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US trade

Trump team plays down fears of US trade war with China

Protectionist pledges expected to take back seat to stimulus measures



NOVEMBER 14, 2016 by: **Shawn Donnan** in Washington and **Tom Mitchell** in Beijing

Advisers to president-elect Donald Trump have already begun playing down the prospect of a full-blown US trade war with China, amid concern that an era of US protectionism would damage the global economy.

Indeed, some analysts wonder whether the tough trade promises made on the campaign trail may take a back seat as Mr Trump focuses on tax cuts and an infrastructure programme designed to boost US growth, the prospect of which has buoyed markets since Tuesday's election.

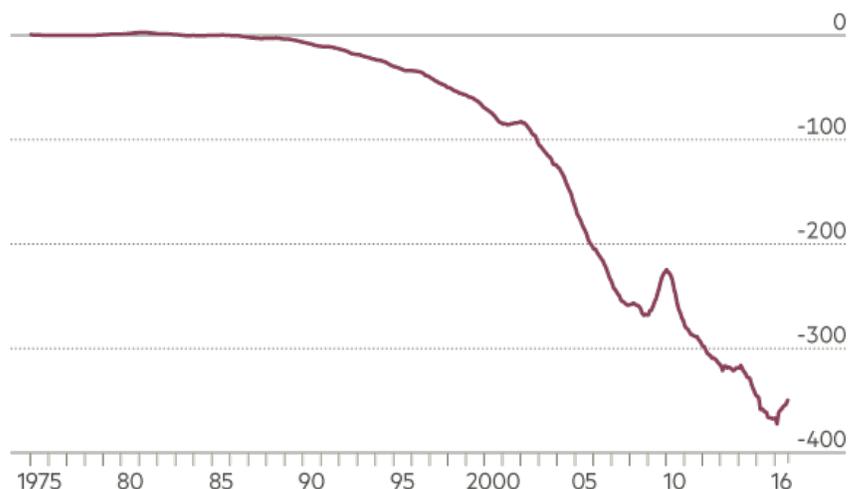
“There aren’t going to be trade wars,” Wilbur Ross, the New York investor and Trump adviser, [told US media \(http://sports.yahoo.com/news/wilbur-ross-and-mohamed-el-erian-weigh-in-on-president-trump-163730016.html\)](http://sports.yahoo.com/news/wilbur-ross-and-mohamed-el-erian-weigh-in-on-president-trump-163730016.html) last week.

Mr Ross argues that Mr Trump’s widely-quoted campaign threat to impose a 45 per cent tariff on Chinese imports — seized on by economists as the potential trigger for a trade war with Beijing — has been misunderstood and amounts only to negotiating tactics.

Such a figure would be dependent on a finding that China’s currency, the renminbi, was undervalued by 45 per cent, Mr Ross says. The International Monetary Fund has called the RMB fairly valued while US officials point out any recent intervention by Beijing in currency markets has been designed to slow a market-driven decline, arguably to the US’s benefit.

While escalation to a full trade war is in doubt, this does not mean a Trump administration is planning to be soft with China.

US trade balance with China
12-month sum (\$bn)



Source: Haver Analytics

FT

Mr Trump has promised to direct his treasury secretary to label China a currency manipulator within his first 100 days, something the outgoing president, Barack Obama, avoided doing for fear of provoking Beijing.

Although such a move would be largely symbolic and carry few immediate trade consequences “this would almost certainly incite an aggressive reaction from China, rapidly escalating bilateral tensions,” says Eswar Prasad, a former IMF China expert now at Cornell university.

Mr Trump would undoubtedly bring high-profile cases against China at the World Trade Organisation and impose steep anti-dumping tariffs against steel and other Chinese imports, much as the Obama administration has. His 100-day plans calls for his administration to “identify all foreign trading abuses that unfairly impact American workers” and “use every tool under American and international law to end those abuses immediately”.

Mr Trump could also toughen foreign investment rules and the national security-focused review process conducted by the Committee on Foreign Investment in the US (CFIUS).

China has long complained the current system discriminates against its companies. Yet some see Mr Trump embracing congressional calls to broaden CFIUS’s remit to add a net economic benefit test or other strategic considerations in a move that could block more Chinese investments in the US.

Edward Luce

The perilous taming of

But such a step would hit part of the

Donald Trump (<http://next.ft.com/content/528bb1cc-a836-11e6-8898-79a99e2a4de6>)

Having vowed a hostile takeover, the populist now surrounds himself with insiders



economic relationship growing in the US's favour. According to a new study by the Rhodium Group, a research firm, cumulative US direct investment in China

between 1990 and 2015 reached \$228bn. The Chinese equivalent into the US was worth \$64bn. But this year alone Chinese FDI into the US is poised to hit a record \$30bn, according to Rhodium, and anything disturbing that would hit American workers.

What happens next will depend on who Mr Trump brings into office with him.

Dan DiMicco, the former chief executive of steel company Nucor and a longtime advocate of a tougher US line on China, is the point person on trade in Mr Trump's transition team. Mr DiMicco, who is a candidate for both commerce secretary and US trade representative, told the FT on Saturday that any notions of a Trump administration taking a softer post-election line on trade were "false rumours".

Another campaign adviser, economist Peter Navarro, is a well-known China hawk whose 2013 film "[Death by China](http://deathbychina.com/) (<http://deathbychina.com/>)" was praised by Mr Trump as an "important documentary".

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Shi Yinhong, Renmin University in Beijing

But Mr Trump's running mate, Mike Pence, who has taken charge of the transition, is a free trader

who as governor in Indiana has travelled to China to court investment. Moreover, there are already signs the Republican trade establishment is entering the fray with a former US Chamber of Commerce lobbyist, Rolf Lundberg, put in charge of the transition's trade policy implementation.

“Given how the financial markets are reacting — which is splendid from a Trump viewpoint — I don't think Trump's trade team will want the trade part to spoil the [economic benefits of the] fiscal stimulus part,” says Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics.

Some in China are optimistic. “Most American presidential candidates don't carry out their threats once they become president,” says Li Xinchuang, head of the China Metallurgical Planning and Research Institute.

Others remain fearful, however. “In the post-cold war era, Trump is an unprecedented protectionist,” says Shi Yinhong, an international relations professor at Renmin university in Beijing. “Sooner or later his protectionism and populism will damage Sino-US trade relations.”

Additional reporting by Lucy Hornby and Wan Li in Beijing