

# Trump's Rivalry With China Overlooks U.S. Economic Reliance

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December 18, 2017, 1:59 PM PST

Updated on December 18, 2017, 6:20 PM PST

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- New U.S. national-security strategy portrays China as threat
  - Economists say trade imbalance may be tough to address
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President [Donald Trump](https://www.bloomberg.com/billionaires/id/1252249) is breaking with recent U.S. convention by portraying China as a rival that wants to undermine American prosperity. But it may take more than an aggressive tone to change the complex relationship between two economies that are joined at the hip.



In a new national-security strategy released Monday, the White House lumped China with Russia as powers seeking to “challenge American power, influence, and interests,” and attempting to erode the country’s security and prosperity. “We will attempt to build a great partnership with those and other countries, but in a manner that always protects our national interest,” Trump said in a speech in Washington.

The new rhetoric contrasts with the more collaborative approach of former President Barack Obama, who courted China as an economic partner even as the U.S. asserted its military power in Asia.

Under his America First approach to foreign policy, Trump says he will try to eliminate America’s \$500-billion total trade deficit by insisting on “fair and reciprocal” commerce with other nations, and strengthen the national security test for foreign investments. At the same time, Trump is juggling the more imminent need of working with China to address North Korea’s nuclear weapons program.

[Click here, for more on the higher hurdles being proposed for foreign investment. <https://www.bloomberg.com/politics/articles/2017-11-08/foreign-dealmakers-face-tougher-security-reviews-under-u-s-bill>](https://www.bloomberg.com/politics/articles/2017-11-08/foreign-dealmakers-face-tougher-security-reviews-under-u-s-bill)

The U.S. strategy may convince China to ease some trade barriers, giving U.S. firms more access to the world's second-biggest economy. But it will be difficult to eliminate America's \$309-billion trade shortfall with China without deeper reforms to the nature of each country's economy.

That's because trade flows are heavily influenced by the amount that countries save and invest. When a nation invests more than it saves, as the U.S. does, it will import more than it exports, and finance the resulting current-account deficit by borrowing from abroad.

"China has lots of protections in place, so the U.S. has legitimate issues on market access," said David Dollar, a senior fellow at the Brookings Institution who worked as the U.S. Treasury's economic emissary to China under Obama. "But even if they did everything we wanted, it wouldn't necessarily change the trade balance."

The U.S. and other countries have been pushing China for years to transition from an export-driven, state-led growth model to one more reliant on domestic consumption. For its part, the U.S. could take steps to increase savings, and therefore narrow the trade deficit.

China's official English-language newspaper [China Daily](#) sought to play down the accusation on Tuesday, saying in an editorial that the speech still recognizes that the two nations' interests are "increasingly interwoven." Still, the editorial raised the prospect of "exacerbated frictions over trade", with Trump promoting economic strength as indispensable for national security.

## Dollar Boost

Republican plans to cut taxes may undermine Trump's trade goals, by giving a short-term boost to the U.S. economy that strengthens the dollar, making U.S. exports more expensive, said Eswar Prasad, a China expert at Cornell University. "The Trump administration's tough rhetoric on China is a cross-purposes with its own domestic and international economic policies," he said.

Talks between the U.S. and China through their main economic channel have stalled. But the two nations have little choice but to cooperate, given the intertwined nature of their economies, said Michael Wessel, a member of the U.S.-China Economic and Security Review Commission.

"Just look at the iPhone, which is produced in China with a lot of suppliers having moved to China to support production," Wessel said.

While Trump has so far deferred specific measures to crack down on China's trade practices, his administration is considering tariffs on steel and aluminum imports, and probing China's intellectual-property practices.

"If the administration chooses a more muscular course, then the Chinese authorities could retaliate or move toward the global moral high ground of using WTO and other existing mechanisms," Nathan Sheets, chief economist for PGIM Fixed Income, who served as Treasury undersecretary for international affairs under Obama. "My hunch is it will probably be some of both."

## Investment Scrutiny

Under Trump, U.S. policy toward China has shifted to increasingly looking at trade issues through a security lens. Treasury Secretary Steven Mnuchin says he's spending more time on sanctions and national security-related issues as the Treasury accelerates the use of sanctions to cut off North Korea's ties with the U.S. financial system.

Mnuchin has urged closer vetting of foreign acquisitions by the security-review panel he chairs, the Committee on Foreign Investment in the U.S., known as Cfius, while maintaining an investor-friendly climate.

Support is growing for strengthening Cfius. On Monday, Defense Secretary James Mattis joined Mnuchin and Attorney General Jeff Sessions in supporting proposed legislation led by Republican Senator John Cornyn calling for tougher security reviews for foreign investors seeking to acquire and invest in U.S. companies, particularly targeting China.

Chinese Foreign Ministry spokeswoman Hua Chunying said Monday, before the launch of that security strategy in Washington, that U.S.-China trade ties are win-win and that China will continue to liberalize its trade and investment policies.

— *With assistance by Yinan Zhao*