US, China and a potential trade war

Written by Sushil Seth
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There is much talk about a potential global trade war, arising from the tit-for-tat announcements by Washington and Beijing about punitive tariffs on some of each other's trade goods. US President Donald Trump initiated it by saying that China must reduce its massive trade surplus with the US.

An important plank of then-US presidential candidate Trump's electioneering was to set right the perceived unfair — to the US — trade regime with its trading partners, particularly China, which had led China to accumulate large trade surpluses through low US tariffs on Chinese goods, as well as "manipulating" its currency to make its exports even cheaper than they already were with depressed wages in China.

China had everything going for it to the disadvantage of the US, and Trump thought that the US had enough of it.

Interestingly, however, after becoming president, Trump toned down — but did not give up — his avowed intention to correct the trade imbalance with China. He paraded his new friendship with Chinese President Xi Jinping (□□□), and when Xi became president for life, Trump even felt that the US might consider such a change.

One important reason for this change of tone might have been to secure China's cooperation for the denuclearization of North Korea, where North Korean leader Kim Jong-un had been testing a new and more powerful atomic and missile arsenal.

It would seem that Beijing has managed to put the economic squeeze on North Korea, necessitating Kim's first visit to China, and a flurry of summits between the leaders of the two Koreas, as well as a planned summit between Trump and Kim.

Even though not much has been achieved so far in terms of North Korea's denuclearization, the US does not seem as much worried, at least in the short term.

This might explain the renewed emphasis on the “unfair” trade regime with China.

Beijing’s response to Trump’s flurry of tweets and announcement of tariffs has been twofold.

First, it has declared that it will fight US tariffs at any cost, and has announced a package to hit US exports to China that would hurt Trump’s constituency, such as US soybean farmers.

The Chinese Ministry of Commerce has said that Beijing would fight unilateral US protectionism, to which Trump replied that further tariffs were being considered.

To quote Trump: “In light of China’s unfair retaliation, I have instructed [the US trade representative] to consider whether US$100 billion of additional tariffs would be appropriate under section 301 and, if so, to identify the products upon which to impose such tariffs.”

It is a tit-for-tat situation, which has the potential of getting out of control. The only consolation is that the tariffs being threatened have a time lag of about two months before they come into force. There is still time for China and the US for calm reflection before the world is plunged into a trade war.

Second, China has said that it is considering a whole new level of changes to open up its economy for a more balanced trade with the US and other countries. China has set a deadline of June 30 for these new measures.

People’s Bank of China Governor Yi Gang (□□) announced the measures, saying that the trade imbalance with the US was a structural problem and Beijing was prepared to take steps to create a healthy balance by opening up China’s economy.

Among the measures, “domestic and foreign capital will be treated equally,” thus encouraging foreign investment, and China will be “allowing more US companies to invest in services in

China." To this end, the cap on foreign investment in securities companies, fund management companies and personal insurance companies is to be lifted to 51 percent, and would be abolished completely in three years.

Furthermore, securities companies would no longer require a Chinese joint venture partner, while foreign-funded insurance companies would be able to broaden the scope of their business activities to compete with Chinese insurers.

By the end of the year, China is to allow foreign investors into the car and consumer finance market, as well as remove caps on foreign investment in new wealth management companies linked to banks.

This is all very well, and long overdue. However, much will depend on how China goes about implementing the opening up of its services sector.

Besides, any real and visible results from these measures will take quite some time for Trump to sell them to his constituency, who demands more jobs in the US.

Therefore, even if there might be some easing of trade tensions, the politics of trade will continue to create problems.

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