

BUSINESS DAY

Why China's Response to Trump's Tariffs Is So Muted

By SUI-LEE WEE and KEITH BRADSHER MARCH 23, 2018

BEIJING — In a tit-for-tat trade battle with the United States, China's response has so far been restrained.

But that is with good reason: As it waits to see how far President Trump plans to go in imposing sweeping tariffs on China, Beijing knows that it has more effective weapons in its arsenal.

China's Ministry of Commerce said on Friday that it would impose tariffs on \$3 billion worth of American-produced fruit, pork, wine, seamless steel pipes and more than 100 other products. The move was in response to the Trump administration's announcements that it would apply tariffs on Chinese steel and aluminum, and came hours after Mr. Trump said he would impose tariffs on about \$60 billion worth of Chinese-made products.

Beijing said it would challenge the penalties at the World Trade Organization, and would carry out its trade restrictions in accordance with W.T.O. rules.

Analysts say the latest round of United States tariffs, if imposed, would likely have a minimal impact on the Chinese economy. While Mr. Trump chose confrontational language toward China in announcing his latest move, actual details were sparse and amounted in many ways to a threat as opposed to an actual imposition of tariffs.

But the escalating tensions, and the prospect of further action by China, have nevertheless raised concerns.

“We do seem to be entering a trade war,” said Eswar Prasad, a senior professor of trade policy at Cornell University. “The U.S. has unsheathed its sword after an extended period of saber rattling, and the Chinese are now unsheathing their weapons.”

“I hope this will not spiral into a very broad set of sanctions on both sides,” he said, “but I think, given Mr. Trump’s instincts and his very keen desire to deliver a political win whatever the political fallout might be, I don’t think it can be tamped down now.”

Stock markets in Asia slid on news of the escalating trade confrontation. By the close of trade on Friday, benchmark stock indexes in Hong Kong and Shanghai had fallen 2.5 percent and 3.4 percent respectively, tracking an overnight drop in Wall Street.

The American restrictions announced on Thursday would include tariffs of 25 percent on a list of specific goods, a proposal that is set to be made in the coming days, followed by a 30-day public consultation. During that time, the administration may hold more talks with the Chinese government, and lobbyists will wage an energetic fight to have their employers’ products removed from the list.

The loss to China from the planned tariffs would amount to no more than 0.1 percent of its economic output, according to Mark Williams, chief Asia economist at Capital Economics. JPMorgan said the potentially affected exports from China would account for 2.2 percent of the country’s total exports, which totaled about \$2.3 trillion in 2017.

“The upshot is that today’s tariffs amount to no more than a slap on the wrist for China,” Mr. Williams wrote in a note.

China would charge a 15 percent tariff on the American-produced products listed in Friday’s announcement.

Another round of tariffs could be imposed on a second group of American-made goods after China evaluates the impact of the American trade measures against China. That group would be charged 25 percent tariffs. It said businesses and other parties had until March 31 to submit views about the retaliatory tariffs, meaning they could take effect only after that date.

But there are many ways that China, America's biggest foreign creditor and its third-largest export market, could intensify its response. In particular, it could add aircraft and soybeans — both enormous American industries for which China is a critical market — to its list of restricted items. The United States exports \$12.4 billion worth of soybeans to China, and analysts say that Boeing, which competes against Airbus of Europe to sell jetliners to Chinese carriers, is another obvious target.

“China does not want to fight a trade war but is absolutely not afraid of a trade war,” a Commerce Ministry representative said in a statement. “We are confident and capable of meeting any challenge and hope that the United States will pause on the brink of a precipice, make careful decisions and avoid dragging bilateral trade relations to a dangerous place.”

For now, the proposed Chinese penalties appear to be a carefully calibrated response to the American steel and aluminum tariffs, which took effect on Friday. Beijing's restrictions would affect \$2.97 billion worth of American steel, aluminum and pork. That is roughly equivalent to the \$2.79 billion worth of steel and aluminum that China exported to the United States last year, according to Commerce Department data.

The goods that Beijing plans to penalize represents about 2 percent of the total size of American exports to China, according to Chad Bown, a senior fellow at the Peterson Institute for International Economics.

“It's not devastating economically by any stretch, but it's certainly going to hurt those interests in the United States that are trying to export,” Mr. Bown said. He pointed out that the retaliation by China sent “a negative signal, that they are not seeking to de-escalate things.”

China also picked its targets carefully by choosing goods that had political resonance, akin to what the European Union did this month by targeting bourbon, bluejeans and motorcycles, products made in states with Republican politicians or that supported Mr. Trump in his 2016 election victory. In China's case, pork comes from Nebraska and the Midwest, states that backed Mr. Trump.

"I would say that China's proposal is quite restrained," said Song Guoyou, deputy director of the American studies center at Fudan University in Shanghai. Mr. Song characterized China's response as "cautious anger."

That may not last for long, as the trade dispute between Washington and Beijing widens.

In February, China opened an anti-dumping and anti-subsidy investigation into sorghum imports from the United States, less than two weeks after the United States said it was imposing tariffs on solar panels and washing machines that were aimed at curbing cheap imports from China and South Korea.

"China is still being moderate and is appropriately counterattacking," said Li Qiang, chief consultant at Shanghai JC Intelligence Company, an agriculture consulting firm. "Both sides appear to be sounding each other out."

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