US trade

US tariffs foreshadow tougher action on China

Trump poised to target Beijing with duties and investment restrictions

Last year the US trade deficit with China was more than $375bn in goods alone © EPA

Shawn Donnan in Washington MARCH 7, 2018

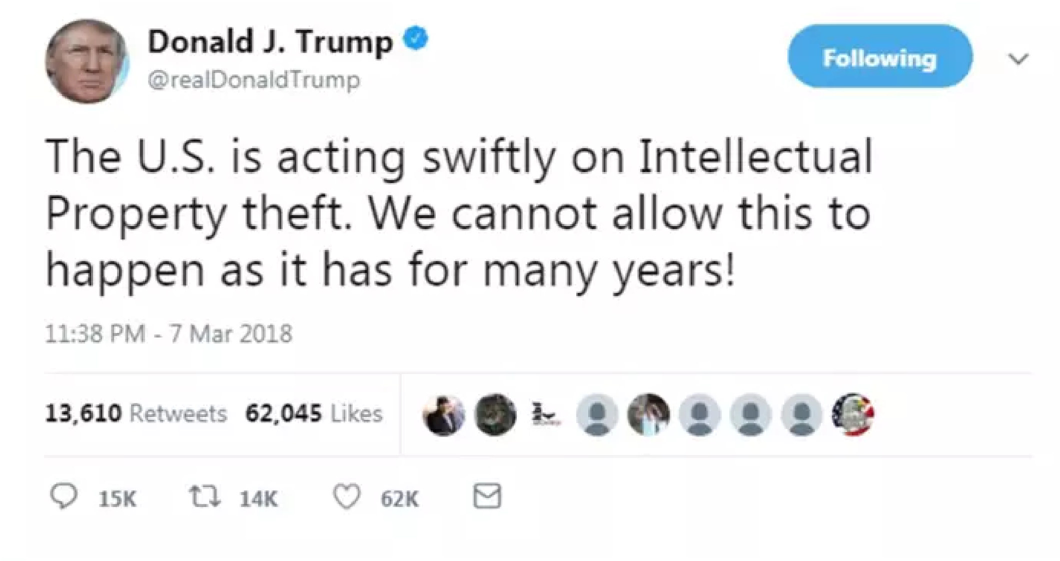
US President Donald Trump's plans to levy tariffs on steel and aluminium imports and the resignation of his top economic adviser Gary Cohn have heightened fears of a global trade war. If such a conflict breaks out, the fight over metals will seem like a minor skirmish compared with what is planned for China.

The Trump administration is expected to roll out within weeks a series of tariffs, investment restrictions and other actions against China as it concludes an investigation launched last year into Beijing's intellectual property practices.

Moreover, with trade and China hawks ascendant in the Trump White House and Mr Cohn on his way out, many analysts, Republicans in Congress and business groups are concerned that those already aggressive planned moves aimed at Beijing could become even more belligerent.

"This [Mr Cohn's departure] opens the door to much more sweeping protection and that would really lead to a trade war," said David Dollar, a former US Treasury representative in Beijing now at the Brookings Institution.

It also could be a wider war. While the tariffs on steel and aluminium would hit almost $50bn in annual US imports — largely from countries other than China — the new actions aimed at Beijing would hit a trading relationship that was worth more than $635bn last year.



In a sign that action on China may be imminent, Mr Trump tweeted on Wednesday that his administration was "acting swiftly" to curtail intellectual property theft. "We cannot allow this to happen as it has for many years!" he said.

The president added that he had asked Beijing to draft a plan to reduce the US trade deficit with China by $1bn this year.

Eswar Prasad, a Cornell University economist and well-connected China expert, said he had been told by Chinese officials that the real number was much larger. The US had requested that Beijing draft a plan to reduce the US's annual trade deficit in goods with China by a fifth, he said. Last year the US had a $375bn trade deficit in goods with China, meaning Beijing would have to buy more US goods or cut exports to the US to the tune of $75bn.

China could do that by buying more commodities such as oil from the US or other products, Mr Prasad said. It also could adopt the approach taken by Japan in the 1980s by agreeing to voluntary export restraints on certain goods. Either, however, would be only a short-term fix, Mr Prasad said.

"All of these actions related to specific products and commodities are unlikely to have more than a modest impact on the overall trade imbalance," he said. "This request puts the Chinese in a somewhat untenable position because ultimately trade deficits, both countrywide and with individual countries, are driven by macroeconomic policies."

The planned moves are part of a much larger crackdown on China envisaged in Washington with Congress considering legislation backed by the president that would expand the number of transactions reviewed by the Committee on Foreign Investment in the US.

That legislation is aimed mostly at restricting China's ability to buy or otherwise invest in US companies in key strategic sectors, such as artificial intelligence or robotics. It also would extend the committee's powers to block deals to overseas joint ventures by US companies, such as those China uses to control access to its market and to force the transfer of technologies.

Those sensitivities about key technologies have been reflected in this week's decision by the US Treasury department to issue a largely unprecedented call for chipmaker Qualcomm to delay a board meeting amid a hostile takeover bid from Singapore-based rival Broadcom.

That move appeared related to concerns about Broadcom's commercial relationships with China's Huawei and Beijing's telecoms technology ambitions. A US Treasury official said the inter-agency committee was worried about "Broadcom's relationships with third-party foreign entities".

The official also relayed concerns that Broadcom's acquisition of Qualcomm could erode the US company's position as a leading developer of 5G telecoms technology, which "would leave an opening for China to expand its influence on the 5G standard-setting process".

Concern over the technological race with China is widely shared and bipartisan in Washington. Yet there are also growing anxieties over how the Trump administration plans to wage its fight, particularly now that Mr Cohn, a pro-trade, pro-business centrist, is leaving.

Republicans in Congress and former trade officials also express concern that US trade representative Robert Lighthizer, the cabinet member overseeing the IP investigation, is more interested in starting a fight than extracting tangible concessions from Beijing.

When Liu He, one of Xi Jinping's top economic emissaries, visited Washington last week he and members of his delegation said they did not have a clear idea of what the Trump administration wanted.

"I don't think there is a strategy for where they want to go after these actions bite," Wendy Cutler, who oversaw US-China trade relations in the Obama administration and is now at the Asia Society, said of the metals tariffs.

Mr Cohn's departure could also bring an end to efforts to build an international coalition to take on China over IP issues, with the EU, Japan and others sharing US concerns over Beijing's practices.

But the move to impose tariffs on steel and aluminium that are likely to hit European and Japanese producers make forming such a coalition more difficult. They also raise questions about whether the Trump administration has a fully developed China plan.

"We have not seen a coherent strategy yet," said Mr Dollar.