



Model leaders: Donald Trump and Xi Jinping. After months of progress, the trade dispute between the US and China took a turn for the worse in May and June 2019.

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Country Commentary

What months of mistrust could mean

Some hope arose at the end this June for a breakthrough in the trade stand-off between the two biggest economies in the world after they confirmed a hastily arranged meeting between presidents Xi Jinping of China and Donald Trump of the US on the fringes of the 2019 G20 Summit in Osaka. In the days building up to the event, however, economists at Bank of America Merrill Lynch moved into expectation-management mode and insisted there was little chance of a “grand bargain”. At best, they suggested, the Osaka meeting might provide an opportunity to calm the waters after the most turbulent two months the saga has produced since it started in early 2018.

After 18 months of punitive move and counter-move, May and June this year seemed to bring the US-China trade debacle to a new low, sparking fears of a slowdown in growth across the whole of the global economy. An absence of outrage in Osaka could mean drawing a line under these two months of turbulence, an agreement to impose no further new tariffs for now and a reopening of negotiations.

Trade tensions have been building up between China and the US since the start of 2018. A resolution appeared to be within reach in the early part of this year, but May and June 2019 have been among the most turbulent months in the dispute so far and most of the optimism has faded.

New tariffs

When the latest round of talks on reaching an agreement began in May, both sides spoke optimistically about the prospects of success. By the end of the same week, however, the US said it would increase tariffs from 10% to 25% on a new list of goods worth



\$200 billion per year. China “lamented this greatly” and said it had no option but to take “necessary counter-measures”. At the start of June, the Chinese government presented its interpretation of how things stood then in a white paper. In the document, it said the announcement in May from the US of the new tariffs was in breach of an agreement it had already reached with China.

The white paper said: “From late March to early April [2019], the working teams of the two countries held three rounds of high-level consultations and made substantial progress. The two countries had agreed on most of the issues. But the more the US government is offered, the more it wants. Resorting to intimidation and coercion, it persisted with exorbitant demands, maintained the additional tariffs imposed since the friction began [in 2018], and insisted on including mandatory requirements concerning China’s sovereign affairs in the deal, which only served to delay the resolution of remaining differences.”

At a cost

In the meantime, all of this is costing money, of course. The US Outdoor Industry Association has calculated that its members, mostly brands and retailers that sell outdoor clothing, footwear and accessories, and their US consumers paid an additional \$1.1 billion between September 2018 and April 2019 for goods imported from China owing to the trade dispute. The US Hide Skin and Leather Association (USHSLA) was one of more than 650 companies and organisations in the US to sign a letter on June 13 on the subject of the ongoing trade dispute. The letter warned that the new tariffs announced in May (in addition to the tariffs already in place) will result in the loss of more than two million US jobs, add more than \$2,000 per year to the expenses of the average US family of four and reduce the value of the country’s gross domestic product by 1%.

Across the Pacific, discontent on the ground with the Chinese government’s handling of the situation appears harder to detect. *The Economist’s* Asia economics editor, Simon Rabinovitch, who is based in Shanghai, says that, hand in hand with the government’s lamenting of the situation in official communiqués, state media is encouraging support for the actions of the government in Beijing. “State media has been running editorials about the trade war day in, day out,” Mr Rabinovitch says, “and you see



Hopes of a more positive path forward hinged on a meeting between the Chinese and US presidents at the G20 Summit in Osaka at the end of June. CREDIT: ON THE ROAD AGAIN/SHUTTERSTOCK



General Motors is selling more vehicles in China now than in its home market. It launched the new Cadillac XT5 there in June 2019. CREDIT: GM

the beginning of a popular outpouring of nationalism. A song about the trade war went viral and there are lots of comment on social media about how the US is trying to hold China back. This has all come to the surface since the [May] talks broke down.”

Bumpy road ahead

He says there are at least murmurings of consumer boycotts of the outlets big US brands such as McDonald’s and Starbucks run in China, but that, so far, this has gone no further. Even though the trade dispute is one-and-a-half years old now, he points out

that, until this May, all the talks “seemed to be going in the right direction”. His view is that this dispute still looks like “a long and bumpy road ahead of us”. It’s not just the rhetoric that is escalating, but the economic costs, too, and he says consumers in both countries will notice this more and more. He agrees that the prices US consumers are asked to pay for goods imported from China will continue to go up. In China itself the bigger problem is the pall that the tensions are casting on the economy as a whole, damaging domestic consumer confidence and growth.



Fundamental shift

Mr Rabinovitch's colleague, David Rennie, *The Economist's* Beijing bureau chief, is of the opinion that the May stand-off changed something in the fundamentals of the relationship between the two giant global economies. For years, China and the US have both benefited from huge volumes of two-way trade. General Motors now sells more vehicles in China than in its home market (3.65 million vehicles in China in 2018 compared to just under three million in North America), Mr Rennie points out, while there are more than 330,000 young Chinese people enrolled as students in US schools and universities. There have always been what he calls "deep, ideological differences" between the two, but strong economic ties have, for a long time, helped both sides leave their disagreements at the door and work together. "Mistrust is now eroding those old guard-rails," David Rennie says.

\$2 billion trade

Some commentators have referred to the whole set-to as a new Cold War, but Mr Rennie points out the obvious flaw in the analogy: the Soviet Union and the US had comparatively few trade ties. In the late 1980s, in the build-up to the Berlin Wall coming down, US-Soviet two-way trade had a value of \$2 billion per year, whereas as two-way trade flows between the US and China today are worth \$2 billion *per day*. Such valuable commercial bonds have built up because levels of trust, principally between suppliers in China and brands and retailers in the US, became strong. However, by August 2018, when the National Defence Authorisation Act for 2019 came into force in the US, banning Chinese technology provider Huawei from winning any US federal government business, there were clear signs of this trust eroding.



The balance of trade means many goods in the US are costing families more since tariffs kicked in. CREDIT: WAL-MART

Conflict of interest

The challenge was simpler in the Cold War days: the Soviet Union and the US competed head to head over everything from the world chess championship to the space race. Now things are less clear. Mr Rennie says the rise of China was always going to be "a bumpy moment" for the US, but as things have turned out in the first two decades of this century, it now finds that its "most daunting strategic rival, its greatest ideological competitor, its largest economic challenger, and its biggest trading partner for goods" all have the same identity, China. "The US believes that China has risen at its expense and that this has to stop," he explains. "And, for their part, China's elite sees the US as a sore loser, trying to keep China down."

David Rennie's view from Beijing is that the days are over of "comforting stories" of economic self-interest in both countries being enough to prevent the contradictions inherent in the US-China relationship from causing "fatal rifts". These are the two most important economic national powers in the world, but their worldviews are "starkly divergent", he observes. He concludes: "Mutual mistrust is edging into contempt and, even if this round of skirmishes is resolved, a much larger fight is just getting started." ☯

Part two of our Country Commentary for China in the August-September issue of World Leather will examine more closely the impact of the current economic tensions on the leather industry.

A bigger concern in China's domestic market is the effect on consumer confidence of the prolonged nature of the dispute.

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