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With latest trade war pressures, both US and China economies may start to see cracks

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The latest salvo in the multibillion-dollar trade war between China and the US raises the stakes significantly in the US as the associated costs and losses become more visible not only to farmers but to most American consumers.

China's announced higher tariffs Monday on US\$60 billion in US goods – in response to the Trump administration's 25 per cent tariffs on US\$200 billion in Chinese goods on Friday – suggests that both sides are facing growing domestic pressures, reducing room to manoeuvre and increasing uncertainty, say analysts, farmers and industrialists.

With volleys of recriminations and louder cries to fight fire with fire, it will be difficult for either side to back down as vast swathes of industry and the global economy enter into increasingly perilous territory.

“Both sides are analysing their own economies, domestic pressures, the global situation and both think they have the upper hand, which doesn't bode well for an agreement,” said Bonnie Glaser, senior Asia adviser at the Washington-based Centre for Strategic and International Studies think tank. “The longer this goes on, the more global the impact is going to be, not just affecting the US economy.”

China appeared close to agreeing on a deal a week ago that included an inventory of laws and regulations Beijing must revise before it reversed and changed the terms, according to Trump administration officials who accused Beijing of reneging. China's top negotiator, Vice-Premier Liu He, denied any bad-faith moves in an interview with the Hong Kong-based Phoenix Television, adding that adjustments are a normal part of negotiations in the lead up to a final deal.

“So we don't think that China has backtracked or ‘reneged’,” Liu said. “It's just that there was some disagreement over how certain things should be worded on paper.”

The sudden reversal by China, however, suggests that the administration of President Xi Jinping is increasingly worried that it would look weak domestically if it appeared to cave in to US demands, some analysts said. This is a particularly untenable stance, they added, given that 2019 has already seen the 100th anniversary of the May Fourth student protest movement and is preparing for the 30th anniversary of the bloody Tiananmen Square crackdown, in a nation where anniversaries are often politically sensitive.

“I think the Chinese were on the cusp of accepting what might’ve been a deal tilted in favour of the US and just couldn’t jam it through their system,” Glaser said, citing conversations with administration officials. “It’s easier in China to create regulations than to change the law.”

The Trump administration, for its part, faces its own domestic calculus, fearing that its political base would be angry if it accepts a lesser deal than what appeared on the table a week ago, analysts said.

US President Donald Trump is also concerned that Americans will blame his administration for the economic pain resulting from higher tariffs on Chinese goods leading up to the 2020 election. The president has repeatedly argued that China pays the tariff bill, a claim disputed by economists. Trump unleashed a tweet storm on Monday after a senior member of his own administration, White House economic adviser Larry Kudlow, told Fox News a day earlier that “both sides will pay”.

“There is no reason for the U.S. Consumer to pay the Tariffs, which take effect on China today,” Trump wrote in a tweet Monday. “Also, the Tariffs can be completely avoided if you buy from a non-Tariffed Country, or you buy the product inside the USA (the best idea). That’s Zero Tariffs.”

In another sign of the administration’s sensitivity to criticism of Trump’s tough trade stance, several economists in the Agriculture Department have quit after running afoul of Agriculture Secretary Sonny Perdue, according to Politico. In particular, the economists reportedly differed with Perdue on the extent to which farmers have been financially harmed by Trump’s trade feuds, the Republican tax code rewrite and other sensitive issues, Politico said, citing current and former agency employees.

“Agriculture folks are going to lose in this, you’re talking about the Midwest, Iowa, these are Trump voters and he wants to keep them,” said Simon Lester, a trade analyst with the conservative Cato Institute think tank. “Hence, he wants to buy them off with subsidies. And consumers start to notice price increases as tariffs go up. Business is also hurt.”

According to the Trade Partnership Worldwide consultancy, an average American family of four will pay an extra US\$767 annually on household goods if a US tariff of 25 per cent is imposed on US\$200 billion in goods, factoring in Chinese retaliation. This would rise to US\$2,294 annually if the same tariff level is imposed on all remaining imports from China – as Trump has threatened to do – and Beijing takes retaliatory steps.

Some of Trump’s staunchest congressional supporters have tried to reframe the impact as a small, patriotic price to pay in the trade war. In an interview Monday on *CBS This Morning*, Senator Tom Cotton, Republican of Arkansas, played down the quandary farmers face adjusting to higher tariffs by calling the sacrifice “minimal” in comparison with what soldiers and “fallen heroes” make.

The latest tit-for-tat move by China has further unsettled markets and those on trade’s front lines. Among the areas targeted for new tariffs by Beijing on Monday included soy milk, cooking oils, technology products and metals.

Mike Appert, a soybean farmer in Hazelton, North Dakota, reached by telephone as he tended his fields, said that the future looks bleak with both sides doubling down.

“China was our best customer, and we have everything to lose,” Appert said. “So many industries seem to have felt, with a trade war, they have something to gain. But they’ve just made a decade of gloom for agriculture.”

Appert said that when the US grain embargo was imposed on the Soviet Union after its 1979 invasion of Afghanistan, it took farmers a generation to recover as buyers found new suppliers, global markets shifted and planting decisions altered.

“This is going to be horrible, and what’s sad is all the work that went into building market demand by double digits,” said Appert, who farms some 48,000 acres of soy, corn, sunflowers and edible beans, most affected by Chinese demand. “It’s all getting flushed down the toilet.”

The International Monetary Fund reported in April that the US economy could lose between 0.3 and 0.6 per cent and the Chinese economy between 0.5 and 1.5 per cent if the two sides raised tariffs to 25 per cent on all goods traded between them, in addition to the global fallout.

An official at Bridgewell Agribusiness, based in Clackamas, Oregon, said while it does not ship its edible oils to China and is not directly affected by the latest retaliatory move, trade wars affect almost everyone.

“Tariffs on US edible oils are not a game-changer for us,” said Miles Atchison, the company’s edible oils sales manager. “But I don’t think trade disruption helps in any way. It’s pretty much a global market, so a lot of trade gets redirected from Brazil, adding volatility, which has price implications.”

While most players in the agriculture industry like open markets, they also favour a level playing field, Atchison said. That has fuelled growing support for some sort of confrontation with China over its technology transfer and perceived intellectual property theft, he added. “So this is somewhat of a long process,” Atkinson said.

A producer of aluminium, copper, zinc and other non-ferrous metals, who asked not to be identified given the impact on his business, said that the direct and indirect economic pain from the latest US-Chinese stand-off is widespread and serious. Non-ferrous metals are used in a large variety of products.

“Any place you look, if you’re talking about US business that’s domestic, this still raises the water for all players and kills exports,” he said. “You’ll see prices move up for US imports, but the rest of the world won’t pay, putting the US at a disadvantage.”

“I’ve given up trying to predict what this guy will do,” he added, referring to Trump’s strategy and whether it might ultimately work. “There’s nothing that’s too outlandish to be considered.”