

America and China square off over trade

Relative calm since Beijing joined the WTO in 2001 may be shattered

[Editorial]



Xi Jinping and Donald Trump

The trading relationship between China and the US may not be the world's largest — that accolade belongs to the US and EU. But it is one of the most delicate and controversial. Since China joined the World Trade Organisation 15 years ago, the relationship has rarely been harmonious, with repeated fights over currency valuations, restraints on trade and blocks on foreign direct investment. Yet it has largely been conducted within a framework of international law rather than open trade warfare.

That fragile peace is now threatened. Beijing is tacking back towards a mercantilist mindset and is worried about its shaky-looking economy. And despite its claim to be leading the process of setting rules for trade in Asia, China's interests are primarily in allowing itself policy space for the state to intervene as it wishes. With Donald Trump, the White House will be occupied by a president who threatens the biggest upheaval of the global trading order for decades.

In practice, Mr Trump may not go ahead with his threats to slam huge tariffs on imports from China. Presidential candidates often sound warlike on the campaign trail and then calm down once in office. But the world's two economic superpowers are now both led, disturbingly, by men inclined to see the global economy as a zero-sum game.

One of the quiet achievements of the past 15 years has been the role of multilateral rules in containing arguments. China, whose leaders initially seemed to regard being sued in the WTO as a personal affront, has come to recognise international litigation as a routine way of doing business. There have been plenty of high-profile disputes — solar panels, tyres, auto parts — but none has escalated into a general trade war.

The currency issue has been harder to mediate. Despite US efforts, there is no effective international policy framework to address exchange rate misalignments. Still, in 2005, after years of pressure, Beijing allowed the renminbi to rise against the dollar, neutralising the criticism. Indeed, it is currently engaged in determined efforts to prevent too drastic a depreciation.

Mr Trump, though, seems unlikely to go out of his way to observe details and legal niceties, and the traditional countervailing forces against protectionism in the US look weak. Usually the White House acts as the adult in the room when Congress is spoiling for a fight. It is unclear that the Republican leadership on Capitol Hill is prepared to restrain Mr Trump if the roles reverse.

Big American export companies also counsel against rash actions that might imperil their markets abroad. But Mr Trump has chosen to attack Boeing, for whom the US administration usually goes into bat without question, before even taking office.

It may be notable that Mr Trump has quickly nominated a close confidant, Wilbur Ross, for the commerce department, while he has yet to choose a US trade representative. An instinctive protectionist, Mr Ross will fit in well in commerce, a department traditionally captured by US companies trying to block cheap imports. It remains to be seen whether the new USTR, whose agency largely represents exporters trying to crack open markets abroad, has the same clout.

Recent history counsels some optimism when it comes to US-China trade relations. Bark has invariably operated at a large multiple of bite. Yet, at a time when the Chinese leadership is watching the wobbles in its economy with alarm, and the US has elected an unpredictable and