

US-China trade dispute**China readies non-tariff weapons in US trade spat**

Executives fear Trump's measures will trigger Chinese harassment of US businesses



Chinese imports of some US food, cars and pet food have recently been delayed at customs for more stringent inspections © EPA Tom Mitchell in Beijing and Shawn Donnan in Washington JUNE 19, 2018

By threatening to expand US tariffs on Chinese goods on Monday, President Donald Trump greatly increased the chances of Beijing responding with non-tariff measures.

US executives fear that Mr Trump's latest threat to assess punitive tariffs on as much as \$250bn of [Chinese exports](#)— roughly twice what the US ships to China every year — will trigger responses such as ad hoc regulatory probes of US companies by Chinese authorities.

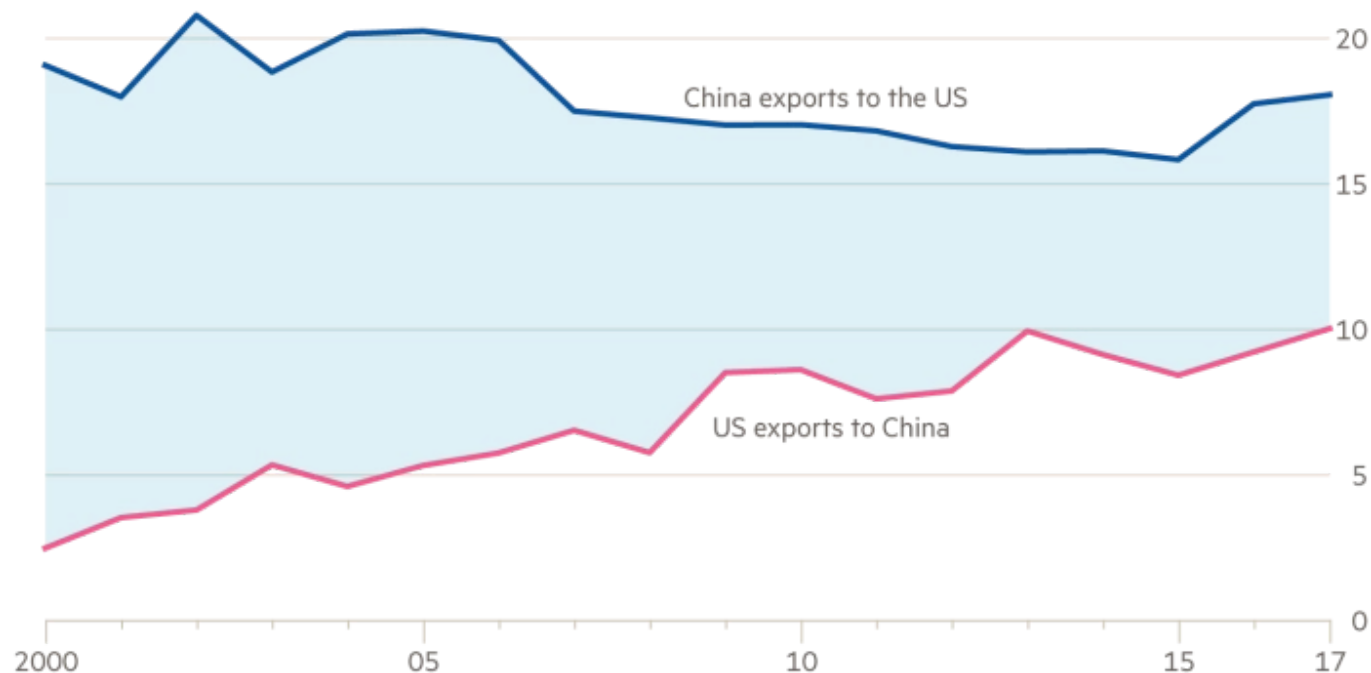
There already has been circumstantial evidence of just such a response over recent months, with Chinese imports of some US food, cars and pet food [delayed at customs](#) for more stringent inspections.

At the time, Chinese customs denied any ulterior motive, saying the measures were “consistent with international practice”. Responding to Mr Trump's latest threat, China's commerce ministry said on Tuesday that it was prepared to take unspecified “qualitative” as well as “quantitative” measures of its own.

Over recent months, US executives have warned the Trump administration to expect such a response.

China is more vulnerable to protectionism

As a % of each country's total exports



Source: Bloomberg, Customs General Administration PRC, US Census Bureau
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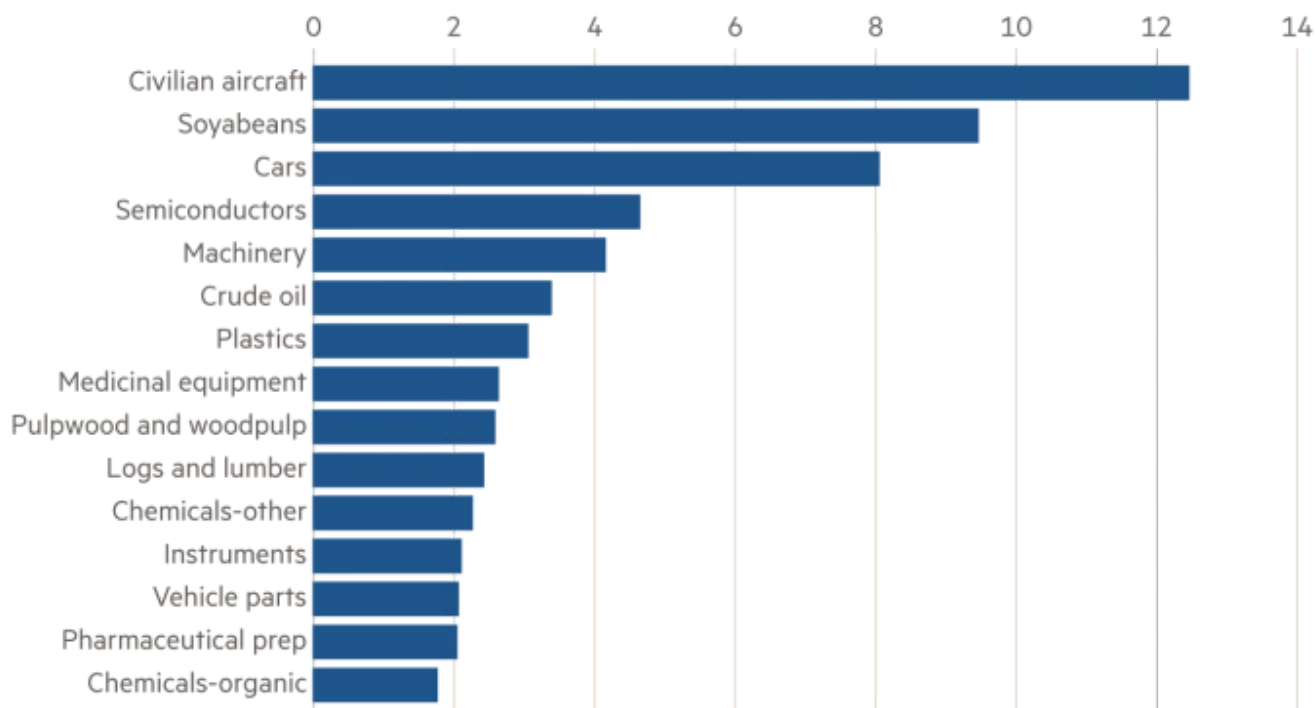
In mid-May a group of US executives travelled from China to Washington for meetings with administration officials and US legislators. At the time of their visit, Mr Trump had itemised \$50bn of Chinese industrial exports that would be subject to punitive tariffs for alleged intellectual property theft — and threatened to tax an additional \$100bn of unspecified Chinese exports if Beijing responded in kind.

According to members of the business delegation, administration officials thought it was a clever strategy. “As someone in the administration said: ‘Since we don’t export [goods worth] \$150bn to China, we’ve really got them at that point’,” recalled one US executive, who asked not to be identified. In response, the visiting executives turned the conversation to the Chinese government’s ability to respond asymmetrically with non-tariff measures.

“If China responds to a second wave of US tariffs, some US businesses will suffer [by] being targeted directly or from being caught in a widely aimed slowdown in Chinese administrative or customs processing procedures,” said Kenneth Jarrett, president of the American Chamber of Commerce in Shanghai.

What the US exports most to China

In 2017 (% of total)



Source: US Census Bureau

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Andrew Polk at Trivium, a Beijing-based consultancy, said: “China has laid out its [non-tariff] playbook in previous spats with South Korea and Japan.”

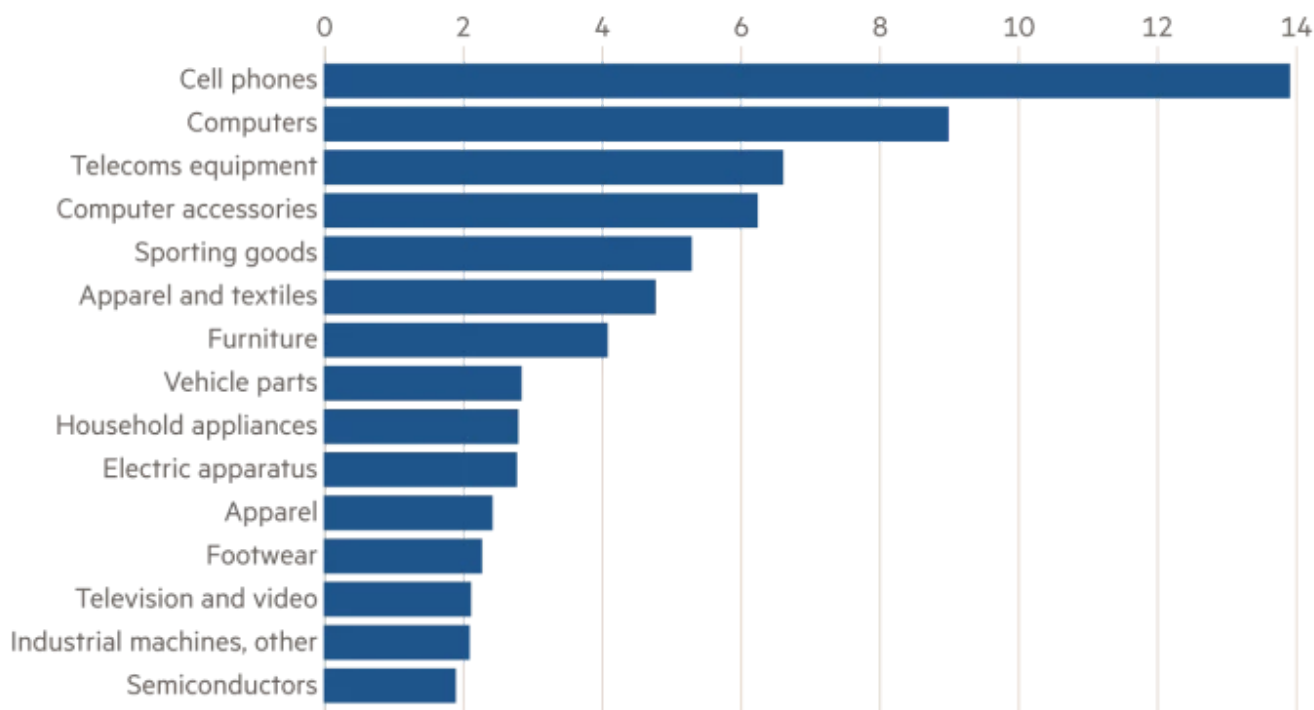
He added: “China still has plenty of weapons to use once it runs out of quantitative measures.”

Mr Trump’s order on Monday doubled down on his earlier threat by instructing his trade representative to instead target Chinese exports worth \$200bn for retaliation. If fully implemented, the punitive tariffs would have to be applied to widely used consumer goods as well as the previously identified industrial exports.

Some analysts believe that Mr Trump is miscalculating the damage that China could inflict on US companies in response.

What China exports most to the US

In 2017 (% of total)



Source: US Census Bureau

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“Mr Trump’s apparent premise that the US has the upper hand in this tit-for-tat escalation because China will run out of room to impose tariffs before the US does could prove badly mistaken,” said Eswar Prasad, a Cornell University economist with close ties to Chinese economic policymakers. “China has a number of other effective choke points against the US, including tightening the screws on American businesses operating in or running their supply chains through China.”

Mr Trump’s repeated tariff threats over recent weeks appear to have already complicated what was originally intended as a “clear-the-decks” deal as he his Chinese counterpart Xi Jinping appeared to be seeking a negotiated settlement to the trade dispute.

In return for Mr Trump personally guaranteeing Mr Xi that the Department of Commerce would lift crippling [sanctions against ZTE](#)— the Chinese telecoms equipment maker caught shipping banned products to Iran and North Korea — Chinese competition regulators appeared ready to clear Qualcomm’s proposed \$47bn acquisition of NXP, the Dutch microchip company.

US and Chinese officials insisted that both matters were being handled independently. But in late May, Mr Trump signalled that a trade war with China was no longer “on hold” and congressional officials introduced legislation that could reimpose ZTE’s “death sentence”. Since then, the Chinese commerce ministry’s review of the Qualcomm-NXP transaction appears to have stalled.

It is also likely that US exporters that escaped the first round of threatened retaliation, such as Boeing, will be back in the Chinese government's sights as it seeks to match Mr Trump's tariffs dollar-for-dollar as best it can.

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US aircraft, included on Beijing's first \$50bn tariff list in early April, were removed from its final version released at the weekend. The most recent list also did not include [US-grown sorghum](#). The animal feed had been subject to steep anti-dumping duties, which Beijing rescinded as a conciliatory gesture ahead of trade talks in mid-May.

Wilbur Ross, the commerce secretary, and other US officials have played down the possible damage to US farmers from a trade war with China, arguing that any American soybeans or other commodities that Beijing does not buy can easily be sold to other countries in a global market. More than half of all US soybean exports are shipped to China.

Mr Trump has, however, raised the possibility of reviving domestic support programmes for farmers to help them weather any losses from a trade war.

Additional reporting by Tom Hancock

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