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There's a growing threat of a full blown China trade war



Illustration: Sarah Grillo/Axios

The chances of a longer, wider, more damaging trade war with China are rising, top officials tell us.

Why it matters: President Trump is spoiling for escalation. And China is ready to retaliate and out-wait America. Here's why it could be even worse than you think.

- **If you are China**, playing the long game with 2025 and 2050 strategies for world dominance, why not sucker Trump into a massive trade war now?
- **It would hurt** both nations badly. But a state-run government can do more to artificially prop up its economy than a capitalistic one.



...bravado.

- **If you are deeply calculating and cynical**, the chances of Trump losing Congress rise if the economy tanks — virtually assuring highly divisive impeachment proceedings.

Meanwhile, Trump told CNBC's Joe Kernan that he's "ready" to put tariffs on every Chinese good imported to the U.S. — worth \$505 billion.

- **Dow futures fell** 120 points on the news.

I asked Larry Kudlow, the White House economic adviser, about that scenario. He told me that if China tries to bait Trump, "They're picking the wrong customer, I'll tell you that — you know how intense he is on this issue."

- **"Xi seems to think** if he waits out the November elections, Trump will be weakened and therefore will lighten the bite. That's a very bad bet."
- **"No matter what** the elections are, he's not going to let go of this issue. ... Donald Trump will be the president until at least January, 2021."
- **"My guess is** that if the plot thickens with no progress, they will start going after American companies [operating] in China."
- **Kudlow said China** can target such companies' revenues through regulation. For example, he said, "they can fiddle with" the requirement levels for insurance and investment.

The U.S. and China have not had trade conversations or negotiations "for weeks" — really since June, when Commerce Secretary Wilbur Ross visited Beijing, according to Kudlow.

- **"That's not healthy,"** Kudlow said. "We've given them our list of asks."
- **Kudlow said** both sides had very productive conversations earlier on topics that include joint ventures.
- **"The problem here is Xi.** He doesn't want to move, and they've offered the U.S. absolutely ... no options regarding the issue of [intellectual property] theft and forced technology transfer."



technology advantage as the family jewel. Without American software, they're going nowhere."

After the Chinese foreign ministry criticized comments Kudlow made this week to CNBC, he told me: "I'm honored to see the Chinese government attacking me."

- **"I'm not a former free trader** — I'm still a free trader. I've got a lot of free trade blood left in me. But regarding China: In recent years, I have become so annoyed that I'm willing to use tariffs."

Neither country is likely to cave, Eswar Prasad, a professor of trade policy at Cornell and a Brookings fellow, tells Erica Pandey:

- **"The U.S. political climate** makes it difficult to see a path to negotiations before November."
- **Trump has no political reason** to dial down the trade fight with China — in fact, it seems to be playing well with his base.

Michael Pillsbury — director of the Center on China Strategy at the Hudson Institute, and author of "The Hundred-Year Marathon" — tells Erica that during a trip to Beijing three weeks ago, he found Chinese officials "very feisty":

- **"They're not afraid.** They deny all the allegations [of economic aggression.]"
- **"They have a narrative** that China is representing the rest of the world against the American bully."

Axios Future editor Steve Levine reports that scholars at CSIS and CFR do not expect China to throw caution to the wind and escalate unilaterally.

- **That said**, Trump has triggered a war of brinksmanship with a diplomatically mature country that will not back down, and has the tools to inflict serious pain on the U.S. economy, and on Trump politically.
- **Trump "only thinks** he's winning if someone else is losing, and I don't think the Chinese will tolerate that," said Bill Reinsch of CSIS, an undersecretary of commerce in the Clinton Administration.



commercial approvals and inspection of U.S. goods at the dock.

- **Now look for China** to play the nationalist card in the form of public boycott of U.S. products, Reinsch said.

Be smart: Three of the world's most dangerous men are staring down Trump — Xi, Putin, Kim. They all know well his tells, his temperament and Twitter taunts. Of the three, Xi has by far the most leverage and levers.

- **As Jonathan Swan points out**, the main question everybody in the business community is asking is: What is the exit ramp to get out of the cycle of tit-for-tat tariffs? Nobody has a good answer.

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