



# China-US Trade Disputes (II)

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence

Global Sourcing

22 March 2018

## Mainstream views among Chinese experts on a trade war between China and the US

### On US's grand strategy towards China

1. Some Chinese experts have pointed out that there is a great debate ongoing in the US: Is a fundamental shift needed for the country's grand strategy towards China?

A few preliminary consensuses are emerging from this debate:

First, China has surpassed Russia as the main strategic competitor of the US. China is a competitor not only in economic and trade aspects and in the Asia-Pacific region, but in all aspects and on a global scale.

Second, the US's existing strategy towards China may not be a total failure, but it is basically ineffective. Changes and adjustments are necessary.

Third, the next five to ten years will be a critical period for the strategic competition between China and the US. If the US does not respond effectively, it is only a matter of time before China surpasses the US.

2. In a recent Sino-US 'Track II diplomacy' dialogue, the Chinese side noticed fundamental changes in the attitudes of American elites and politicians towards China: In particular, they now consider China a serious threat to American interests globally. They have also ruled out

the possibility of China gradually reforming towards the Western system, which the West has long assumed. The consequence is a comprehensive review of the past decades' US policy towards China.

Therefore, the key issue between China and the US is politics instead of economics. Escalation of conflicts and confrontation will be inevitable, and will have grave implications on China's future development.

3. 'All-out competition' has now become the key to the US strategy towards China. The US's past policy of engagement and containment (or 'congagement') towards China will become a combination of engagement, containment, regulation, competition and cooperation, with emphasis on containment and regulation, in particular in economic and trade affairs.

### On US's strategic actions against China

Some Chinese experts think that, from 2018 onwards, the US will undertake a series of strategic actions against China, including:

1. Change in the US stance on the Taiwan issue: The US recently passed the Taiwan Travel Act, which expands the scope of official US-Taiwan exchanges.
2. Strengthening US strategic and military cooperation with India, Japan and Australia: US may form a military and political alliance with these countries to counterbalance China.
3. Starting an economic war against China:
  - a. Conducting more anti-dumping and countervailing duty investigations into Chinese products.
  - b. Imposing significant trade restrictions on Chinese goods in retaliation for China's alleged stealing of US intellectual property rights.
  - c. Further limiting China's investment in the US for national security reasons.
  - d. Further criticizing China's economic nationalism and discrediting China's status as a market economy.

## *On the prospect of a full-fledged trade war between the US and China*

Nowadays, more and more Chinese experts think that the possibility of a China-US trade war is not low and is rising:

1. As the US-China bilateral trade imbalance worsens and the US midterm elections draw nearer, the Trump administration is facing increasing political pressure and is very likely to combat China's trade as a means to honor its campaign promises.

The US recently decided to impose high tariffs on certain imported products [i.e. solar panels, washing machines, steel, aluminium], and China's response has so far been restrained.

However, if the US takes further drastic measures, the probability of China taking retaliatory actions will increase, and the possibility of a partial trade war will also rise.

2. The US President Donald Trump wants to threaten China with a trade war. His purposes include forcing China to open up more sectors to US enterprises and improving protection of intellectual property rights.
3. Some Chinese experts even think that a China-US trade war is 'unavoidable'.

Their reasoning is that the US has recently changed its strategy towards China: the US now wants to contain China's rise, and the launch of a trade war against China is one of the ways to achieve such a target. Therefore, the US is not concerned about the potential costs of a trade war.

Still, a few experts remain relatively 'optimistic', and think that a full-fledged trade war between the two countries is unlikely. Their arguments are:

1. It is difficult for the US to carry out an import substitution strategy in the short to medium term, as producing mid- to high-end mechanical and electrical products in the US would still rely heavily on the supply of parts produced in China, and the costs of producing labour intensive products in the US are very high.
2. If China takes aggressive retaliatory measures against the US, the US economy will suffer a lot. For example, China's imposition of tariffs on US products would have significant impact on industries such as aircraft, automobile and agriculture. China can also impose restrictive measures against US enterprises operating in China.

3. China can even ditch its US treasuries.
4. The US may even face the prospect of a recession.

According to a report released by the Peterson Institute for International Economics (PIIE) in 2016, in case of a full-fledged trade war (i.e. 45% tariff on non-oil imports from China and 35% tariffs on non-oil imports from Mexico, and the two countries retaliate accordingly), the US will experience a recession in 2019 and lose nearly 4.8 million private sector jobs.

### *On China's responses to US protectionist measures*

It is generally believed among the Chinese experts that, even if China makes concessions and takes moves to reduce its trade surplus with the US, China's actions will not be able to satisfy Trump's ever-growing demands. This is particularly true as the US deficit is likely to increase further next year – since the US tax cuts and infrastructure plan are set to boost the US investment and imports. Therefore, China should also take some actions, such as threatening to raise tariffs on some US products.

## FUNG BUSINESS INTELLIGENCE

**Fung Business Intelligence** collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The **Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 39,900 people across 40 economies worldwide, generating total revenue of over US\$22.5 billion in 2016. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

## CONTACT

Helen Chin  
Vice President  
[helenchin@fung1937.com](mailto:helenchin@fung1937.com)  
(852) 2300 2463

Denise Cheung  
Senior Research Manager  
[denisecheungwy@fung1937.com](mailto:denisecheungwy@fung1937.com)  
(852) 2300 2463

Timothy Cheung  
Senior Research Manager  
[timothycheung@fung1937.com](mailto:timothycheung@fung1937.com)  
(852) 2300 2477

William Kong  
Research Manager  
[williamkong@fung1937.com](mailto:williamkong@fung1937.com)  
(852) 2300 2404

Global Sourcing  
Fung Business Intelligence  
10/F LiFung Tower,  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong

T: (852) 2300 2470  
F: (852) 2635 1598  
E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>

