

Behind the US-China trade war

Su Chi

United Daily News (聯合報), May 19, 2019

The US-China trade war finally started. At present, it is difficult for anyone to predict where it will lead, but understanding the motivations and limitations behind the two sides may help to clarify the situation.

For the United States as instigator, there are at least four motivating factors. The first is of course President Trump himself. At the age of forty-three, in his first political interview in 1990, he emphasized to the readers of *Playboy* magazine that “we’re being laughed at around the world,” “I’d throw a tax on every Mercedes-Benz rolling into this country and on all Japanese products,” “a toughness of attitude would prevail.” In 2016, use of high tariff to correct the trade deficit was a central concept permeating his entire election campaign. Furthermore, exerting “maximum pressure” and “brinksmanship” have consistently been his typical negotiating style in business and politics.

Second, Trump and his hawkish strategists are deeply dissatisfied with the current international order. They believe that the U.S. has suffered a big loss, while other countries have taken advantage as “free riders.” Therefore, in addition to scrapping several multilateral agreements (such as climate change, the Trans-Pacific Partnership, etc.), trade agreements have been or will soon be renegotiated with allies such as Canada, Mexico, the European Union, Japan and South Korea. Talks with China are one big show among them.

Third, at present, there is a rare consensus between the Republicans and Democrats, between the Administration and Congress that China’s national power has risen to the point where it must be suppressed so as not to imperil the leadership of the United States. Some people are disenchanted with the Chinese Communist Party’s political system, which has become more centralized as the economy develops. A few are even keen to portray it as something on the level of a racial or civilizational challenge. This consensus throughout the corridors of power in Washington must have given US negotiators full confidence as they face Beijing’s counterparts.

Fourth, domestically within the United States, tariff warfare offers the greatest legitimacy at the least cost. The mainland exports more than US\$500 billion goods and services annually to the United States, but imports only a bit more than US\$100 billion. Therefore, the United States is waging a tariff war with plenty of ammunition and little fear of retaliation. Tariffs can do more than just target the CCP's "Made in China 2025" industries, they can also open up China's huge services market. On the other hand, to pick a fight over "manipulation of the renminbi" has not won a consensus within the USG or among experts. And the issue of "cyber theft" seems to still lack sufficient evidence. Therefore, the tariff war likely may continue unless retaliation from China would heavily damage the US economy or spill over to other interests.

Be this as it may, the United States faces several major limitations. While anti-China mood captivates Washington's political elites, the average person outside the Beltway appears to feel that the two economies are so tightly interwoven, so both are bound to lose from a trade war. The latest polls since Trump initiated the fight indicate that 45 percent of Americans feel that the US-China trade war "will hurt the US economy in the long run," exceeding the 34 percent who believe that it will "help the US economy." Perhaps Trump would be a bit more circumspect, as 42 percent of people in the U.S. believe that Senator Joe Biden of the Democratic Party is better at handling the US-China relationship, compared to his 38 percent.

Second, Washington's anti-China elites still fall short of an overall plan and strategy. This is because the political elites in Washington have been struggling among themselves over Trump, and morale is at an all-time low among those who deal with foreign affairs. After Trump took office, he cut the budget of the State Department by one-third, leading to massive exodus of middle and high-ranking officials. Even the number of new recruits has been reduced by half. Besides, his call for "America First" has alienated quite a few allies. Without these allies, the effectiveness of unilateral offensive by the U.S. against China is likely to be discounted.

Worse, regarding the Taiwan Strait, many think-tank reports and research articles in the U.S. have made it clear that the United States no longer enjoys its previous advantage in the Strait while confronting China's military power. US aircraft carriers that could traverse anywhere in the world at will in the past decades are now advised not to enter waters surrounding Taiwan any closer than a thousand nautical miles.

Previously, China could not locate, target, or penetrate their defense systems, much less strike a US aircraft carrier. Now all that can be done. Satellites, communications, logistics, etc., which the US did not have to worry about in the past, are now all insecure.

In other words, the U.S. definitely has sufficient determination and strength to take on China in a tariff war. However, it will fall short when and if it wishes to confront China in a comprehensive way, form an anti-China alliance, or rush to the rescue of "Taiwanese nationalism."

Perhaps because Beijing has seen through the limitations of the United States, it has passively defended itself with firm responses peppered with soft ones. The firm responses have been to not allow the US to use trade negotiations as a means of changing China's political and economic system. It has announced retaliatory tariff rises in response to the US's new increases, has refused to budge an inch in its position regarding the South China Sea and Taiwan; and has intensified its diplomatic initiatives to pick up where Trump dropped off in the great game of diplomacy.

Beijing's soft response has been to keep the rhetoric on an even keel, not criticizing Trump himself. Xi Jinping himself has made no statements. Nor has he acknowledged the American attempts to speak of the two countries having entered the stage of "competition," still referring to the "engagement" policy of the past forty years. China announced that its tariffs would take effect on the first day of June, leaving room for a last-minute change in the situation.

In sum, the U.S. is on the offensive as a form of defense, while China is on the defensive as a form of offense. Taiwan, besides properly coping with the indirect impact of high tariffs, must also prepare itself for a protracted war of on-and-off struggling and negotiating between the two great powers. It especially should not engage in wishful thinking that the U.S. would support "Taiwanese nationalism" all the way because of the trade war.

(The author is the Chairman of the Taipei Forum and former Secretary General of the National Security Council)