Source : www.livemint.com Date : 2018-09-21

OPINION

Relevant for: International Relations | Topic: World Trade Organisation (WTO)

Last November, when US President Donald Trump stopped by China on his Asia tour, his Chinese counterpart Xi Jinping suggested that “win-win cooperation is the only right choice and the pathway toward a better future” for the two countries. Ten months on, there isn’t a lot of cooperation going on. And with the latest round of tariffs and counter-tariffs announced this week, it will be a while yet before the dust settles enough to see if either country has done much winning.

For now, markets in both countries have shrugged off the tariffs on $200 billion worth of Chinese imports imposed by Washington and Beijing’s retaliatory 5% and 10% tariffs on $60 billion of American goods. Given that this round of Trump’s tariffs has been gestating for a while, much of the risk was already priced in. Indeed, with both sides going for lower rates than their original threats of slapping a 25% tariff, the ‘it could have been worse’ factor is in play. And with the White House announcing that the tariffs will be kicked up to 25% in January if no deal is struck, uncertainty—markets’ kryptonite—regarding what a volatile Trump might do next has been taken out of the equation. That window of time, along with the caution showed by both administrations in starting with lower rates, has perhaps given investors the hope that a modus vivendi is possible.

How realistic that hope is—at least in the short term—is debatable. The Trump administration is betting on Beijing’s caving under the pressure of the tariffs at a time when domestic demand and capex in China are slowing. It is perhaps being optimistic. As the *Financial Times* notes, China’s direct exposure to the tariffs is limited to 4% of its gross domestic product. The bulk of this exposure is borne by privately owned companies. China’s private sector is the poor cousin in its economic landscape; its complaints in recent years of the numerous advantages afforded to state-owned enterprises (SOEs) ring true. Thus, if the tariffs further entrench the dominance of Chinese SOEs and incentivize devaluation of the renminbi to keep exports competitive, they will accomplish precisely the opposite of their intended effect.

There is another broader issue at play here as well. Beijing sees the Trump administration’s actions as a version of a containment policy rather than in purely trade terms. It is not wrong. Trade hawks in the Trump administration such as US trade representative Robert Lightizer and policy adviser on trade and manufacturing Peter Navarro perceive China to be an existential economic threat. The “Made in China 2025” initiative—which aims to use industrial policy to create national champions in bleeding edge sectors such as artificial intelligence and autonomous vehicles—is a particularly sore point, for instance. The White House has also broadened the Committee on Foreign Investments in the United States’ remit, allowing it to now examine proposals for minority stakes in startups.

A multi-front economic and technological struggle of this kind will not be resolved with a handful of trade concessions by Beijing. On the other hand, Beijing will not—indeed, cannot—accede to the kind of changes relating to state-support policies and the like that Washington does want.

Many of the Trump administration’s concerns about China’s unfair practices are valid—and for all the tutting, shared by others such as the European Union (EU). But by taking on every perceived trade offender at the same time, it has undermined the potential of the united front Beijing fears. Perhaps it will ease up and take stock if the Republican party has a poor showing in the November elections to the US Congress. Neither US farmers, for whom China is a major market, nor US businesses, which could see their cost of production rise with tariffs on Chinese

inputs, are particularly enamoured of the White House's aggression, after all. Votes and donations matter.

But there is a good chance it won't play out that way. That means turbulence for global markets. Trade and economic uncertainty will spur investors to continue to flock to the safe haven of the dollar, roiling emerging markets. It will also mean a disruptive reconfiguration of global value chains—and, as China pivots to other markets, the prospect of triggering more protectionism, including in India. More broadly, the Organisation for Economic Cooperation and Development's *Interim Economic Outlook* report released yesterday warned that "further rise in trade tensions would have significant adverse effects on global investment, jobs and living standards", pointing to the fact that global trade growth slowed in the first half of the year, "having adverse effects on confidence and investment plans".

On Tuesday, Alibaba's executive chairman Jack Ma warned that the trade war could last two decades. That is a touch hyperbolic. But he also said that it wasn't a trade war but a broader competition between the two countries. He was correct. And that is reason to worry.

Does India have cause to worry about the US-China trade war? Tell us at views@livemint.com

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