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BUSINESS DAY

White House Tries to Tamp Down Trade War Fears as China Retaliates

By ANA SWANSON and KEITH BRADSHER APRIL 4, 2018

WASHINGTON — White House officials moved quickly on Wednesday to calm fears of a potential trade war with China, saying the administration's proposed tariffs were a "threat" that would ultimately help, not hurt, the United States economy, hours after China said it would punish American products with similar levies.

The administration's insistence that a trade war was not imminent came as the United States and China traded tit-for-tat penalties that caused wild swings in stock markets from Hong Kong to New York. Led by more audacious leaders than either country has had in decades, China and the United States are now locked in a perilous game of chicken, with the possibility to derail the global economic recovery, disrupt international supply chains and destabilize the huge yet debt-laden Chinese economy.

White House officials reiterated on Wednesday that China must stop the "unfair" trading practices President Trump believes have disadvantaged American companies and workers, but they held out the possibility that tariffs on $50 billion worth of Chinese goods outlined on Tuesday might never go into effect.

"There's no trade war here," Larry Kudlow, Mr. Trump's new top economic adviser, said in an interview on Fox Business Network. He described the threat of tariffs as "just the first proposal" in a process that would involve negotiations and back-channel talks. "I understand the stock market's anxiety," he said. "But on the other hand, don't overreact."

Behind the scenes, however, top officials remained split over the administration's approach as the United States and China move into a period of high-stakes negotiations. That includes how far to go in punishing China and the types of concessions the White House should accept to avoid a protracted and damaging trade war.

People familiar with the negotiations say Steven Mnuchin, the Treasury secretary, and Wilbur Ross, the commerce secretary, have at times argued for more dialogue with the Chinese and quicker concessions that would help diminish the trade deficit — the gap between what China ships to the United States and what America ships in the other direction. Other top trade advisers, including longtime China critics like Robert Lighthizer and Peter Navarro, have taken a tougher stance, arguing that these changes would do little to address the mercantilist and protectionist trade policies China has adopted for decades.

Mr. Trump's advisers said the president remains resolute and views the pugilistic approach as the only way to force China to end two decades of industrial policies that have hollowed out American manufacturing and resulted in a ballooning trade deficit.

On Wednesday, Mr. Trump suggested in a tweet that he saw no reason to back down, since the United States was already on the losing end of trade with China.

"We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the U.S.," he wrote. "Now we have a Trade Deficit of $500 Billion a year, with Intellectual Property Theft of another $300 Billion. We cannot let this continue!"

He added in another tweet, "When you're already $500 Billion DOWN, you can't lose!"

It remains unclear whether China will bend to the pressure and make significant changes to its economy — or whether the White House strategy will instead tip the two nations into a trade war that could harm both countries. Producers of American goods like soybeans, pork, automobiles and semiconductors depend on access to the

Chinese market both for exports and production and say they are fearful about a conflict.

“Companies are definitely caught in the middle of this,” said Kenneth Jarrett, the president of the American Chamber of Commerce in Shanghai.

Economists predict that the direct effects of the tariffs will be relatively small for both China and the United States, since they apply to only a fraction of each country’s economic output.

”It’s hardly a life-threatening activity,” Mr. Ross said in an interview on CNBC. He added that the volume of the tariffs was in line with the White House’s calculation that the Chinese have cheated the United States out of $50 billion worth of intellectual property through coercion and cyberattacks.

While tariffs would affect a small part of the overall United States economy, they impinge on a relatively large share of American exports to China. If China places tariffs on $50 billion of goods from the United States, as promised, that would be more than one-third of American exports to China. In contrast, American tariffs on $50 billion of Chinese goods would affect only one-tenth of China’s vast exports to the United States.

Within that slice of the economy, the pain could be acute. American farmers and manufacturers, in particular, could suffer. On Wednesday, China said it would penalize American soybeans, cars, chemicals and other goods, hours after the United States announced tariffs on flat-screen televisions, medical devices and industrial machinery.

The economic effects could also quickly escalate beyond tariffs. The United States is preparing restrictions that could prevent China from investing in high-tech industries like semiconductors and electric vehicles, and it may consider other restrictions, including visas.

China, in return, could make life more difficult for the many American companies that do business in the country, or pare back its purchases of United States debt. China is the largest foreign holder of American debt, holding about $1.17

trillion in United States bonds, notes and bills in January, according to the Treasury Department.

"China has many ways it can make life exceedingly uncomfortable for a large number of American businesses, both those that are hoping for access to China's fast-expanding market, and those that use China as an important part of their supply chains," said Eswar Prasad, a professor of international trade at Cornell University.

The Trump administration contends that if it does not challenge Beijing now, the Chinese government will heavily subsidize its companies to become dominant producers of cutting-edge industries from robotics to electric cars. That could imperil the United States' ability to create good-paying jobs for future generations, relegating the country to producing food, fossil fuels and financial services, while China extends its lead as the world's largest manufacturer.

But the administration's strategy for halting China's rise has been hard to discern, with some advisers insisting that China must remake its economy, while others say the priority is to reduce the trade deficit, prioritize market access for American companies or end China's infringement on American intellectual property. Some top officials have indicated the tariffs may never be implemented.

On Wednesday, Sarah Huckabee Sanders, the White House press secretary, refused to say whether the tariffs would ultimately go into effect, adding, "I would anticipate that if there are no changes to the behavior of China and they don't stop the unfair trade practices, then we would move forward."

Companies have until May 22 to submit comments to the administration about the tariffs, with the penalties to be imposed at an undetermined date. Separate tariffs on steel and aluminum imports from China and other nations went into effect late last month.

In the meantime, American officials including Mr. Mnuchin and Mr. Lighthizer have been in talks with the Chinese about ways to resolve their differences. Yet conversations have so far focused on concessions like China reducing tariffs on American cars, opening up its market for financial services and purchasing more semiconductors or natural gas — minor wins that are unlikely to satisfy Mr. Navarro and Mr. Lighthizer, who are pushing for significant and sweeping changes to China's market, according to people familiar with the negotiations.

The United States has also asked for a $100 billion reduction in the $375.2 billion trade deficit it runs with China. But the goods China has offered to buy to narrow that gap — including semiconductors — are not products the Trump administration wants to export. And some advisers say these kind of sales will not do anything to address the underlying problems with the Chinese economy.

China experts say an inconsistent message and approach could undermine America's ability to successfully negotiate.

"We're all over the map," said Scott Kennedy, a China expert at the Center for Strategic and International Studies. "The Chinese are trying to take advantage of this lack of consensus and get the United States to take a quick deal that leaves China's industrial policy machine intact."

Beijing is also eager to show other trading partners that it will not be bullied into changing its policies.

"I'm not very positive about large concessions or changes that are going to come from China," said Heiwai Tang, an assistant professor of international economics at the Johns Hopkins School of Advanced International Studies. China's current government is more assertive than recent ones, he said, and the country is heavily dependent on technology transfers from advanced economies as it tries to transform its own.

For the Chinese to successfully negotiate, analysts said, they have to be able to present the deal to their own people as a win. But the United States has refused to give concessions and has painted the confrontation as one in which China must ultimately lose.

"Tariffs are seen as a direct slap in the face, and it will be very difficult for the Chinese government to sit back and take those blows without retaliating," Mr. Prasad said.

On Wednesday, Cui Tiankai, the Chinese ambassador to the United States, said China preferred to resolve the conflict through talks but would keep its options open.

“Negotiation would still be our preference, but it takes two to tango,” Mr. Cui said. “We will see what the U.S. will do.”

Jim Tankersley and Alan Rappeport contributed reporting.

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