect more the gut reactions of President Trump and not a national consensus. The November midterm congressional election will likely force a decision on the direction of the country's trade policy.

In the current febrile American political atmosphere, China should take care not to give cause inadvertently for American politicians on the campaign trail to stir up further anti-Chinese sentiment. Keeping Sino-US ties on an even keel is in the best long-term interest of both countries.

Winning over the Europeans to the side of Chinese discourse is an equally important task ahead. While the Belt and Road Initiative has won over most Third World countries, many developed European countries remain wary of China's ultimate intentions once it becomes the world's leading economy. China has surprised the world with its rapid ascendancy in the global technological and military contest. Its extraordinary achievements understandably stoke fears over whether the country will become too assertive in the future.

The current challenge presents an acid test on China's coming of age. Skillful handling of the US sanction and winning over the Europeans in dealing with the WTO complaint and investment prohibition case will go a long way toward buying much goodwill for China and convincing the world that China is working within a global framework in its peaceful rise.

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# US wrong to think it can win a trade war

By LIU HUI

The signing of a memorandum to impose tariffs of up to $60 billion on Chinese imports and the demand that China reduce its trade surplus by $100 billion by US President Donald Trump is, to say the least, a reckless act. But it reflects the United States' long-term comprehensive strategy toward China.

The US aims to reshape its manufacturing industry and solve its domestic problems in the short term through trade and diplomatic and military measures, in order to "Make America Great Again". It also wants to interrupt China's industrial upgrading.

First, by attempting to ignite a trade war, the US is testing the efficacy of its overall strategy vis-a-vis China.

For example, the US has raised tariffs of Chinese products such as new generation information technology products; high-end machine tools and industrial robots; aerospace, ocean engineering, new energy, high-tech shipping and high-speed train equipment; agricultural machinery; new materials; biological medicines and high-performance medical equipment.

As Robert Lighthizer, the US trade representative, said, these products are made by the major development industries listed in Made in China 2025.

Since it would go against US' interests if China becomes a leading global player in these fields by 2025, the Trump administration is making every effort to prevent China from achieving its goal.

Second, the US is adept at dealing with a trade war, especially because of its economic and/or diplomatic alliances with other economies. As the US imposes punitive tariffs on Chinese steel and aluminum products, it also requires such economies as Canada, Mexico and the European Union — which also are major steel and aluminum exporters — to impose trade sanctions on China in exchange for being exempted from the US' high tariffs.

The US supposes it can easily win a trade war because China cannot bear the economic loss. But the reality is different. China's overall exports of goods and services last year accounted for only 9.1 percent of its GDP, with its exports to the US dropping from 21.55 percent to 18.24 percent of its total export volume.

In fact, economists estimate the punitive tariffs on Chinese imports will only reduce China's GDP growth from 6.9 percent to 6.8 percent.

According to experts, international organizations and think tanks, China will suffer losses in a trade war, but it can expand trade with its other major trade partners such as the EU to reduce those losses. In fact, the US will be the bigger loser if a full-fledged trade war breaks out between the two countries.

The US is also aware of that. That is why it has imposed penalty tariffs on Chinese high-tech products, while ignoring the products manufactured by labor-intensive industries in China.

The recently concluded annual sessions of China's top legislature and top political advisory body decided to deepen reform, boost domestic consumption and solve the problem of secondary distribution of wealth, which will largely offset the negative impact of the US' protectionist moves.

That's why Vice-Premier Liu He told the US Treasury Secretary Steven Mnuchin during their phone conversation on March 24 that China is ready to defend its interests. This should force the US administration to think twice before launching an all-out trade war.

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