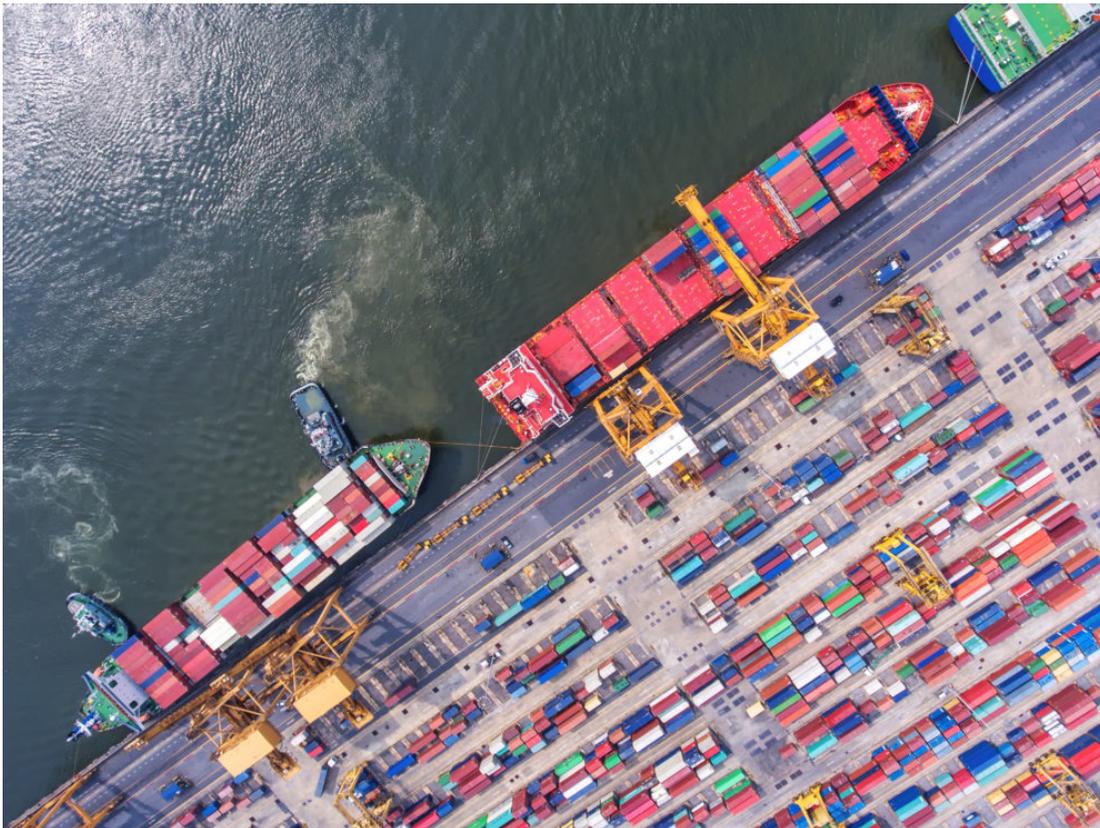


ASIA SECURITY

IS CHINA PREPARED FOR A PROLONGED TRADE WAR WITH THE UNITED STATES?

BY SIVA YAM . PAUL NASH .



container ship in import export and business logistic.By crane Trade Port Shipping,cargo to harbor.Aerial view.Water transport.International.Shell Marine.Top view.

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According to the Chinese zodiac, 2018 is the Year of the Dog (or *Wùxi*). In the Chinese sexagenary cycle, which historically was used for reckoning time in China, the dog symbolizes luck. According to Chinese folk religion, the year of the dog, which recurs every 12 years in the cycle, is considered a challenging year in which harmony is crucial to achieving prosperity. So far, 2018 has proven to be extraordinary in this respect, since the desire to achieve harmony in U.S.-China trade relationship—the largest bilateral trading relationship in human history—has been overshadowed by continued disputes and accusations of unfair practices.

Last November, President Trump enjoyed a very special privilege in China. He became the first U.S. president since the founding of the People's Republic of China in 1949 to be hosted for dinner by the Chinese government inside the Forbidden City in Beijing, the historic palace that once housed Chinese emperors and for centuries was forbidden to all except the Emperor, his family, and his attendants. When Chinese President Xi Jinping broke tradition and hosted a visiting U.S. president in the Forbidden City for the first time, the two countries walked away with more than \$250 billion in mutually beneficial new business deals. Many China observers at the time mistakenly felt that President Trump was so eager to ingratiate himself with China that he allowed himself to “get played” or be “taken in” by the Chinese. But, as it turns out, this was not at all the case.

Only two months later, President Trump decided, as he put it, “to take a stand on China,” because, he said, China had been taking advantage of the United States for too long. He therefore levied a 30% tariff on the import of Chinese solar panels; China is a world leader in the manufacturing of solar panels. On the same day, he imposed a 20% tariff on Chinese-made washing machines in order to protect Whirlpool and other U.S. manufacturers. The tariff applied to the first 1.2 million units imported during the year. To put that into perspective, China exported \$425 million worth of washing machines to the United States in the previous year. Later on, in March, the Trump Administration imposed tariffs on imports of Chinese steel and aluminum. At the same time, it released a report alleging that China was engaged in unfair trade practices, such as intellectual theft, under Section 301 of the U.S. Trade Act of 1974. As a result, over 1,300 categories of Chinese imports were subsequently targeted for tariffs.

Thus began the U.S.-China trade war that we have witnessed this year. This trade war has not simply come upon us with unsettling speed—it has also spilled over into other areas such as national security, technology transfers, immigration, and even joint educational initiatives. The Chinese stock market has plummeted. China has felt emboldened to contravene U.S. sanctions on Moscow, which were introduced in response to Russia's destabilizing actions in Ukraine and its alleged interference in U.S. politics. China broke the sanctions by recently purchasing 10 Russian Sukhoi Su-35 fighter jets and S-400 missiles.

As trade officials in both countries have worked hard to find ways to de-escalate the dispute, it has only

escalated into a full trade war. In September, President Trump suddenly levied a 10 percent duty on USD \$200 billion worth of Chinese imports, signaling that the dispute may not end anytime soon. Indeed, this duty could rise to 25 percent next year, and President Trump has threatened to place duties on a further USD \$267 billion of Made-in-China goods. He has also indicated that he wants eventually to slap tariffs on all imports from China.

With China planning to retaliate by levying duties on USD \$60 billion of American goods, it appears the trade war may well continue to escalate. President Trump's actions came as somewhat of a surprise to many long-time China observers. It appears they may have even caught the Chinese government off-guard, despite the fact that Trump gave repeated indications of his coming actions during his presidential campaign.

It is clear that companies in both countries—the world's two largest economies—will be hurt by the tariffs. Already, there are signs of supply chains being disrupted, and many firms are delaying investment decisions until they see more stability. So far, Trump's tariffs have chiefly resulted in increased costs for U.S. businesses. These increased costs, however, will probably trickle down in some degree to the American consumer in time.

It seems probable that China will move to seek a diplomatic resolution to the dispute as soon as possible, heeding the wisdom of Sun Tzu, its most renowned military strategist and philosopher, who once said: "There is no instance of a country having benefited from prolonged warfare." Indeed, a prolonged trade war would not be in the best interest of the fragile global economy because it creates further uncertainties and anxieties. China knows also that a prolonged trade war will be especially detrimental to its own domestic economy and social stability. A prolonged trade war would threaten to burst the massive property bubble that has formed in China in recent years, which would precipitate a much greater crisis.

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