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Chinese Trade Retaliation: What Happens Next

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- The Chinese and the Americans continue to talk about how to manage their economic and trade relationship; **it is early days in those talks.**
- Americans have not sent clear signals about priority and objectives.
- Punitive measures related to the Section 301 investigation are said to be almost ready—a matter of weeks before announcement, **depending on the security context in Northeast Asia.**
- Much depends on the scope of punitive US actions and on the Chinese already-stated willingness to seek to reduce the US trade deficit. Trump messaged that he wanted 100 billion dollars of reduction in the US trade deficit; there are different ways to get there.
- Trump's acceptance of North Korean leader Kim's invitation to meet in person may affect significantly Chinese reaction to US trade measures.
- **What to watch:** Chinese action to reduce the trade deficit this calendar year; exchange of senior delegations to pursue "remedies;" or perhaps new life in negotiations over the Bilateral Investment Treaty, heretofore on life support.

China's reaction to the "informal" presidential remarks last week describing the new steel and aluminum tariffs was muted. After yesterday's formal confirmation of the new policy China's Ministry of Commerce expressed "strong objection" and condemned the "reckless damage" the US is doing to the global economic system. Elaborating on previous comments, Chinese officials affirmed that China would take steps to defend its interests.

China's public diplomacy notwithstanding, tangible retaliatory measures may not be forthcoming immediately. Beijing is reaping the public diplomacy benefits of standing with the Europeans, Koreans, and Japanese in opposition to the US move. That is worth more than the damage done to the Chinese economy by 232 tariffs.

It still seems that China is intently focused on the rumored imminence of an announcement of punitive measures associated with the 301 investigation into China's

intellectual property rights practices. The scope of China's retaliation after those are announced depends on the scope of the punitive measures.

Moreover, context matters. Both countries have an interest in avoiding exchange of trade attacks. That interest comes even more to the fore with the announcement of Trump's prospective meeting with North Korean leader Kim. It is unlikely that trade will take precedence over security while Trump is involved in personal diplomacy on the Korean peninsula. In short, Ministry of Commerce statements notwithstanding, we are still in the early stages of economic and trade diplomacy between China and the United States.