



China-US Trade Disputes (I)

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An update on China-US trade disputes

1. Recent US moves have worsened China-US trade relations

- In November last year, the US officially informed the World Trade Organization about its opposition to granting China market economy status.
- In late January, the US President Donald Trump approved the imposition of safeguard tariffs on imported solar cells and modules, most of which are imported from China, as well as large residential washing machines.

2. Tariffs on steel and aluminum imposed through Section 232

A. Background

- On 8 March, President Trump signed an order for a 25% tariff on steel imports and 10% tariff on aluminum imports.
- A selected list of US allies, which has yet to be determined, will be exempted from the tariffs. E.g., the President said that Canada and Mexico will be exempted if a “new and fair” NAFTA deal is reached.
- The tariff was imposed through Section 232 of the *Trade Expansion Act of 1962*, which allows the President to impose restrictions on trade, without Congressional approval, if certain import practices are determined a threat to national security.

B. China's response

- China's Ministry of Commerce (MOFCOM) strongly opposed to the tariffs, saying in a statement that the move will "seriously impact the normal order of international trade." The MOFCOM will evaluate the potential damage of the tariffs and "firmly defend its legitimate rights and interests," according to the statement.
- The China Iron and Steel Association and the China Nonferrous Metals Industry Association urged the government to retaliate against the US, citing imports ranging from stainless steel to coal, agricultural products and electronics.

C. Potential impact

- The direct impact of the new tariffs on China's exports of steel and aluminum is likely to be limited. Less than 1% of China's total steel output in 2017 was exported to the US, while less than 1% of China's total aluminum output in 2016 was exported to the US.
- While the tariffs may benefit US metal producers, US businesses that use steel and aluminum, such as automakers and beverage producers, are likely to suffer from higher input prices.
- The impact on the global economy could be detrimental if the new tariffs trigger retaliation from the US' trading partners. The EU was the first to take action, announcing on 7 March possible retaliatory measures on a range of goods imported from the US.

3. Section 301 Investigation into China's intellectual property laws and trade practices

A. Background

- In August 2017, the US initiated an investigation against China under Section 301 of the *Trade Act of 1974* for violations of US intellectual property rights and forced technology transfers.

B. Possible US actions

- An announcement on the results of this investigation is expected in April. It was widely expected that China will be found "guilty" of unfair trade practices. The US President will then have broad discretion to levy tariffs on China without Congressional approval.
- Reportedly, the US is considering:

- Imposing tariffs on more than 100 Chinese products, from shoes and clothing to consumer electronics.
- Imposing investment restrictions that would prevent Chinese nationals from acquiring, controlling or even owning significant shares of US businesses.

C. Potential impact

- It is very likely that the sanctions will be aimed at reducing China's exports to and investment in the US.
- Some US businesses are also likely to suffer from US sanctions on China, e.g.,
 - Wide-ranging tariffs on Chinese imports will raise their prices, which will hurt US retailers such as Walmart Inc and may provoke a backlash from them.
 - Tariffs levied on Chinese exports of technology products will hurt US companies because a lot of these products are assembled in China for US companies, e.g. iPhones of Apple Inc.
- US consumers are likely to suffer from price hike of imported Chinese labour-intensive products such as apparel, footwear, furniture and toys.
- If a trade war breaks out, it would have a ripple effect across the global economy, which depends heavily on stable trade relations among leading powers. Global supply chains will also be greatly disrupted, as China's supply chain is closely linked with other countries.

D. China's stance

- China has long denied the US allegation of forced technology transfer. Foreign ministry spokesman Lu Kang claimed there were no laws in China to force foreign investors to transfer technology, but acknowledged such things may happen as part of "market behaviour" between companies.
- Chinese officials have acknowledged that China's protection of intellectual property is still far from adequate, but they emphasized that it has been making constant progress.

4. Liu He's visit to Washington to ease trade tensions

- To ease trade tensions between China and the US, Liu He (劉鶴), President Xi Jinping's top economic adviser, went to Washington to have meetings with several US government officials during 27 February to 3 March.

- During his visit to Washington, Liu met US Treasury Secretary Steven Mnuchin, US Trade Representative Robert Lighthizer and White House chief economic adviser Gary Cohn, who later announced his resignation on 6 March, discussing issues such as trade balance and market access.
- However, according to media reports, Liu's visit has failed to achieve any concrete result. Besides, he was asked for a plan to reduce the US annual trade deficit with China by US\$ 100 billion, equivalent to 26.7% of the US trade deficit in goods with China in 2017.¹

5. China's stance on trade war

- Asked whether there would be a trade war between China and the US, Chinese Commerce Minister Zhong Shan said on 11 March that China did not want a trade war and would not start one, but China would handle any challenge and would resolutely safeguard the interests of the country and people. Zhong also said that China would continue to have dialogue with the US.

6. Outlook

- With the resignation of White House chief economic adviser Gary Cohn, who was the only major free trade advocate in Trump's cabinet, the Trump administration is expected to continue its tough stance on trade policy.
- President Trump's top trade advisors (Lighthizer, Peter Navarro, and Wilbur Ross) have all been vocal about their criticism on China, alleging the country of violating global trade rules. It is expected that the administration will launch more protectionist measures against some other Chinese products in coming future.
- Nevertheless, some experts suggested that a full-blown trade war between China and the US is still unlikely given the strong interdependence between the two countries.
- Meanwhile, China will continue to support free trade and fight protectionism. One notable example is that China's government will organize the China International Import Expo, a large-scale exhibition in which around 150,000 buyers from over 100 countries are expected to participate, in Shanghai in November this year. This significant move shows China's firm and sincere commitment to encourage imports.

¹ According to the US Census Bureau and the US Bureau of Economic Analysis, the US trade deficit in goods with China amounted to US\$ 375.2 billion in 2017.

FUNG BUSINESS INTELLIGENCE

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