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Opinions

Are China and the U.S. locked in a permanent trade war?

By Robert J. Samuelson

The U.S.-China trade war goes on . . . and on and on.

President Trump and Chinese President Xi Jinping are expected to meet later this week in Argentina at a summit meeting of the Group of 20 — roughly speaking, the world's 20 most important economies. The object is to halt the war. Larry Kudlow, director of the White House's National Economic Council, suggests a breakthrough is possible, though unlikely. Many outside observers are also pessimistic.

The most upbeat among them expect a truce. Each side would delay further trade measures against the other, while officials of both countries try to reach a more permanent arrangement. "A temporary cease-fire to make time for another round of negotiations . . . is a possibility," the consulting firm Capital Economics tells its clients.

Already, the Trump administration has slapped 25 percent tariffs on $50 billion of imports from China and 10 percent on another $200 billion of goods. The administration has said that it is prepared to let the 10 percent tariff rise to 25 percent on Jan. 1. China has retaliated with tariffs and, presumably, would adopt new anti-American trade barriers. If this doesn't work, Trump threatens tariffs on another $267 billion of Chinese imports.

Each side may think that its bargaining position is stronger than it is, argue economists David Dollar and Eswar Prasad of the Brookings Institution in a recent podcast. U.S. officials believe that China's economy has been slowing, say Dollar and Prasad; therefore, China won't want to make matters worse by inviting more tariffs and another blow to its exports.

Although the logic is sound, it may be weaker than Americans suspect. The decline in economic growth is modest so far. In 2017, China's gross domestic product grew 6.9 percent; for 2018, growth is forecast at 6.6 percent, says the Organization for Economic Cooperation and Development (OECD).

Moreover, recent economic indicators "such as industrial production [and] retail sales [have all] come in quite strong," says Prasad. It's even possible that the "trade war might provide a [political] cover for the Chinese leadership to accept lower growth, saying that this is brought upon by the U.S. trade war."

As for the Chinese, they may think they can satisfy Trump by promising to buy more American exports. But U.S. grievances with China go much deeper. Foreign firms — including American — find it hard to compete in China and say they're targets of discriminatory rules and investment practices.

In a tough speech in October, Vice President Pence put it this way: “Beijing now requires many American businesses to hand over their trade secrets as the cost of doing business in China. . . . Chinese security agencies have masterminded the wholesale theft of American technology — including cutting-edge military blueprints.”

Prasad also thinks a trade deal, though conceivable, is a long shot. China would commit to buy more U.S. goods, including farm products and natural gas. It would also tighten up on intellectual-property protections. Foreign firms could better control their technologies and trade secrets. But this would fall well short of abandonment of China’s industrial policies to promote and subsidize crucial industries, from aerospace to computer chips.

That’s the crux of the American complaint, and it may be a deal-killer. Some “policy people around Washington . . . [are] not going to be interested in a deal unless there’s total surrender from China, which we’re not likely to see,” says Dollar.

If so, the trade war may become a permanent fixture of the global economy.

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