



Here's how we'll know when it's an actual trade war

- The U.S. and China have recently traded jabs over tariff proposals against each other.
- Trade experts don't believe that the two countries are in a trade war yet, however.
- Many believe that the trade war won't start until the tariffs are actually implemented.

By Kevin Breuninger April 5, 2018

In just over a month, what began with tariffs on steel and aluminum has grown into a war of words between the U.S. and China — a showdown now threatening nearly 1,500 product lines.

Yet even as the loudest voices in President Donald Trump's administration ratchet up their protectionist talk, experts aren't ready to sound the alarm that a "trade war" has officially kicked off.

Their reluctance is partly a matter of semantics. In recent months, economists and investors alike have liberally entertained the looming possibility of a trade war between China and the U.S. But no objective definition for such a conflict exists.

"In itself it's a nebulous word," said Jagdish Bhagwati, a professor of economics at Columbia University. So far, Bhagwati said, the Trump administration's actions against President Xi Jinping's government on trade "are the opening shots to get at the Chinese for what they've been doing for a long time."

On March 1, Trump announced that the U.S. would be imposing broad tariffs on steel and aluminum imports. The announcement, which reportedly caught even some White House officials by surprise, was soon confirmed in a tweet from the president.

It wasn't Trump's first move to retaliate against a country's perceived unfair trade practices: The U.S. has moved forward with tariffs against Canadian softwood lumber exports, initially proposed in April 2017, for instance. But the breadth of Trump's tariffs in March, which slapped global penalties on imports of common commodities, was severe enough to prompt the resignation of the president's top economic advisor, Gary Cohn.

His successor, economist and senior CNBC contributor Larry Kudlow, has insisted that the U.S. and China are in "negotiations," but not a trade war. The White House did not immediately respond to CNBC when asked how the Trump administration defines a trade war.

While the policy was scaled back to allow for significant exemptions for countries that negotiated with the U.S., the fears of a protectionist White House sparking a global trade war lingered. The tariffs indirectly affected China, which accounted for about 2 percent of U.S. steel imports in 2017.

But those tariffs alone don't constitute a trade war, experts say.

"If we both impose tariffs and they're actually employed, I guess I would call that a trade war," said Michael Englund, chief economist at Action Economics. "I would just call this a threat-counterthreat environment, not a trade war."

Omar Sharif, senior U.S. economist at Societe Generale, agrees. "A trade war is really, I think, more about the escalation of retaliation of policies that lead to outright protectionism," he said, while conceding that "it's kind of difficult to pin down."

But the U.S. and China have made moves to escalate their increasingly fraught trade relationship in recent weeks. On March 22, Trump signed an executive memorandum that would slap China with tariffs — later revealed to total approximately \$50 billion of the country's exports to the U.S. The order targets 1,333 separate product lines, but avoids Chinese consumer items upon which Americans have grown dependent.

China responded in kind Wednesday, announcing tariffs on up to \$50 billion of imports from the U.S. The retaliatory move targets 106 U.S. products, including agricultural goods and auto parts.

Neither country's new tariff proposals have yet taken effect — and many experts believe they never will.

"Ultimately it will be in the interest of both sides not to pursue an all-out trade war," said **Bernard Baumohl**, chief global economist at the Economic Outlook Group. Trump, while less predictable than Xi, is likely factoring the anxious stock market and the upcoming midterm elections into his trade decisions, **Baumohl** said. "He's aware this could harm Republicans' control in Congress."

And Englund said that Trump might be more amenable to compromise because, as he puts it, "Trump doesn't need much of a victory to declare victory."

So if the U.S. and China aren't yet mired in all-out war, the current landscape may constitute a cold war on trade.

Sharif concurred with the belief that the brinksmanship will "resolve itself" before either country can inflict lasting damage. He notes, however, that flares of protectionism often spread far beyond their original intentions. "The risk is that it spirals out of control," Sharif said.

"It's in nobody's interest, whether you're China or the U.S.," he said. "I can't imagine anyone thinks this is a good idea."

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