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New Asia

## The Coming Trade War With China

Gordon G. Chang, 07.03.09, 12:01 AM ET

This Monday, the U.S. International Trade Commission, in a 4-2 vote, [recommended](#) the imposition of punitive duties on Chinese-made tires. This "Section 421" case now goes to the desk of President Obama. If he gives his OK and the special duties go into effect, some foresee a trade war with China. One analyst, Daniel Ikenson of the Cato Institute in Washington, [called](#) the case "High Noon for U.S. Trade Policy."

Perhaps the confrontation will not be *that* dramatic--the free-trade community often employs dramatic images in its warnings--but the decision will be consequential nonetheless. For one thing, President Bush turned down all four Section 421 cases sent to him by the Commission. Obama's acceptance of the panel's decision, therefore, would mark a change in American trade policy toward Beijing.

So far, Obama has backed away from the protectionist stands he took during the 2008 campaign. For instance, in a letter released the Wednesday before the election, he stated "massive current account surpluses accumulated by China are directly related to its manipulation of its currency's value." Yet in his first semi-annual report to Congress this April, Treasury Secretary Timothy Geithner chose not to brand China a currency manipulator, even though he had overwhelming evidence that Beijing was fixing the value of the renminbi to obtain trade benefits.

Geithner's decision, although regrettable, was predictable. Most everyone in Washington believes that America needs China more than the other way around. So, at this point, the administration treats Beijing with the respect and deference that the Chinese believe they deserve. As a sign of Beijing's strength, American officials dutifully go to the Chinese capital much more than their counterparts come here.

Washington's strategic calculus, however, is fundamentally flawed. Chinese leaders have not generally been impressed by acts of cooperation and gestures of friendship from foreigners, and they have historically interpreted them as signs of weakness. If anything, they become more emboldened to pursue their own agenda when they sense they have foreigners at a disadvantage. So the Obama administration's policies have the potential for moving Beijing officials, who still view the world in mercantilist and zero-sum terms, in the wrong direction.

There is never a good time to do that, but now is a particularly bad moment to be misjudging the Chinese. For one thing, economies around the world are delinking. In March, the normally optimistic World Bank said global economic output will contract this year for the first time since World War II, and that international trade will decline the most it has in 80 years. Globalization, which once seemed irresistible, is going into reverse.

The world's first- and third-largest economies are not so big that they are immune to this trend. Americans are consuming less and saving more--their savings rate hit a 15-year high last month. As a consequence, trade between the U.S. and China is declining--last month China's exports to America fell 26.9%. And as China's overall exports decline--they fell a record 26.4% in May--Beijing will not be in a position to buy as much American debt as Washington would like. The American and Chinese economies are moving apart.

As these two countries pull away from each other, trade disputes will inevitably grow. The United States has complained about Chinese trade practices in the past, but Washington has almost always allowed Beijing to drag out preliminary negotiations and then delay World Trade Organization dispute proceedings, thereby postponing the imposition of remedies against blatantly illegal practices.

That tolerant attitude may not last, especially with a White House occupant who does not share his predecessor's devotion to free trade. Organized labor--the United Steelworkers union instigated the Chinese tire case at the International Trade Commission--cannot maintain its enthusiasm for the new president if he continues to side with the business community on trade

issues. His protectionist-sounding campaign pledges will, to a growing extent, restrict the way he can govern.

At this moment, there are dozens of matters that can be elevated into trade tiffs with the Chinese. The next dispute looks as if it will involve poultry: Washington is investigating reports that Beijing has started to block chicken imports from the U.S. Chinese officials have been unhappy that the U.S. is not certifying that China's chicken is safe for sale here. The outcry over a Chinese ban is bound to be loud as American companies stand to lose \$370 million in sales over the next six months.

The international controversy over chicken, as serious as it could become, looks like a garden-variety trade dispute. What's new these days is the tendency to frame every disagreement as a trade matter. Last week, for instance, Washington and Brussels filed an unusual World Trade Organization case against Beijing on the grounds that the Chinese *are not exporting enough*. The contention is that China's export restrictions on raw materials, which discourage the sale abroad of coke, zinc and other industrial commodities, are conferring "unfair preferences" in favor of its own manufacturers.

Perhaps the most interesting example of finding trade violations everywhere involves the Chinese government's attempt to filter the Web with anti-pornography software embedded in computers. Washington contends that a requirement on foreign hardware manufacturers to install the "Green Dam-Youth Escort" software, which can also be used to block "unhealthy" political content, constitutes an onerous burden on foreign competitors. (Beijing backed off on the attempt on June 30 just hours before it was to go into effect, but an official newspaper this week [reported](#) that the retreat will only be temporary.)

Also caught up in this government crusade is Google, which the Chinese accuse of allowing pornographic content. Many suspect, however, that Beijing is using its current morality campaign to help Baidu.com, the American search engine's leading local competitor. The government apparently disrupted Google's services, including Gmail, last week in China.

In the past, the Chinese essentially got a free pass when it came to their trade violations. Now, it appears everything they do gives rise to a controversy. Why? "When a market collapses, the recriminations over unfair practices of others begin," [noted](#) an unnamed official in Beijing's Ministry of Commerce to the *South China Morning Post*. "It's as simple as that."

Actually, it's not. One of the reasons for the change in attitude is foreign frustration with Beijing's excessively selfish notions of international commerce. In short, the Chinese are being repaid for decades of unfair competition. The current round of disputes will undoubtedly end up in a trade war, and China, a country extraordinarily dependent on exports, will surely be the biggest loser.

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