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Macro Note

US-China Trade: White Paper Shows Tensions To Linger But Not Intractable

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Release of White Paper Hours After the Latest Round of Tariffs As the ongoing US-China trade tensions continue with no end in sight, the Chinese government on 24 Sep (Monday) released its "White Paper on Facts About the China-US Trade Dispute and China's Stance" (hereafter, "White Paper").

The release of the White Paper came just hours after a new round of additional tariff action on both countries' goods took effect on 24 Sep (see "US-China Trade: China Hits Back With Tariffs On US$60bn Of US Goods", 19 September 2018). The report was announced through official news agency Xinhua just as China imposed tariff on US$60bn of US imports at 1201pm, while the release of the document came hours after.

The White Paper consists of about 30,000 characters, and is divided into six sections. The first two sections deal with the benefits and facts of US-China economic cooperation (in goods and services trade, investments) and dispel/clarify common misconceptions about bilateral US-China trade, investment, technology transfer, intellectual property (IP) rights and protection, which are being widely circulated and cited. Sections 3 to 5 focus on US' trade practices which China asserts to be protectionist and "bully" tactics. The last section reiterates China's position of support for resolution through negotiations in an environment of mutual respect.

China Lays Out A Comprehensive Case Against Trade Protectionism

In the White Paper, China lays out a comprehensive case with facts, figures and evidence in supporting the benefits of US-China trade and how China has made efforts to lower barriers to trade and investment and protect intellectual property rights (IP).

One discussion in the White Paper clarifies the discrepancy of trade data between the two countries. As shown in the chart below, both countries report different amount of goods imports and exports, resulting in different trade balances recorded by both.

For 2017, US Census Bureau reported goods imports from China at US$505bn and exports to China at US$130bn, for a trade deficit of US$376bn. Based on data from China Customs, China reported goods exports to the US at US$433bn and US goods imported from the US at US$155bn, with a trade surplus of US$278bn. As a result, there is a difference of close to US$100bn between these two figures. The discrepancy is a persistent one, and has increased over time. The average discrepancy between the trade surplus/deficit figures is about US$100bn between 2012 and 2017, and about US$97bn in the 10 years to 2017, compared to average of US$38bn in the 10 years between 1993 to 2003.

According to the White Paper, commerce officials from both China and the US join hands each year to tackle the data discrepancy, and the differences between the two sets of data boil down to differences in values, treatment of values of re-exported goods, jurisdiction differences, and lags due to transportation, among others.

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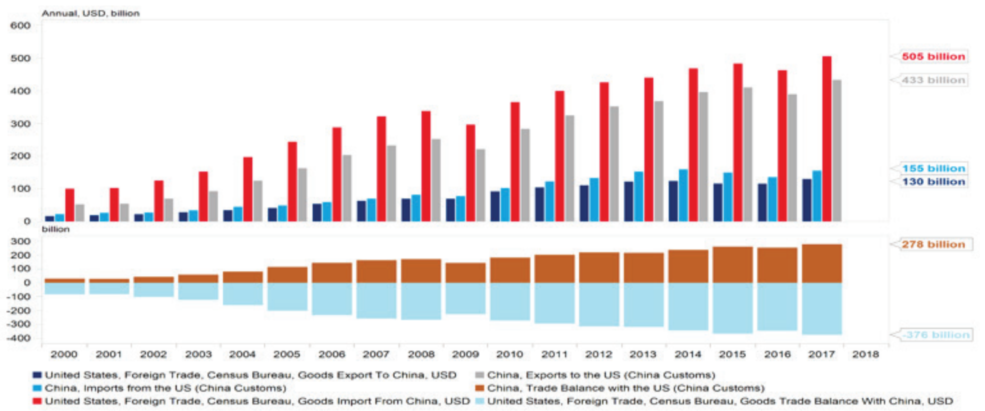
Foreign Trade, Countries, USD

Source: Macrobond, UOB Global Economics & Markets Research



At the same time, the document also cites a large number of instances how the US has been engaging in unfair trade practices of its own through discriminatory rules and regulations, subsidies and support, the US' own versions of industrial policy, and nontariff barriers to support domestic businesses and industries.

The White Paper is also clearly aimed at refuting the release earlier this year (22 Mar 2018) of the US Trade Representative Office's (USTR) report and findings under the Section 301 investigation on China's practices of technology transfer, IP, and innovation. In the Section 301 report, US accused China of forced technology transfer and IP theft, among other alleged infringements (though it did not cite concrete examples or evidence of actual cases). In the White Paper, China refutes these allegations and charges with evidence of its own, e.g. with rising amount of R&D spent in China and number of patents applied and approved through its own efforts.

Where Does This Lead To?

Coupled with threats earlier by US President Trump that the trade dispute would enter into "Phase Three" (whereby the entire amount of Chinese imports into the US of more than US$500bn would be "tariffed", vs. US$250bn currently), the White Paper suggests that both sides are digging in further.

This means that trade tensions are likely to persist into near future just as we had mentioned earlier (see "Asean Focus: US-China Trade Tussle & Impact On China And ASEAN, 4Q18 Quarterly Global Outlook, 17 Sep 2018). We have pegged the main scenario (at 65% probability) a protracted trade conflict that lasts into 2019, and with a worst case scenario (now 35% probability) that the entire Chinese exports to the US will be "tariffed", along with severe restrictions on Chinese investments into the US.

	Scenario	Probability	Impact on 2019 Global GDP Growth*
Base Case	Tariffs on US$50bn of goods by US and China, additional tariffs for US$200bn of Chinese goods and US$60bn of US goods, followed by long negotiation process into 2019 before reaching resolution	65%	~ -0.4ppt
Worst Case	Tariffs on US$50bn of goods by US and China, additional tariffs for US$200bn of Chinese goods and US$60bn of US goods, followed by escalating and sustained trade actions including blanket tariffs, restrictions on technology transfer & other measures	35%	~ -0.9ppt

* UOB Global Economics & Markets Research Estimates

However, the White Paper has not closed the door entirely to further negotiations with the US, as it concludes that the preferred solution is dialogue rather than conflict, with mutual respect and equality in negotiations.

As such there is still hope for an amicable resolution eventually and with the release of the White Paper, the ball is now in the US' court. It remains to be seen what the US' next move would be. Given the US President Trump's bias towards bilateral negotiations and disdain for multilateral arrangements, and China's support for multilateral arrangement and institutions, the gap remains wide at this point for the two largest economies in the world.

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