

# Trump's Hardball on Trade to Test China's 'Strategic Composure'

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- Escalation in tensions risks pushing President Xi into corner
- Gary Cohn resignation a blow to free-trade wing of Trump camp

China's policy of "strategic composure" <https://www.bloomberg.com/news/articles/2016-12-06/china-seeks-strategic-composure-in-trump-era-of-diplomacy> in dealing with U.S. President Donald Trump's America First ethos faces its sternest test yet.

Having already absorbed levies on washing machines and solar panels and last week's proposed tariffs on steel and aluminum, China awoke Wednesday to news that Trump is mulling a [broader clampdown](https://www.bloomberg.com/politics/articles/2018-03-06/u-s-said-to-consider-broad-curbs-on-chinese-imports-takeovers) on its investment in the U.S. and tariffs on a range of imports in retaliation for alleged theft of intellectual property. And in a blow to the free-trade wing of Trump's camp, White House chief economic adviser Gary Cohn announced Tuesday that he's [resigning](https://www.bloomberg.com/politics/articles/2018-03-06/gary-cohn-to-resign-as-trump-economic-adviser-amid-trade-dispute) .

While Chinese media [reported](#) Liu He, President Xi Jinping's top economic policy adviser, said China and the U.S. expressed no desire for a trade war during his recent trip to the U.S., those sentiments may already be out of date. Any escalation of tensions risks pushing Xi into a corner, spurring retaliation and a tit-for-tat trade war between the world's two biggest economies.

"China is learning the hard way that this administration may not be the pushover that Chinese officials had come to believe it was," said Eswar Prasad, a former chief of the International Monetary Fund's China division and now a professor at Cornell University in Ithaca, New York. "They may be forced to offer substantive concessions in order to keep the bilateral economic relationship on an even keel. "

In the past few months, China has prepared reforms that may help ease U.S. anger at what it deems to be unfair practices fueling its huge trade deficit with the world's second-biggest economy. Beijing's leaders are also wary of a trade war that could increase food prices, which has long been a politically sensitive issue for the Communist Party.

Read More: [China's Most Powerful Weapon in a Trade War May Backfire](https://www.bloomberg.com/politics/articles/2018-02-13/china-s-strongest-weapon-in-a-trade-war-with-trump)

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Liu in January said China's reforms this year would exceed the world's expectations as the nation celebrates the 40th anniversary of its shift away from a closed Communist system. Visiting Washington last week, Liu again told <https://www.bloomberg.com/politics/articles/2018-03-02/top-xi-aide-is-said-to-promise-u-s-ceos-action-on-china-reforms> U.S. business leaders that he'd take steps to overhaul China's economy, according to a person familiar with the situation.

Analysts predict China will press ahead with plans to open its financial sector to the world, probably even using this pledge as a bargaining tool. Another reason to stay the course: it's in China's interests to do so as it seeks to lure more global capital to its markets.

The latest measures being mulled by the Trump administration have wider implications and challenge China's pivotal "Made in China 2025" strategy, said Xie Dongming, a Singapore-based economist at Oversea-Chinese

Banking Corp. The policy blueprint envisions global competitiveness by that year across 10 key industries, from robots to medical devices.

Whether tensions escalate into a full-blown trade war likely hinge on the outcome of a so-called Section 301 probe and China's reaction to it, Xie said.

## **Tariffs, Restrictions**

Under the most severe scenario being weighed, the U.S. could impose tariffs on a wide range of Chinese imports, from shoes and clothing to consumer electronics, according to two people familiar with the matter who spoke on condition of anonymity because the discussions aren't public.

The Trump administration could combine the tariffs with restrictions on Chinese investments in the U.S., which are reviewed for national-security risks by Treasury's Committee on Foreign Investment in the U.S., the people said. The new measures being considered by the administration could go beyond even domestic security considerations.

"U.S. strategy towards China has shifted from engagement to containment," said Tao Dong, vice chairman for Greater China at Credit Suisse Private Banking in Hong Kong. "The Sino-U.S. relationship may experience some very volatile times ahead."

China's posture of "strategic composure" toward Trump initially paid off as Trump withdrew or toned down threats to improve ties with Taiwan, brand China a currency manipulator and punish Beijing over its support for North Korea.

While it's stuck to the same playbook even as Trump slaps on trade tariffs, Xi has indicated before that his patience has limits. During a discussion with Barack Obama days after the 2016 election, Xi told the outgoing U.S. president that he wouldn't throw the first punch at Trump -- but he also wouldn't sit back and take one either.

## **Apple, Walmart**

"China will take active measures and not participate in a trade war with the U.S.," said Zhou Qi, a research fellow at the Chinese Academy of Social Sciences's Institute of American Studies in Beijing. "China is sincere about making concessions, but those concessions won't be without limit."

Imposing tariffs on a wide range of Chinese exports including consumer electronics would be problematic for Trump too. They would ripple across a vast global supply chain, hurting allies from Japan to South Korea and Taiwan as well as [companies <https://www.bloomberg.com/news/articles/2018-03-07/trump-s-china-levy-threat-puts-walmart-nike-suppliers-on-notice>](https://www.bloomberg.com/news/articles/2018-03-07/trump-s-china-levy-threat-puts-walmart-nike-suppliers-on-notice) like Apple Inc. and Walmart Inc.

"The chance of a full on trade war is still small despite the recent rhetoric from the U.S.," said Wang Tao, head of China economic research at UBS Group AG in Hong Kong. "That said, we fully expect U.S.-China trade friction to rise, with the U.S. imposing more trade restrictions/tariffs on more Chinese products."

— *With assistance by Kevin Hamlin, Andrew Mayeda, Miao Han, Dandan Li, Jennifer Jacobs, and Brendan Scott*

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