US-China trade dispute

China prepares to dig in its heels in face of US tariff pressure

Trump's duties hit private rather than state companies and could help Xi politically

© AP

Tom Mitchell in Beijing and Gabriel Wildau in Shanghai SEPTEMBER 18, 2018

When Donald Trump declared on Monday that he would impose punitive tariffs on about half of all Chinese exports to the US, it was a moment that President Xi Jinping had long believed would never come.

For two years after Mr Trump emerged as a force to be reckoned in the 2016 US presidential campaign, Mr Xi and his lieutenants clung to precedent for comfort. While American presidential candidates routinely bashed China on the campaign trail, once in the White House they played down differences with their geopolitical rival.

As Mr Xi said at his first meeting with Mr Trump in the spring of 2017: "We have a thousand reasons to get US-China relations right, and not one reason to spoil them."

Mr Xi's administration began to appreciate this year that Mr Trump intended to practise as president what he had preached as a candidate. But as recently as this weekend, vice-president Wang Qishan and other top Chinese officials were still sounding conciliatory notes in meetings with Wall Street financiers and international advisers.

"Wang Qishan said that while there are ideological differences between the US and China, that doesn't mean one system needs to prevail over the other," said one person briefed on the vice-president's weekend meetings.

Others are far more pessimistic and do not believe that the current trade tensions between the world's two largest economies are a passing storm.

It's going to last a long time, maybe 20 years. It's going to be a mess

Jack Ma, Alibaba founder

Jack Ma is gung-ho about his legacy at Alibaba despite the escalating US-China trade war © Reuters

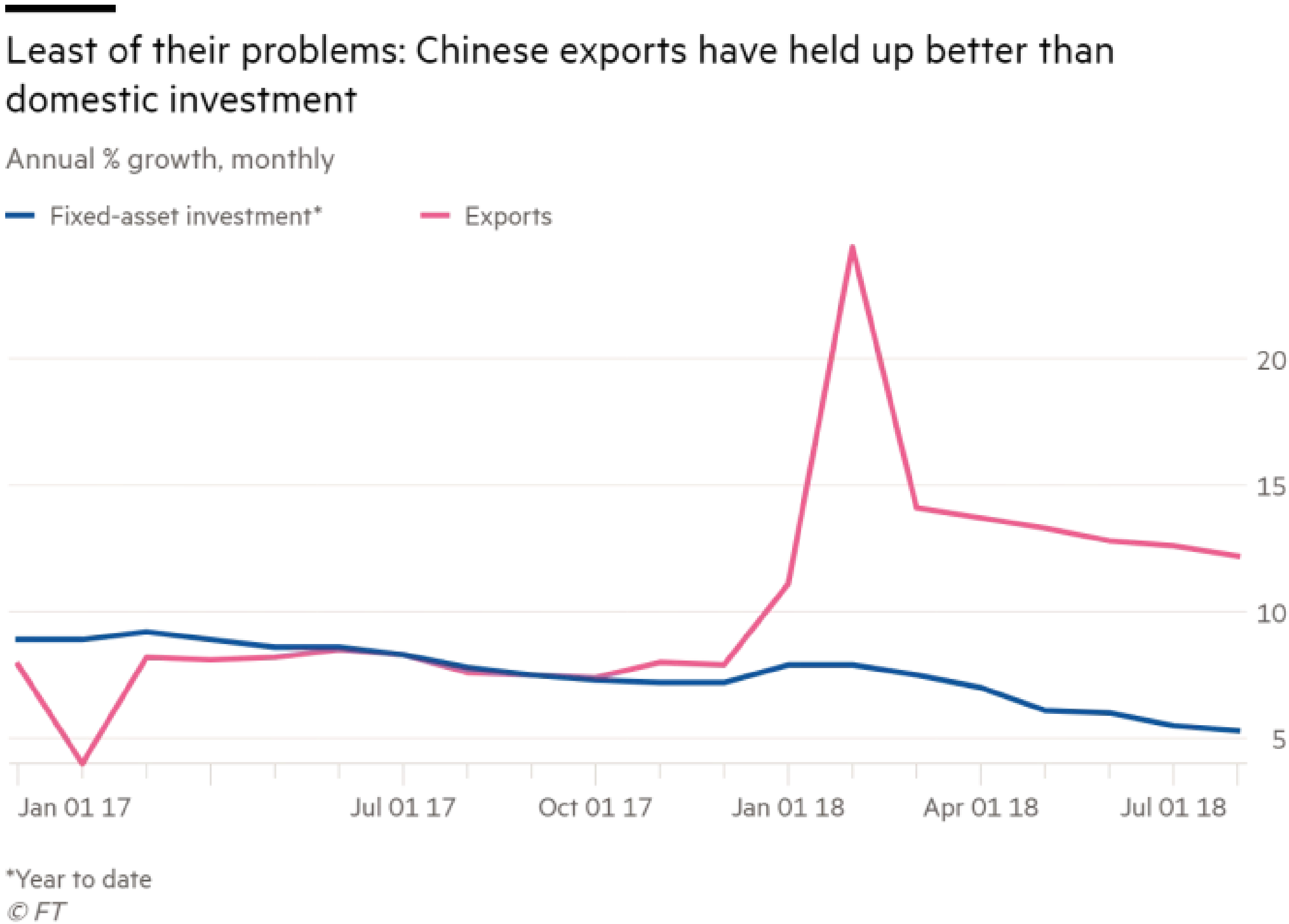
"It's going to last a long time, maybe 20 years. It's going to be a mess," Jack Ma, founder of e-commerce-to-financial conglomerate Alibaba, said at a meeting with investors in Hangzhou on Tuesday. "It's not a trade war, it's about competition between two countries."

Mr Xi's initial misreading of his US counterpart contributed to grumbles by some officials and intellectuals over the summer. But he has shown no sign of backing down and could well benefit politically from attacks by an external enemy at a time when he faces mounting internal problems.

The latest duties are "a clear sign that Trump is trying to suppress China and using tariffs as a tool", said Zhu Feng, dean of the School of International Relations at Nanjing University. "This will enrage the Chinese government."

Mr Xi himself said, in a meeting with global chief executive officers in June, that China could not simply "turn the other cheek".

"Tariffs merely cause China to stiffen its spine and retaliate rather than abjectly cave in to US demands, which still seems to be the outcome that Trump desires and believes is inevitable," said Eswar Prasad, a professor of trade policy at Cornell University and former head of the IMF's China division.



The new US tariffs come as China is experiencing a slowdown in domestic demand to which the trade war is adding pressure. Chinese investment in houses, factories and other fixed assets grew at the slowest pace on record in the first eight months of this year, official data showed last week.

But the Chinese economy's direct exposure to the US tariffs is limited.

Gross exports to all countries equalled 18 per cent of China gross domestic product last year — high compared with other large economies but down from a peak of 35 per cent in 2006. Exports to the US alone accounted for only 4 per cent of Chinese GDP.

The biggest impact from the tariffs will be felt by foreign and privately owned companies, not state-owned enterprises. Groups with foreign investors accounted for 43 per cent of total Chinese goods exports last year, though a large share of those companies were joint ventures with Chinese partners. Domestic, privately owned companies contributed 44 per cent of exports, while SOEs accounted for only 10 per cent.

Private sector Chinese businesses fear that they will bear the brunt of a trade war that Beijing may well feel it can afford to continue.

Contrary to views in Washington, China can — and will — dig its heels in

Bill Zarit, chairman of the American Chamber of Commerce in China

"Contrary to views in Washington, China can — and will — dig its heels in," said Bill Zarit, chairman of the American Chamber of Commerce in China. "The downward spiral that we have previously warned about now seems certain to materialise."

Mr Zarit also warned that higher tariffs could backfire against Washington by triggering further retaliation against US companies operating in China.

"More than half of our members say they have experienced a rise in non-tariff barriers in recent months, with increased inspections and slower customs clearance," he said. "However, this will not result in bringing more business back to American soil: just 6 per cent of our member companies say this current US-China trade dispute would make them consider relocating operations back home."

Recommended

Privately, some Chinese entrepreneurs add that the trade war will trigger further political tightening and put them in the Communist party's crosshairs. One businessman caused a stir this month with an essay arguing that private enterprises were no longer needed in Mr Xi's China.

Mr Xi's most trusted economic adviser and lead trade negotiator, vice-premier Liu He, has struggled to force through reforms that would address some of the private sector's concerns over structural biases in the economy that benefit state-owned competitors, such as easier access to credit from state banks.

But the demands by Mr Trump's own trade negotiators for similar reforms makes it politically difficult for Mr Liu to pursue his own agenda. As Tu Xinquan at the University of International Business in Beijing says, "We cannot give what Trump is asking for."

Additional reporting by Lucy Hornby in Tianjin, Xinning Liu in Beijing and Louise Lucas in Hangzhou

Latest on US-China trade dispute