Beijing riposte takes a long view

Amid Trump's shortsighted volley on trade flows, China holds more ammunition in its armory

By DANIEL DE BLOCQ VAN SCHELTINGA

When US President Donald Trump surrounded himself with a group of economic advisers with questionable credentials and unnuanced views, it was predictable that the trade deficit the United States currently runs with China would be the next target.

With the moderating voices of former secretary of state Rex Tillerson, and former chief economic adviser Gary Cohn gone, and dissenting views from son-in-law Jared Kushner or (still) Chief of Staff John Kelly silenced, others such as Peter Navarro and Larry Kudlow have gained in influence.

Peter Navarro used to report to Gary Cohn. Despite his academic credentials, (a PhD in economics from Harvard), Navarro is considered by many to have views that are far beyond the mainstream. *The Economist* called them "oddball views".

Navarro's book and follow-up film, *Death by China*, summarizes these very simplistic views neatly: Agreeing with China's entry into the World Trade Organization was the biggest mistake the US has ever made and has resulted in China being allowed unfair trade practices whereby at least 25 million US jobs have been lost and 57,000 factories closed. Kudlow, the replacement of Cohn, is a 70-year-old television personality with a very colorful past.

Add to this mix Trump's well-known views on the effectiveness of multilateral organizations, and solo actions were to be expected. The slogan Make America Great Again carries with it a certain level of isolationism, or rejection of multilateral trade deals.

Therefore, unsurprisingly, the acts came in the form of import tariffs on aluminum and steel, with later exceptions made for several countries, but not for China.

The actions reflect Trump's thinking in his much-touted book, *The Art of the Deal*: Key guidelines include "use your leverage" and "next to loyalty, toughness is the most important thing in the world".

With the US economy seemingly doing very well, and mid-term elections due in only seven months' time, Trump clearly wants to be seen to be tough, and believes that he has the leverage to do so. This is a very shortsighted view.

> **"There is too much mutual interest and commonality to risk a real trade war."**

In response to the US tariffs on aluminum and steel, and further possible measures, China's response has been careful and targeted. It still has a lot more ammunition in the armory.

Everyone understands that a situation where trade flows are exactly balanced, resulting in a zero deficit for either side, is virtually impossible in today's complex world.

The full year 2017 trade deficit for the US with China was some $375 billion. But it should be noted that a trade deficit does not necessarily mean that something is wrong: A trade deficit often occurs in a fast-growing economy as consumers gain increased spending power and are wealthy enough to purchase more goods and services than their country produces.

Rather than being an economic issue, it really is more a political issue, as Trump continuously promised his base that he would "tackle China" and needs to be seen to keep his promises. The fact that the trade deficit actually narrowed in January is hardly mentioned by anyone.

The real American complaint that is intertwined in the trade deficit argument is that foreign companies are pressured to provide access to their technology when doing business in China, and that State-owned companies have an unfair competitive advantage.

The various pronouncements made during the two sessions — the annual meetings of the national legislature and the top political advisory body — in Beijing only a few weeks ago show that the Chinese government is fully aware of the concerns and that, where needed, change will be forthcoming.

However, Washington must realize that the historical industrial legacy of a country is not changed in 60 days. It should also be noted that Premier Li Keqiang addressed one of these concerns during his March 20 press conference when he said there will be no "mandatory requirement for technology transfers".

Rather than enter a tit-for-tat trade war, the two countries need to sit down and talk. There is too much mutual interest and commonality to risk a real trade war.

China is taking the long view. If needed, further Chinese riposte will surely be measured, and effective. China has many more cards to play, both the carrot and the stick: Whether it is by decreasing the trade deficit, by importing more US oil, or showing force by selling off US Treasury bonds.

The Art of the Deal challenges *The Art of War*.

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Let US, China both be great again

A trade war between the world's two largest economies can hurt everyone, starting with the two nations

By KEN DAVIES

Both China and the United States are engaged in striving to revive their respective country's fortunes. US President Donald Trump's top priority is to Make America Great Again, while China's leaders have a vision of the Chinese Dream, which could be described as "making China great again".

Chinese President Xi Jinping last year announced a broad vision of China as a leading world economic power by the year 2050 that is not impossible to imagine, though it would require further major political and economic reforms to achieve ambitious goals, including: Rule of law, innovative companies, clean environment, expanding middle class, adequate public transportation, and reduced urban/rural income disparities.

Are the two dreams compatible? Can America and China both become "great again", or must one succeed by forcing the other to fail?

For the past 40 years since China adopted the policy of reform and opening-up to the outside world, the belief of dominant policymakers in China and the US has been that their economies can only prosper by working together.

Proponents of the alternative policy — keeping China poor to ensure that it stays weak — were thin on the ground, and fortunately were not listened to.

The consensus in the US was that a richer China would be a peaceful China, and an enormous market for American products and services. This point of view still predominates, despite the current shenanigans.

During his first year in office, Trump did not back down from his election campaign threat to punish China with tariffs, but neither did he put it into practice. His initial priorities were domestic policies like abolishing Obamacare, and then tax reform, while foreign policy was dominated by the threat of the Democratic People's Republic of Korea's nuclear weapons and continuing wars in the Middle East. In addition, his top advisers were broadly against protectionism.

What changed in 2018? Having shelved or dealt with the domestic issues, Trump in recent weeks replaced his secretary of state, his chief economic adviser and his national security adviser with hawks and protectionists. He now has a team that will back, not block, his moves to start a trade war.

The first salvo in this battle was the US' imposition of an additional 25 percent duty on steel and an additional 10 percent on aluminum imports from all countries apart from its North American Free Trade Agreement partners, Canada and Mexico, starting on March 23. It has backed down on these tariffs in the case of some allies, but not in the case of China. It wants to stop what it sees as China flooding the world with cheap steel.

The next stage was the announcement on March 22 of further tariffs on a wide range of imports from China, coupled with restrictions on technology transfer. The tariffs are to be imposed on approximately $50-60 billion of Chinese goods, partly as punishment for alleged violations of American intellectual property rights by China.

China has so far retaliated cautiously.

It responded to the initial announcement of US tariffs with a polite and measured rebuttal via the official Xinhua News Agency that said raising tariffs on Chinese goods is just like using 20th century or even 19th century tools "to tackle problems of the 21st century, an age of globalization". Doing so would, it continued, "disturb the interconnected supply chain of many industries and increase costs for American businesses and consumers".

Then China announced restrictions of its own. On April 1, it said it was imposing tariffs of up to 25 percent on 128 imports from the US, including fruit and pork, in retaliation for the US' steel and aluminum tariffs.

China also announced on April 4 a list of US products valued at $50 billion annually that are subject to additional tariffs. The planned measures include restrictions on imports of American soybeans and planes (which could hit Boeing hard).

Commentators in China made it clear that these measures are intended to demonstrate that China will counterattack only if attacked, while leaving room open for dialogue.

The stage is therefore set for further exchanges of negative trade measures. There is no question that a sustained China-US trade war would do damage to the world economy.

As a result, stock markets, led by those in New York, have fallen from their recent peaks. There is no doubt that an escalation of these exchanges between the two largest economies in the world would hurt everybody, starting with the two antagonists themselves.

There will eventually be a resort to negotiation. The sooner such talks can start, the better.

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