

China and the U.S. Seek Allies to Strengthen Sides in Trade Tussle

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- Battle for backing likely to play out at IMF meeting this week
 - Lengthy confrontation would pose risks for world economy
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The U.S. and China look to be preparing for a protracted confrontation over trade and investment as they each try to line up allies for their cause.

The struggle for support is being waged worldwide, with its locus shifting this week to Washington and the semi-annual meetings of the International Monetary Fund. Behind the battle: an effort by each country to gain an edge in their standoff over everything from steel to semiconductors.

Much of the jockeying is likely to play out at meetings starting on Thursday of finance ministers and central bankers from the Group of 20 and Saturday's broader gathering of IMF member nations.

"There's a competition" between the world's two-largest economies to garner backing for their respective positions, said David Dollar, who was the U.S. Treasury's economic emissary to China from 2009 to 2013 and is now a senior fellow at the Brookings Institution in Washington.

The concerted attempts at coalition-building suggest that neither nation believes that a quick resolution of their various disputes is a given. Such a festering could act as a damper on global stock markets and the world economy by making investors and businesses more cautious about the outlook.

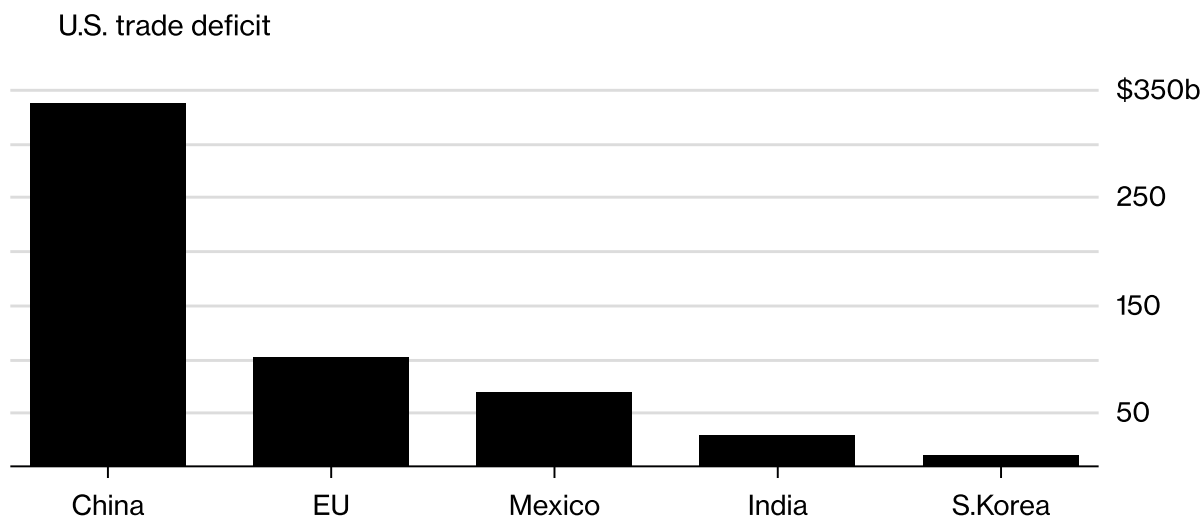
‘Deeply Concerned’

“I’m deeply concerned” about the relationship, said National Committee on U.S.-China Relations President Stephen Orlins, who worked on the normalization of ties between the two countries while at the U.S. State Department from 1976 to 1979. “Over the next 12, 18, 24 months it may be deeply, deeply disrupted.”

Citing national security concerns, the Trump administration has slapped tariffs on steel and aluminum exports from China and a number of other countries, with Beijing responding with import taxes of its own on U.S. goods. Washington also has threatened to levy additional tariffs on a broad range of Chinese exports in a separate case involving intellectual property.

Minding the Trade Gap

Trump frequently cites America's "massive" trade deficit with China as a problem



Source: U.S. Commerce Department

Note: Data are for 2017, goods and services

While there's a chance that Chinese policy makers in Washington for the IMF meeting could take the opportunity to get together with their U.S. counterparts, Dollar doubted that any talks would lead to a breakthrough, given that Beijing's delegation is apparently led by its new central bank governor Yi Gang and not by someone steeped in trade.

China has held top-level economic talks in recent days with India and Japan. All three have been hit by tariffs on their steel exports to the U.S. The meeting between Japan and China was the first in eight years.

‘Economic Embrace’

“China’s rising economic might, coupled with the perception of the U.S. as an unreliable and untrustworthy partner, is driving countries around the world closer into China’s economic embrace,” said Eswar Prasad, a former chief of the IMF’s China division and now a professor at Cornell University.

The U.S., for its part, won European and Japanese backing for a statement at the World Trade Organization’s December meeting that indirectly criticized China by voicing concern about overcapacity in some industries and complaining about forced technology transfer. The European Union and Japan also joined the challenge the U.S. filed at the WTO against Chinese technology licensing rules.

“I call it a trade coalition of the willing,” Larry Kudlow, head of the White House’s National Economic Council, told reporters on April 5.

At its March 19-20 meeting in Buenos Aires, the G-20 opted not to take sides in the dispute between its two leading members, blandly declaring that trade and investment were “important engines” of growth.

Still At Play

Former IMF executive director Thomas Bernes said some countries may have been reluctant to criticize the U.S. because they were simultaneously trying to win exemptions from American tariffs on their steel and aluminum exports.

Those considerations are still at play, with Japanese Prime Minister Shinzo Abe making his country's case to President Donald Trump on a visit to the U.S. this week and German Chancellor Angela Merkel expected to do the same when she comes to the White House later this month.

"The U.S. is not alone in having concern about some Chinese practices, but it does stand alone in terms of the tactics it wants to use to address them," said Bernes, who is now at the Centre for International Governance Innovation in Waterloo, Ontario.

That bipolarity has been reflected in comments by senior IMF officials. David Lipton, the Fund's first deputy managing director, said that it's time for China to address the concerns that other countries have about its trade practices.

"But at the same time, we think the differences of view should be settled through cooperation and through dialogue," he told Bloomberg TV on April 3.

Australian Finance Minister Mathias Cormann played down worries about the trade tensions and said that he expects a resolution will be reached.

"That is what always happens, people bring their perspective and over time issues get sorted out," Cormann said in an interview on Wednesday. "That is what I expect will happen on this occasion."

The tussle between the two economic powers is not only putting the Fund in an awkward position.

"Greater U.S.-China trade tensions will make life more difficult for many other countries," said Tim Summers, senior consulting fellow at the Chatham House Asia Programme in Hong Kong.

"The clear interest of third countries is in avoiding a trade war between the U.S. and China, but none of them seem to have enough clout to push Washington toward a more conciliatory

approach,” he added.