

Economics

Talking Won't End Trump's Growing China Trade War Any Time Soon

By [Shawn Donnan](#)

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- ▶ President has repeatedly undermined dealmakers like Mnuchin
 - ▶ Analysts see trade war extending into 2019 and even beyond
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Roach: Idea That America Has Upper Hand in Trade War Is Wide of the Mark

The Trump administration's trade war with China is following an increasingly predictable pattern and that should cause a rethink for anybody hoping for a rapid resolution.

The day after financial markets around the world cheered the apparent good news that Treasury Secretary Steven Mnuchin was inviting his Chinese counterparts to sit down for further high-level negotiations, President Donald Trump undermined that very idea.

"We are under no pressure to make a deal with China, they are under pressure to make a deal with us," Trump said on Twitter on Thursday. "Our markets are surging, theirs are collapsing. We will soon be taking in Billions in Tariffs & making products at home. If we meet, we meet?"

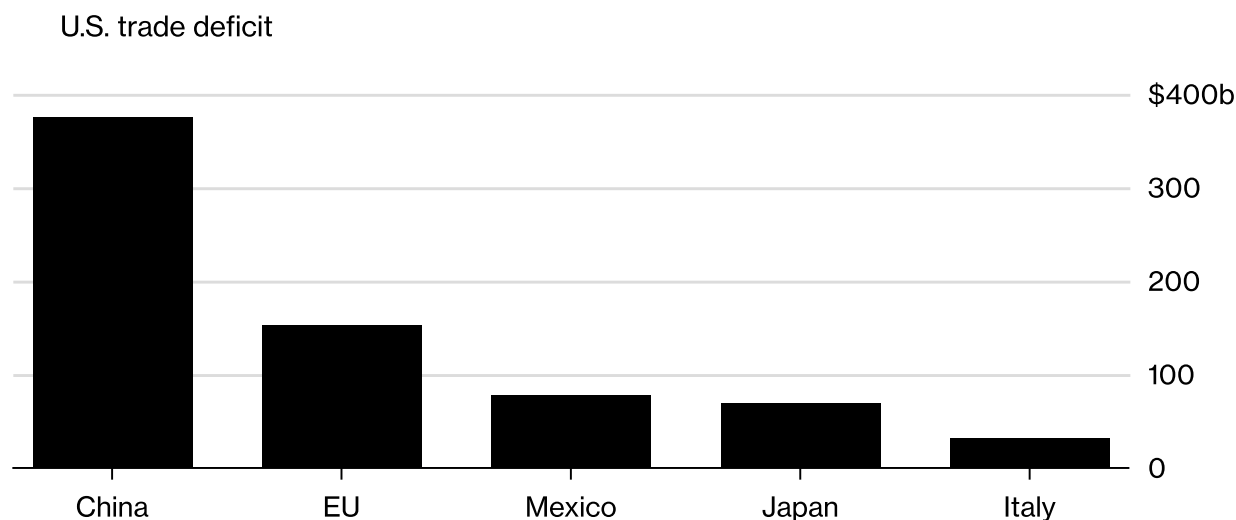
He followed that up Thursday, just hours after his tweet, by instructing aides in a meeting to proceed with plans for new tariffs on \$200 billion in Chinese imports despite Mnuchin's approach to Beijing, according to people familiar with the discussions.

China's State Media Warns Against Expecting a Lot in Trade Talks

The moves marked just the latest instance of Trump undercutting one of his senior China deal-makers in public and illustrates why Beijing has become increasingly frustrated with its interactions with the U.S. administration. It also comes as Trump has repeatedly signaled his desire to continue raising pressure on Beijing.

Minding the Trade Gap

America's trade gap with China eclipses its deficit with other trading partners



Source: U.S. Commerce Department

Note: Data are for 2017, goods only

After last year's Mar-a-Lago summit with Chinese President Xi Jinping, Commerce Secretary Wilbur Ross was given the task of negotiating a 100-day deal with China intended to be the first building block in a bigger deal.

Ross and his team, however, were quickly criticized for being too obsequious to the Chinese, especially after he hailed a reheated series of commitments by Beijing as a "Herculean" victory for the president. Since then, the commitments Ross has brought home to Trump have repeatedly been rejected by the president.

Likewise, just days after hosting Liu He, Xi's top economic emissary, in the Oval Office in May, Trump made a very public U-turn by declaring that he would be proceeding with tariffs despite

Mnuchin's declaration that the trade war was "on hold."

The result has left Mnuchin discredited with Beijing as an interlocutor, according to people who have met with senior Chinese officials in recent weeks.

No Giveaways

"They are certainly open to overtures because they would like to bring this trade dispute to some kind of resolution. But I don't think they are going to give anything to Mnuchin," said Eswar Prasad, a former China division chief at the International Monetary Fund who now teaches at Cornell University and is close to policymakers in Beijing.

"They don't know if any deal they make with Mnuchin can stick," Prasad said. "Mnuchin is being seen as one voice of reason but a voice of reason without any clout."

Derek Scissors, a China expert at the American Enterprise Institute, is blunter: "The Chinese have been very explicit that they don't think Mnuchin can deliver a deal," he said.

Some analysts do see a grand strategy at work.

Edward Alden, a trade expert at the Council on Foreign Relations, likened the emerging pattern on China to the Nafta negotiations with Mexico and Canada, which are nearing an end after a year of intense negotiations that have been accompanied by repeated threats from Trump. Likewise, every carrot to Beijing is accompanied by a tweeted stick.

"I think we are finally moving into the serious stage in which there is going to be the serious negotiation that we haven't had yet," Alden said.

Like most analysts, however, Alden doesn't expect a resolution any time soon.

Can Trump Win If He Escalates His China Trade War?: QuickTake

The pressure is clearly building on Trump to cut a deal, according to David Dollar, who was the U.S. Treasury's man in Beijing during the Obama administration and is now at the Brookings Institution.

Companies and investors are increasingly concerned about the potential impact of an escalating trade war with China on profits and the economy, which ought to be putting pressure on Trump to strike an agreement.

“This is the big cloud on the horizon right now” for the U.S. economy and financial markets, Dollar said.

The administration also faces the likelihood that its plans for tariffs on \$200 billion in additional Chinese imports and others to follow will begin to hit consumers more directly, something that unnerves Republicans looking warily at the mid-term elections and polls showing a Democratic wave building.

Yet Trump’s latest China tweet also highlights how “each side is sensing a vulnerability in the other and they are both wrong,” Dollar said.

Chinese Economy

While Trump believes the Chinese economy is suffering, Dollar said the reality is that exports to the U.S. only account for 3 percent of China’s gross domestic product, with multinational companies with supply chains dependent on China as likely to suffer as Beijing.

Likewise, officials in Beijing have been reading the opposition from business and Republican concerns about the mid-terms as a potential Trump weakness. But that ignores the strength of the U.S. economy and what has been the resilience of financial markets so far in the face of any trade fears.

The Chinese may look at the Mnuchin invitation and think Trump “is starting to blink. But I don’t think that is true,” said Dollar.

Increasingly, for those reasons and others the expectation in Washington is that the U.S.-China trade war will extend well into 2019. And even that it may never see a clean resolution.

Cold War

In China, officials have begun to contemplate the possibility of a new Cold War with the U.S., Dollar said. Which is how hawks in the Trump administration such as U.S. Trade Representative

Robert Lighthizer and trade adviser Peter Navarro see it as well, arguing for tariffs as just one tool to engineer a long-term decoupling of the world's two largest economies.

With those dynamics in mind Chinese policymakers have begun to realize that any solution to their growing trade problems with the U.S. may in the end depend on them negotiating a peace directly with Trump's hawks, said Prasad.

"That is exactly their read," he said. "It is only by negotiating with the hardliners that they will make progress."

But with Trump's hawks convinced they are in an existential battle with China and likely to demand deep and long-term changes from Beijing that it is likely to resist, such a negotiation will be difficult, Prasad said. It may also never yield the end to the trade war so many are hoping for.

(Updates with new Trump tariff instructions in fourth paragraph.)

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