

Here's How Trump Could Really Hurt China on Trade

Bloomberg News

March 1, 2018, 8:30 PM PST

Updated on March 2, 2018, 4:53 AM PST

-
- Machinery, electronics are almost half of U.S.'s China imports
 - Steel, aluminum tariffs won't cut U.S. deficit, analyst says
-

U.S. President Donald Trump's proposed steel and aluminum tariffs won't cause China too much pain. If he really wants to land a blow on the biggest trading nation, he'd need to target electronics, toys and textiles.

Metals were just 5.1 percent of American imports from China in 2016, World Bank data show, while machinery and electronics made up 48 percent. Miscellaneous items like furniture and toys accounted for 16.5 percent of imports. Textiles and clothes made up 8.6 percent.

The data show Trump is attacking the wrong imports if he wants to cut the huge trade deficit with China, and that doing so would require measures against higher value products. Problem is, tariffs on goods such as electronics would ripple across a vast global supply chain, hurting U.S. allies from Japan to South Korea and Taiwan.

"If Trump really wants to hit China's exports to the U.S., he'll have to move beyond small fry steel and solar panels to big ticket items such as electronics and telecom products," said Louis Kuijs, chief Asia economist at Oxford Economics in Hong Kong. "Any serious attempt to bring down the U.S. trade deficit with China will need to focus on the big categories."

Trump said Thursday that the U.S. will slap tariffs on steel and aluminum imports to protect national security, a major escalation of his hawkish trade agenda that could hit producers from

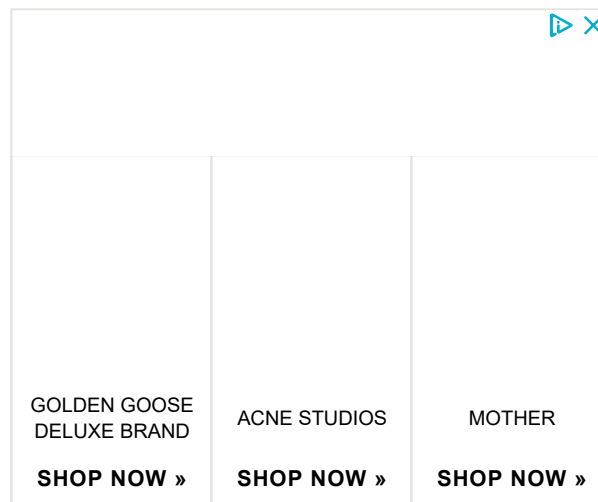
Europe to Asia and spur global retaliation. He said he plans to sign a formal order next week that will impose tariffs of 25 percent on imported steel and 10 percent on aluminum.

[Read More: Trump Plans Harsh Tariffs on Steel and Aluminum](https://www.bloomberg.com/politics/articles/2018-03-01/trump-is-said-to-delay-decision-on-steel-and-aluminum-tariffs)

<https://www.bloomberg.com/politics/articles/2018-03-01/trump-is-said-to-delay-decision-on-steel-and-aluminum-tariffs>

The announcement came the same day Chinese President Xi Jinping's top economic adviser, Liu He, was scheduled to meet with Trump's economic team in Washington: White House economic adviser Gary Cohn, U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin.

The tariffs may provoke retaliation from China, the world's biggest steel and aluminum producer. In a statement Friday, Wang Hejun, chief of the trade remedy and investigation bureau at China's Ministry of Commerce, said the restrictions would have "a major impact" on the international trade order.



"If the U.S. measures hurt China, China will take actions with other affected countries to protect our own interests," he said. The U.S. mainly uses Chinese steel and aluminum imports in medium- and low-end products that don't affect national security, Wang added.

Wen Xianjun, vice chairman of the China Nonferrous Metals Industry Association, also said China and other countries would take relevant retaliatory measures, according to a WeChat [message](#) to Bloomberg on Friday.

Beijing has already launched a probe into U.S. imports of sorghum, and is studying whether to restrict shipments of U.S. soybeans -- targets that could hurt Trump's support in some farming states. While China accounts for just a fraction of U.S. imports of the metals, it's accused of flooding the global market and dragging down prices.

What Our Economists Say...

"China's total exports of steel and aluminum are equal to about 0.5 percent of GDP, most of that from steel," Tom Orlik, chief Asia economist at Bloomberg in Beijing, wrote in a [note](#). "Relative to fears from Trump's campaign trail rhetoric, in which he threatened an across-the-board 45 percent tariff on all imports from China, these measures are extremely limited."

Trump [warned](https://www.bloomberg.com/politics/articles/2018-02-28/trump-says-u-s-will-use-all-tools-to-pressure-china-on-trade) this week that the U.S. will use "all available tools" to prevent China's state-driven economic model from undermining global competition. On China trade though, action against steel, aluminum and solar show he's yet to bring out the heavy artillery.

[Read More: Trump Says U.S. to Use All Tools to Pressure China on Trade](https://www.bloomberg.com/politics/articles/2018-02-28/trump-says-u-s-will-use-all-tools-to-pressure-china-on-trade)

<https://www.bloomberg.com/politics/articles/2018-02-28/trump-says-u-s-will-use-all-tools-to-pressure-china-on-trade>

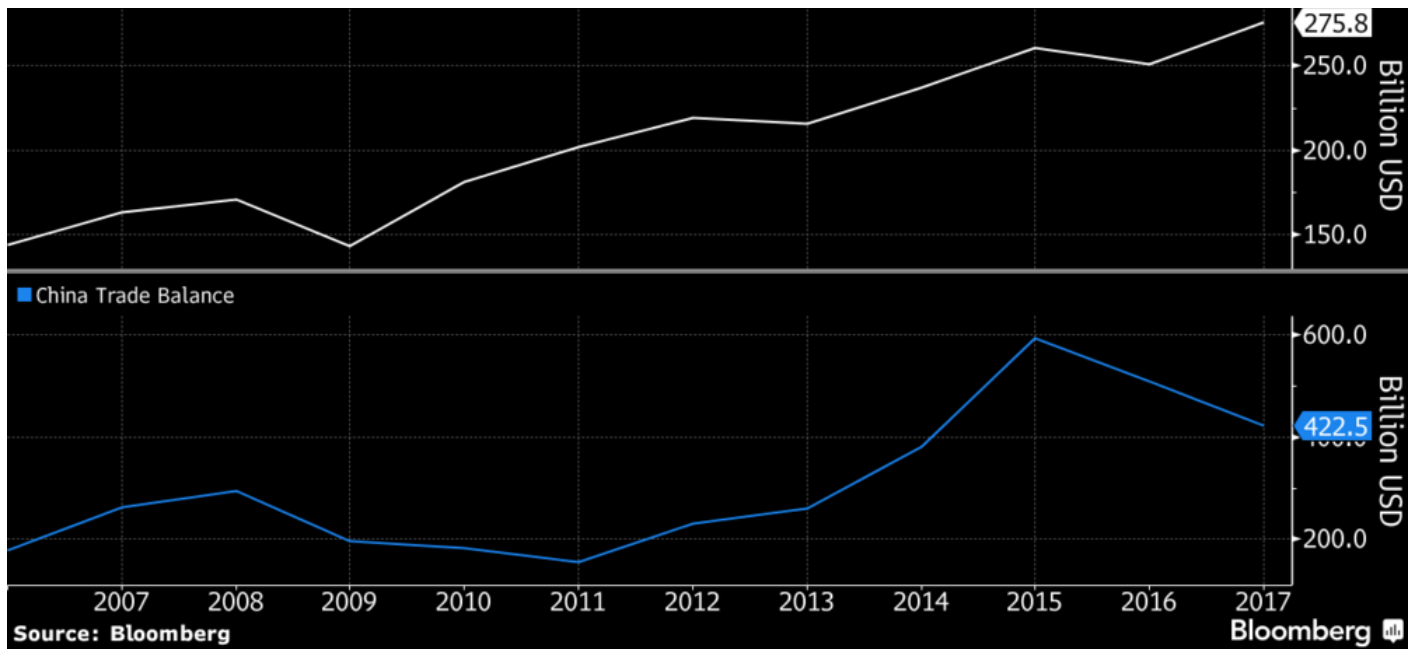
"To have a large effect he would have to go beyond individual products to broad restrictions on imports of labor-intensive products from China: footwear, garments, smartphones, televisions and appliances," said David Dollar, a former U.S. Treasury attache in Beijing and now a senior fellow at the Brookings Institution in Washington.

The U.S. focus on narrowing the bilateral trade deficit puts China in an untenable position because it's driven as much by macroeconomic conditions in the two countries as it is by trade policies, says Eswar Prasad, a former chief of the International Monetary Fund's China division and now a professor at Cornell University in Ithaca, New York.

With a major fiscal expansion underway in the U.S. at a time when the economy is already gaining momentum, the U.S. trade deficit is bound to rise further, says Kuijs at Oxford Economics.

Rising Tensions Trade surplus with U.S. widens as global gap shrinks

■ China Trade Balance with U.S.



That sets the stage for a potential tit-for-tat trade confrontation. China’s economic might gives Xi’s government the leverage it needs to strike back decisively, including scaling back purchases of American products and subjecting well-known U.S. companies with large Chinese operations to tax or antitrust probes.

China hasn’t been shy about threatening U.S. corporate interests. A Communist Party newspaper warned in late 2016 that a trade war would have economic consequences. “Boeing orders will be replaced by Airbus,” the Global Times said in an editorial. “U.S. auto and iPhone sales in China will suffer a setback, and U.S. soybean and maize imports will be halted.”

“There will definitely be a rhetorical reaction” from China, Andrew Polk, co-founder of research firm Trivium China in Beijing, said in a Bloomberg Television interview today. “But I wouldn’t expect them to comeback, counter-punch very hard because their whole goal is to make sure that the heat of a trade war doesn’t get ratcheted up.”

— With assistance by Kevin Hamlin, Xiaoqing Pi, and Winnie Zhu