Economics

Trump's Shot at China's Industrial Rise Won't Work, Say Analysts

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- China doesn't export many high-tech goods to U.S.: economist
- U.S. leverage is curbs on tech exports, not tariffs: Trivium

Donald Trump *Photographer: Andrew Harrer/Bloomberg*

Donald Trump is smacking tariffs on China in part to stop it dominating the industries of the future. Economists say the strategy's doomed to fail.

Trump's tariff list does target exports of Chinese goods that are the building blocks to becoming an advanced industrial power -- machinery and electronics, metals, chemicals and transportation equipment.

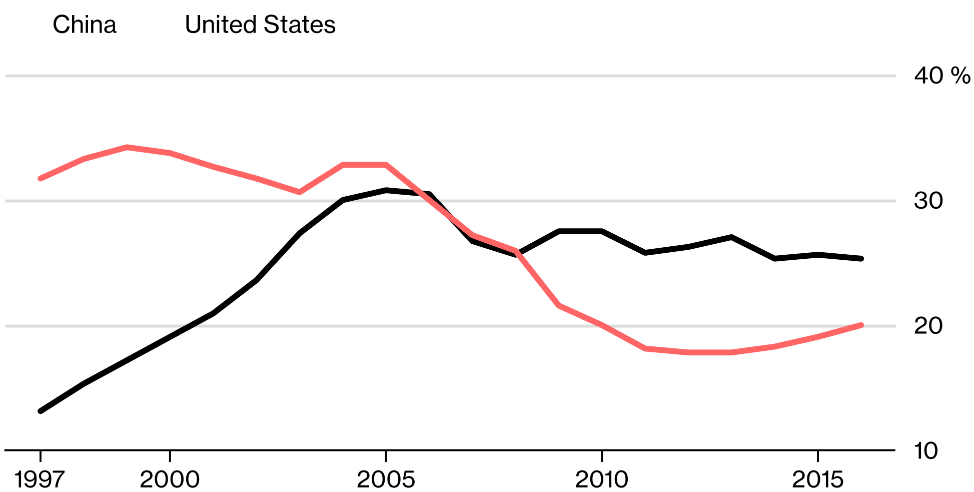
But the question is whether making imports of those things to the U.S. a bit more expensive will curtail the sectors in China enough to thwart the nation's advance toward mastering things like robots, biotechnology and quantum computers.

"The U.S. believes that they can affect China's ability to move up the value chain by restricting exports, but they are wrong," said Andrew Polk, co-founder of research firm Trivium China in Beijing. "There's still a whole world that China can sell these goods to."

The U.S. and China moved to the brink of a trade war on Friday after the Trump administration announced tariffs on $34 billion of Chinese imports to take effect in three weeks with another $16 billion still to be reviewed. It also pledged additional investment restrictions.

Tech Dominance

A quarter of China's manufacturing exports are technology intensive



Source: The World Bank

Note: High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

Beijing immediately vowed to hit back with tariffs of the "same scale and intensity" on imports from the U.S., and said all of China's earlier trade commitments are now off the table, according to government statements.

The U.S. now sees China as a strategic rival and imposing such curbs marks a concrete shift in its strategy toward containing China's ascent in advanced industries. The Made in China 2025 plan, unveiled in 2015, aims to make China a global leader in 10 strategic industries that also includes high-end machinery, aerospace and advanced rail equipment.

How 'Made in China 2025' Frames Trump's Trade Threats: QuickTake <https://www.bloomberg.com/news/articles/2018-04-10/how-made-in-china-2025-frames-trump-

s-trade-threats-quicktake>

By targeting China's plan for future industries, Trump also can't make much progress in another of his key goals: narrowing his nation's huge trade deficit with the world's second-biggest economy. That's because China doesn't export many of those goods to the U.S. now.

Here's what analysts say about Trump's attempt to hinder China's push into high-technology industries:

Andrew Polk, Trivium China in Beijing

The mentality of the Trump team is a little strange. They're saying, 'We're going to tax exports from China where they want to be a global superpower.' But that's not really the area of leverage they have. Their real area of leverage is by restricting their own exports to China if they want to stop the industrial policy.
A much more powerful way to stop China from moving up the value chain is to stop selling them semiconductors. That's a huge vulnerability, especially on semiconductors. Semiconductors are the basic building blocks for all kinds of technologies. That is where China's worried.

Louis Kuijs, Oxford Economics & former IMF researcher

China actually does export mid- to high-tech oriented products with domestic brands and/or technology, but not really to the U.S. The strategy of the U.S. government is to try to strong-arm China into giving up pursuit of industrial policy by using tariffs. There is no way that China is going to give up on that. It is too much an inherent part of its development strategy. To some extent China could import high tech products and components from Europe, Japan and South

Korea. However, as the ZTE case has demonstrated, in some high tech areas, the U.S seems to be the key provider and it is hard if not impossible to do without the U.S.

Eswar Prasad, Cornell University & former IMF China head

Tariffs are a blunt and probably ineffective tool for the U.S. The composition of China's imports of goods and services from the U.S. leaves the Trump administration with little direct leverage in thwarting China's technological ambitions. Moreover, imposing tariffs on specific products that China needs could simply accelerate China's push to become more self-reliant in terms of innovation and sourcing of intermediate inputs. A more effective strategy would have been to create a broader alliance with many of China's trading partners who share similar concerns about China's trade and economic policies, including forced technology transfers and weak protection of intellectual property rights.

Derek Scissors, chief economist at the China Beige Book

The U.S. could certainly hamper Made in China 2025, but it would take far stronger action than this: Replace 25 percent tariffs with quotas at current import levels, ending any export (to the U.S.) incentive for Made in China 2025; Ask Congress for sweeping anti-subsidy authority, so the U.S. can take offensive economic action against countries which apply large subsidies; Target firms in Made in China 2025 sectors which are using stolen or coerced IP with global financial sanctions; As we've seen in the ZTE case, even when the Trump administration is furious with China, it does not want to limit American exports. This is short-sighted but the president's top priority is still the trade deficit.

James Laurenceson, Australia-China Relations Institute

Faced with U.S. attempts to actively block its progress up the technology ladder, China won't be content to wait until 2025 any more. Now it'll want to achieve that level of competency ever earlier. So it may not formally rename it China 2023 but that will be the intent.

– With assistance by Kevin Hamlin, Xiaoqing Pi, and Yinan Zhao

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