

## ECONOMY

# A Trade War Against China Might Be a Fight Trump Couldn't Win

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### Who gains from a trade war with China?

At the Asia Pacific Economic Cooperation summit meeting in Peru over the weekend, one of the biggest questions was whether Donald J. Trump, as the next president, would stick to his threat to erect steep trade barriers against Beijing, dragging the United States into a tit-for-tat confrontation with the world's second-largest economy.

No such war has begun, yet it seems clear that the United States has already lost. China has been steadily gaining in the global economic system.

Waging war against globalization, America is making China's case. Eswar Prasad, a former head of the Chinese division at the International Monetary Fund, argues that "over the long term China comes out a winner no matter what."

China's economy would surely suffer if the United States were to impose a 45 percent tariff on nearly \$500 billion worth of Chinese imports. The United States absorbs only 16 percent of Chinese exports, but it is China's healthiest export market. Fears of American protectionism are already stoking capital flight from China.

But China might be better placed than the United States to take the blow. And it would certainly counterpunch. An editorial in China's Global Times, a Communist Party mouthpiece, is probably not far off in its warning that American action would mean: "A batch of Boeing orders will be replaced by Airbus. U.S. auto and iPhone sales in China will suffer a setback, and U.S. soybean and maize imports will be halted."

China has several ways to retaliate. It could bar state-owned companies from doing business with American businesses. It could limit access to essential commodities, as it did in response to a fishing dispute with Japan by stopping exports of so-called rare earth minerals essential to the electronics industry. It could soft-pedal efforts to combat the piracy of American patents and copyrights.

Some of the United States' most successful companies would be in for a rough ride. Most of Apple's iPhones, for example, are assembled in China. The assembly costs, though, account for less than 4 percent of the value added of the device. That means China could force a halt in iPhone production at little cost to itself, while Apple would face a deeply disruptive, expensive effort to shift production elsewhere. Building it from scratch in the United States is nearly impossible.

How long could American resolve hold? An analysis by the pro-trade Peterson Institute for International Economics concluded that a full-blown trade war with China and Mexico would push unemployment in the United States to nearly 9 percent in 2020, from 4.9 percent today. That would not improve the economic outlook for millions of working-class Americans in whose name Mr. Trump proposed this fight.

And that may not even be the worst part. Circling the wagons around the American border plays directly into China's hands in other ways.

Washington would be cast as the villain in the fight. No matter how many tricks the Chinese government might deploy against American interests, it would remain the victim in the eyes of many nations, a champion for the cause of open rules-based trade.

Even if Mr. Trump is just bluffing, as many of his allies say, to gain leverage in

some future negotiation, much of the damage has been done. His bluster has changed the perception of the role the United States will play in the world.

In the face of a turn toward populist nationalism in other rich countries — like Britain and France — China has emerged in the unlikely role of defender of globalized capitalism.

“China is the one major power still talking about increased integration,” said Nicholas Lardy, a China specialist at the Peterson Institute. “China is the only major country in the world projecting the idea that globalization brings benefits.” And that is the United States’ loss.

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A great many countries in the developing world still believe prosperity depends on their successful integration into the supply chains that traverse the global economy. By turning inward — a move already reinforced by the rejection of the Trans-Pacific Partnership — the United States appears to have little to offer.

Steven Ciobo, Australia’s trade minister, conveyed that point only a few days after the American election by saying that his nation would work to conclude the Regional Comprehensive Economic Partnership — a Chinese initiative among 16 Asian and Pacific countries that excludes the United States — and would support Beijing’s proposed Free Trade Area of the Asia Pacific. Ditto for Peru and Chile, which, according to a senior Chinese official in Lima, are also now seeking to join the Chinese trade initiative.

“Almost certainly every economy in the Asian region sees its future lying more closely linked with China,” Mr. Prasad, the former I.M.F. official, told me. “With Trump talking about withdrawing from trade deals and making allies pay for protection, it will be tough for Asian countries to resist China’s embrace.”

And if Washington’s actions against China start to disrupt Asia’s supply chains, the United States could quickly become the region’s economic pariah.

The question is, to what purpose? It can’t simply be about stopping currency

manipulation. That's an outdated fear. Instead of working to lower the value of its currency to improve its exports, China has spent about \$1 trillion lately to prop up the value of the renminbi in the face of capital flight. If it stopped, the currency would drop like a stone, enhancing China's trade competitiveness.

Moreover, slapping trade barriers against China would do little to narrow the American trade deficit. American companies building things in China wouldn't bring much manufacturing home; in most cases they would go to some other country with cheap labor. And to the extent they did "reshore" production, most of it would be highly automated, employing few additional Americans.

"It does not make economic sense for Trump to want to balance trade with China," said Derek Scissors, a China specialist at the conservative American Enterprise Institute. "Balanced trade doesn't bring back jobs."

Initially, Mr. Trump might look like a winner, resolute in his defense of the working class. But any increase in popularity would be unlikely to last as the consequences started to become apparent.

Washington has already been playing a relatively weak hand trying to contain China's influence. China has skillfully deployed investments to win over countries from Africa to Latin America, broadening its network of influence. Its proposed Asian infrastructure bank proceeded, despite opposition from the Obama administration, after Britain and other American allies jumped on board.

"China is becoming a leading member of the international community," Mr. Prasad wrote in his new book "Gaining Currency," but not, "as the West prefers, by being co-opted into existing institutions under the current rules of the game." Instead, China is "co-opting other countries into the system of rules it wants to dictate."

Mr. Trump just gave China's alternative system of rules a big push forward.

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