

## Global trade

# A lose-lose trade war looms between America and China

*If China cannot placate Donald Trump, it will fight him instead*



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PRESIDENT DONALD TRUMP has not yet started a global trade war. But he has started a frenzy of special pleading and spluttered threats. In the week since he announced tariffs on steel and aluminium imports, countries have scrambled to win reprieves. Australia, the European Union and Japan, among others, have argued that, since they are America's allies, their products pose no risk to America's security. If these appeals fail, the EU has been most vocal in vowing to retaliate, in turn prompting Mr Trump to threaten levies on European cars.

In China, ostensibly the focus of Mr Trump's actions, the public response has been more restrained. Officials have said the two countries should strive for a "win-win

outcome”, a favourite bromide in their lexicon. As a rival to America, China knows that an exemption from the tariffs is not on offer. It also knows that it needs to conserve firepower. If this is the first shot in a trade war, it is, for China, small bore. Its steel and aluminium exports to America amount to roughly 0.03% of its GDP, not even a rounding error.

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It is two shots to come that have China more worried. Mr Trump has asked China to slash its \$375bn bilateral trade surplus by as much as \$100bn, a nigh-impossible task. And an investigation into China’s intellectual-property practices is almost over. Mr Trump wants to punish China for the alleged theft of American corporate secrets. Reportedly he will seek to place tariffs on up to \$60bn of Chinese imports,

focused on technology and telecommunications (see [Briefing \(https://www.economist.com/news/briefing/21738903-blocking-broadcom-takeover-qualcomm-donald-trump-showed-america-worried-about\)](https://www.economist.com/news/briefing/21738903-blocking-broadcom-takeover-qualcomm-donald-trump-showed-america-worried-about) ).

Until recently, Chinese officials thought they had the measure of Mr Trump. During a state visit to China in November, he was treated to a lavish banquet and signing ceremonies for \$250bn in cross-border deals. He still speaks fondly of the dinner,

but the glow faded quickly on the deals, many of which were restatements of previous commitments. The tariffs on steel and aluminium, though negligible in their impact on China, signalled that hawkish advisers to Mr Trump were in the ascendency. So behind their mask of calm, Chinese officials are searching for ways to fight back.

The demand that China cut its trade surplus by \$100bn is, in a technical sense, risible. As Mei Xinyu, a researcher in a Chinese commerce-ministry think-tank, observes, America complains that China is not a market economy, but asks for a hard target that only a planned economy could hit. The true bilateral trade gap is smaller than reported, since Chinese exports contain many inputs from elsewhere. Add in services, including Chinese students in America, and it is smaller still.

Politically, the demand has helped focus China's thinking. "There is a sense that they need to give Mr Trump a win, and that the win must be in the form of a big round number that he can tout," says Eswar Prasad, an economist at Cornell University, who has spoken with Chinese trade officials. One possibility is that China might buy more of its oil and gas from America, and perhaps even make a hefty down payment on future purchases.

But if America imposes stiff penalties in the intellectual-property case—along with stinging tariffs, it might also place new restrictions on Chinese investment and travel visas—China will take a much harder line. A government adviser in Beijing says that regardless of the economic consequences, Xi Jinping, China's president, will want to show that he is no pushover. Counter-measures will be varied, says David Dollar, America's former treasury representative in Beijing. China will buy more soyabeans from Brazil instead of from America. It will buy more Airbus planes instead of Boeings. It will tell its students and tourists to go to other countries. It will drag its feet on approvals for American companies in China.

Worryingly, each side thinks that in a trade war of attrition, it would have the advantage. America calculates that China has the bigger surplus, and thus more to lose. But China's exports to America are less than 3% of its GDP—large but not critically so. China, for its part, thinks Americans would object to paying higher prices for manufactured goods from toys to televisions. But much low-end production is migrating from China to other developing countries and, in a pinch,

American consumers might rally round the flag. To invert China's much-loved win-win motto, this has all the makings of a lose-lose battle.

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