11-15-2024

WSJ Print Edition

image

image

For personal, non-commercial use only.

Facing a Trade War With U.S., China's Options Have Narrowed

BY JASON DOUGLAS

SINGAPORE—The last thing Xi Jinping needs right now is another showdown with Donald Trump over trade.

China is grappling with an epic property collapse, and local governments are wobbling under trillions of dollars of debt. China's leader Xi has responded by hitting the gas on manufacturing, pushing Chinese companies to pump out a surfeit of goods that is pouring into foreign markets and propping up the economy at home.

Now, a fresh trade war could pull the rug from under what has become a critical source of growth. In a sign of how serious he is about raising tariffs to combat what he sees as unfair trade, President-elect Trump has told allies he wants Robert Lighthizer, who served as U.S. Trade Representative during his first term and is especially critical of Chinese trade practices, to be his administration's trade czar, The Wall Street Journal reported.

If the U.S. cuts back on some of the $430 billion in goods it imports from China each year, Chinese companies could try sending them to other countries, a strategy Beijing followed successfully after Trump first hit Chinese goods with tariffs in 2018. But other countries are up in arms over an avalanche of cheap Chinese exports hurting their own companies.

Rising tariffs and mushrooming antidumping probes in Europe, Asia and Latin America are sending a strong signal that China can't rely on other countries to mop up its ballooning industrial output,

never mind extra goods shut out of the U.S. by towering new levies on imports.

Some economists believe that Trump's policies and a darkening global backdrop for trade might nudge Xi toward something he has long resisted: embracing a much bigger role in China's economy for household consumption to propel economic growth.

Trump, a Republican, pledged on the campaign trail to raise tariffs on all Chinese imports to 60%. That would mark a big escalation of a trade war that began during his first term and has been simmering since.

Trump in 2018 hit Chinese-made washing machines, solar panels, steel and aluminum with tariffs of up to 25%. China retaliated with tariffs of its own on U.S. imports. Then under President Biden, U.S. tariffs were raised on Chinese electric vehicles, clean-energy equipment and semiconductors.

China has managed this first phase of the conflict well. It has been able to redirect its exports to other markets, such as Russia and neighboring countries in Southeast Asia. It has also staked out a commanding global position in valuable new industries, including EVs.

The result is that China's shares in global manufacturing and global goods exports have increased since 2018, even as its share of U.S. imports has declined.

Economists said the next phase of the trade war could be much tougher if it plays out along the lines Trump floated during his campaign.

A 60% tariff on Chinese imports would reduce trade with the U.S. by as much as 70%, according to Oxford Economics, cutting China's share of U.S. imports to as little as 4%, from around 14% in 2023.

UBS estimates tariffs of 60% would reduce economic growth in China by around 1.5 percentage points in the year after they are enacted.

"The impact on trade would likely be much larger than the trade war 1.0," said Daniel Yi Xu, an economics professor at Duke University.

Many economists said they doubt Trump will succeed in imposing the full 60%. Many U.S. companies oppose such high levies and Trump could back down, especially if threats of higher tariffs secure concessions from China.

Still, Duke's Xu and other economists believe the odds favor some significant increase in tariffs. U.S. policymakers on both sides of the aisle appear more united around a toughon- China posture.

Although China could probably offset some lost U.S. exports by shipping goods to other destinations, trade barriers to Chinese imports have been rising across the world, as big economies seek to shield domestic industries from cheap Chinese competition.

"If other countries respond by also putting up trade barriers, that's when it starts to become a lot more challenging for China," said Julian Evans-Pritchard, head of China economics at Capital Economics, a consulting firm.

Beijing does have an array of tools it can deploy to lessen the hit from higher tariffs. Policymakers could cut interest rates, weaken China's currency to support sales overseas, and extend tax rebates and other perks to exporters.

They could try to force the U.S. to reconsider by retaliating, perhaps by raising tariffs on U.S. products, or by withholding critical minerals.

China is taking steps to get ahead of increased tariffs by showering U.S. allies with visa exemptions, cuts to Chinese import levies and other incentives to encourage trade and friendlier relations, the Journal reported.

But a broad trade conflict would spell trouble for an economy that in recent years has grown more reliant on exports and manufacturing, as other parts of the economy falter. Burned by the property meltdown and lingering trauma from the pandemic years, Chinese consumers are keeping a tight grip on their wallets. —*Hannah Miao contributed to this article.* *

60%

tariff on Chinese imports would reduce trade with the U.S. by up to 70%

Copyright (c)2024 Dow Jones & Company, Inc. All Rights Reserved. 11/15/2024
Powered by TECNAVIA

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow

No page 3

For personal, non-commercial use only.