

# INVESTOR'S BUSINESS DAILY®

## Can Donald Trump's Tariffs Force Radical Changes On China?

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**Trade War:** President Donald Trump showed he's willing to wield a big stick in trade by levying tariffs on \$200 billion more in Chinese goods, starting next week. Will this lead to a trade war without end, or bring China to the table for talks?

We've been on the record as being anti-tariff. However, as has been noted numerous times, Trump has used tariffs, and the threat of tariffs, as a way to lower overall trade barriers. At least, that's what the White House maintains, and we see no reason not to believe it. But it goes deeper than that.

As the tit-for-tat trade battle has been engaged, it's unclear which side will blink first. Will it be China, which sells over half a trillion dollars in goods to the U.S., or the U.S., whose economy depends on cheap goods and industrial inputs from China for its prosperity?

Beijing has already retaliated against Trump's announcement, saying it **will add another \$60 billion** in U.S. goods to its own tariff list — including soybeans, meat, wheat and textiles — in response. Trump doubled down on China's retaliation by threatening *another* \$267 billion in tariffs. That would bring the total to a staggering \$517 billion in Chinese goods included under Trump's tariffs. That pretty much covers most of China's exports to the U.S.

The pain for China right now seems to be severe. Its currency has suffered and its already-slumping economy faces major challenges if exports slow, as expected. Millions of jobs could be at stake.

China's top leaders "don't really want to engage in a dollar-for-dollar retaliation," said prominent economist Yu Yongding, of the Chinese Academy of Social Sciences, in comment to The New York Times, "Their purpose is to stop this trade war."

But the U.S. is **also feeling the pain**. While the tariff list was carefully chosen by U.S. Commerce Secretary Wilbur Ross to minimize pain to U.S. consumers, the same can't be said of

U.S. companies. A tally by the Cato Institute found 202 U.S. companies that claim **they've raised prices, postponed investments or laid off workers** due to Trump's tariffs.

### **The Farmer Factor**

And the administration worries China's agricultural tariffs could hurt the GOP with crucial farm-belt voters. That's important leading up to crucial midterm elections, now less than two months away. But China also **spread the pain of its tariffs around**, adding 5% duties on roughly 1,600 industrial goods such as airplanes, computers and textiles, and 10% levies on 3,500 other goods, including chemicals, wine and natural gas.

To many, including policymakers and policy wonks in China, Trump's demands are unclear. China's Trade Ministry has said it is willing to enter trade talks with the U.S.

So what does Trump want? It's not so much about reducing the trade deficit, though that's part of it. China already put on the table an offer to buy more U.S. energy and soybeans to shrink the China-U.S. trade gap. But the White house said no.

Part of the problem is that China has been a persistent violator of trade rules, hacking into U.S. company networks to steal secrets, violating trademark and copyright laws, forcing U.S. companies into unfair deals to participate in China's market, and discriminating against U.S. goods.

Worse, these aren't temporary conditions. As part of its 10-year Made In China 2025 initiative, also known as CM2025, China hopes to gain global technological and market dominance in 11 key technologies.

"CM2025 ... is just one of a series of industrial policies designed to make sure that **the future is dominated by the Chinese**," wrote Gordon Chang, an author and frequent critic of Chinese policy, writing for Fox News. "(Chinese leader) Xi (Jinping) has been closing off China's economy to outsiders with tactics like discriminatory law enforcement actions against foreign competitors."

### **Tariffs Aren't The Only Worry**

Add to that its "**Belt and Road Initiative**," intended to economically link impoverished local nations to China through a series of debt-funded infrastructure projects. China, say U.S. experts, is clearly trying to diminish U.S. influence across Asia, in Africa and even in Europe.

So in case you're wondering, that's President Trump's game. Not reducing the deficit, per se, but reducing nondemocratic, communist-run China's **growing economic and political influence** around the world.

Nothing short of China abandoning its export-driven model for extending its economic domination of Asia and its CM2025 plan to dominate world markets — at the expense of the U.S. — will satisfy Trump. For free trade to work, it requires both parties to play by the rules. So far, China has failed to do so.

That's not just conjecture. Billionaire entrepreneur Jack Ma, China's richest man and founder of Alibaba Group, says the trade war could last 20 years. China and the U.S., after all, fight for global supremacy. "**This thing will last long**," he said. "If you want a short-term solution, there is no solution."

China has signaled willingness to return to trade talks with Trump. It can only take so much economic pain. But whether it's willing to abandon its grandiose economic strategy is still an open question. Whatever the outcome, we hope for free trade.