MarketWatch

China might have more to lose in trade war with Trump, but it won't be pain-free for U.S.

By Jeffry Bartash

Apr 6, 2018

China can't match U.S. in tariffs, but it has other weapons to use

President Trump claims China has more to lose than the U.S. in a trade war between the two countries. He might be right.
The trade relationship between the U.S. and China, strictly in financial terms, is lopsided. The U.S. imported $506 billion worth of goods from China in 2017. China only bought about $130 billion in goods made in America. Such large gaps have been the norm for years.

If the two countries engage in tit-for-tat tariffs, the U.S. can go a lot further.

The president on Thursday suggested he might impose an additional $100 billion in tariffs on China on top of $50 billion worth of tariffs announced last month. He reportedly was upset after China retaliated earlier this week with trade restrictions on up to $50 billion in U.S. products.

China can't fully respond in kind, however.

"Since China only imported about $131 billion in U.S. exports last year, the Chinese side will soon run out of U.S. exports to impose tariffs on," noted Scott Anderson, chief economist of Bank of the West.

Yet Anderson and other analysts point out that China has other weapons in its arsenal.

China could limit the access of U.S. companies to its market, for instance, or buy more goods from other countries. Switching passenger plane contracts to Aerobus from Boeing is one such example.

China can only go so far, however. As the world's biggest buyer of soybeans, China can't cut out U.S. soybeans since there's not enough supply elsewhere. Nor can China realistically slash its holdings of U.S. Treasurys, experts say.

Yet even if Trump is right that China has more to lose, the U.S. could also be a big loser.

The economy is still growing strongly, aided by recent tax cuts championed by the White House. And until recently the stock market was on a tear. Both the economy and the stock market could suffer significantly if the trade dispute gets out of hand.

"The tax cuts many believed would add fresh firepower to business may yield little if CEOs and consumers become increasingly alarmed about the path of U.S. trade policy and the potential impact that could have on an aging expansion," said **Bernard Baumohl, chief global economist at the Economic Outlook Group**.

The current war of words, however, is just that. The $50 billion in announced U.S. tariffs, for example, aren't slated to go into effect for at least 60 days — or June at the earliest. The government has to allow public comment before any rules could take effect.

Additional tariffs probably wouldn't be imposed before the end of the summer.

That gives the U.S. and China plenty of time to discuss longstanding disagreements on trade and try to find a resolution. Treasury Secretary Steven Mnuchin said he's hopeful the two countries can resolve their differences, but he acknowledged in a CNBC interview Friday that "there is a potential for a trade war."

"We can manage this without significant difficulty for the overall economy," Mnuchin insisted. "The White House is absolutely willing to defend our interests."

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