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As Trump prepares for office, concerns about Chinese trade intensify

An unauthorized steel factory, foreground, on Nov. 4, 2016, in Inner Mongolia, China. (Kevin Frayer/Getty Images)

By Simon Denyer

BEIJING — Around the world, concerns are mounting about China's unfair trade and investment practices. How Donald Trump responds could have a far-reaching impact on the global economy and financial markets.

Trump has threatened to declare China a currency manipulator, but experts say he has little legal or economic basis to take such a step. He has also threatened to impose a tariff of up to 45 percent on Chinese imports if Beijing doesn't "behave," a move that could lead to a trade war and damage the economies of both nations.

Yet the president-elect is not alone in sounding the alarm about unfair competition and a playing field sharply tilted in China's favor. And there are plenty of options on the table if he wants to show he is tougher than his predecessor.

The American Chamber of Commerce in China, which usually is very measured in any criticism of China, complained this month about a rise in protectionism and "economic hegemony," with doors closing to foreign investment, regulations biased against foreign companies, and new national-security-related laws breeding "distrust and paranoia."

The United States "needs to raise its game with the Chinese to drive for a sense of urgency" in dealing with these issues, the group said.

But it is not just the treatment of foreign companies in China, and their lack of access to the Chinese market, that has raised tensions.

Diplomats and experts say Chinese companies also are engaged in a state-sponsored buying spree of foreign companies in sectors identified by the government as key to an industrial modernization strategy known as "Made in China 2025."

China has been using the state's vast financial resources to buy up key foreign innovations and technology, often in sectors where the Chinese economy is largely closed to foreign investment.

So as U.S. investment in China slowly declines, Chinese investment in the United States has surged, overtaking money going the other way for the first time in 2015, according to a new report by the Rhodium Group, an economic research consulting firm.

It is a similar story in Europe. Trade tensions between China and Germany have ratcheted up this year.

German Ambassador Michael Clauss talks of an "unprecedented wave" of complaints by German companies about the problems of doing business here and a "definite rise in protectionism" — at the same time China pours billions of dollars into buying German firms, including several of Germany's most innovative high-tech companies.

That has raised deep concerns in Berlin about national security and Germany's ability to innovate in the future.

"This is not just an American problem," Clauss said. "China has to realize these concerns are real."

In Washington this month, the U.S.-China Economic and Security Review Commission recommended changing U.S. law to bar state-owned Chinese companies from buying American businesses.

"We don't want the U.S. government owning large chunks of the U.S. economy, so why do we want the Chinese Communist Party owning large chunks of the U.S. economy?" asked Dennis Shea, the Republican chairman of the bipartisan commission.

So what are Trump's options?

To judge China a currency manipulator under U.S. law, the Treasury Department would have to determine that it runs a "significant" bilateral trade surplus with the United States, has a "material" current account surplus, and is "engaged in persistent one-sided intervention in the foreign exchange market."

Although China has by far the largest trade surplus with the United States of any country — $356 billion in 2015 — its current account surplus is under 3 percent of gross domestic product, and it has actually been intervening to prop up its currency, not depress its value.

In other words, it met only one of the three criteria last year, the Treasury Department reported. "It would be difficult for the new administration to direct the Treasury to say China is a currency manipulator," said Eric Shimp, who is a policy adviser at Alston & Bird in Washington and a former U.S. diplomat and trade negotiator.

Still, Shimp said, a Trump administration could initiate a broader investigation into China's trade practices and the state subsidies Chinese exporters enjoy.

Across-the-board punitive tariffs are unlikely, not least because they would invite Chinese retaliation that could bring down entire industries, experts said. But specific measures are possible in specific industries.

In Washington last week, Chinese Vice Premier Wang Yang said that problems in the trade relationship could damage the global economic recovery and that cooperation was "the only right choice."

Chinese media have warned of canceled orders for Boeing aircraft, depressed iPhone sales and halted corn and soybean imports if a trade war erupts.

Nevertheless, Trump will be looking closely at the steel industry, especially with Dan DiMicco, former chief executive of the steel company Nucor, leading his transition team at the Office of the U.S. Trade Representative.

The Obama administration has already imposed heavy anti-dumping and anti-subsidy - duties on some types of Chinese steel, but Shimp said broader tariffs on all steel and aluminum imports might be considered under U.S. "global safeguard" rules — if a Trump administration decides that rising imports have caused "serious" economic injury.

"The harm to global industry from China's excess capacity in steel and aluminum are well known," said Claire Reade, senior counsel at Arnold & Porter in Washington and a former

assistant U.S. trade representative for China. "If Trump took action to curb this injury, China would not find itself holding the moral high ground in international public opinion. This might temper any reaction."

A blanket ban on investment by Chinese state-owned companies appears unlikely, experts say. The Rhodium Group said Chinese firms employ more than 100,000 people in the United States, and experts say there is still an appetite for investment, which can rescue indebted companies, build infrastructure and create jobs.

But experts expect greater scrutiny of who is behind the deals and where the money is coming from.

Trump prides himself on being the consummate dealmaker, and whether his dire warnings were a negotiating tactic remains in question.

"You've thrown out the bomb on tariffs — that would be a disaster for U.S. companies — but now let's use that as leverage," said Christopher Balding, an associate professor at the HSBC Business School in Shenzhen, China.

But there are risks. For one, it is far from certain that China would agree to the sort of demands Trump might make. Strengthening big state-owned companies is central to Beijing's economic strategy.

The temptation for Trump to show his supporters that he is standing up to China, and Beijing's desire to stand strong, means that some kind of action-reaction sequence is entirely possible.

Robert Hockett, a Cornell Law School professor, said he hopes Trump will walk back some of his more radical campaign promises about trade, as he has already done in several other policy areas.

"There might well be a bit of roller-coaster ride in the first six months or so," Hockett said. "But there's still reason to hope he'll be sane about trade relations."