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World

China vows to save its companies from trade war pain — with cash

By Danielle Paquette
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BEIJING — Less than a week after the United States and China struck each other with steep tariffs, Beijing has unveiled a basic outline to help Chinese companies absorb the blows, pledging to funnel money collected from levies to firms and workers tangled in the escalating trade war.

Officials also encouraged businesses here to roll back their reliance on U.S. goods, urging them to shift orders for products such as soybeans and automobiles to suppliers in China or countries other than the United States.

“For companies that are severely impacted, we suggest they report to local government departments,” the Commerce Ministry said in a statement Monday.

The ministry released no further detail about how it would spread the financial relief or whether the aid would cover the total cost of losses, but analysts said the move suggests China could significantly increase its support for industries that stand to be bled by the commercial battle.

The Asian economic giant has long boosted companies in its manufacturing sector — particularly producers of solar panels, steel, glass and auto parts — with free or cheap loans, marked-down land and artificially inexpensive raw materials, according to research published in the Harvard Business Review.

Over the years, the United States has accused China of violating trade rules with subsidies, such as tax breaks to increase exports. Beijing has denied any wrongdoing.

Diverting revenue from tariffs to suffering employers falls in line with a familiar pattern, said Usha Haley, an international business professor at Wichita State University who tracks Chinese subsidies.

“The Chinese central and provincial governments are using an old process best illustrated by a many-armed Hindu goddess: What one hand takes away, another gives,” she said.

Scott Kennedy, director of the Project on Chinese Business and Political Economy at CSIS in Washington, said the government’s proclamation looks like public relations spin.

The statement, he said, “is meant to reassure the Chinese business community that the Chinese government did not invite this trade war, has tried to limit the damage by choosing to raise tariffs on imports that have ready-made substitutes, and that it will provide support to domestic companies that are in the related sectors.”

China also seems to be projecting confidence that it can withstand political turmoil, said David Rank, former deputy chief of mission at the U.S. Embassy in Beijing.

“Xi Jinping and the Communist Party do not face midterm elections in November,” Rank said of the Chinese president, who is no longer bound by term limits. “Moreover, they will blame any economic troubles on Trump and the United States.”

For now, China’s payback promise is largely symbolic, some industry watchers argue, since the first round of tariffs from the United States is expected to create more of an economic splash than a tidal wave.

Friday, the United States imposed 25 percent duties on $34 billion worth of Chinese imports, mostly industrial products, shaking supply chains in the technology and lower-end retail worlds.

The initial levies could amount to a $8.5 billion price hike for buyers in China.

“That would, of course, be microscopic,” compared with the assistance the Chinese government already provides to enterprises, said Derek Scissors, a scholar of the Chinese economy at the American Enterprise Institute in Washington.

Electric vehicles alone, he said, received more than $10 billion in government subsidies last year.

And after China retaliated with its own list of duties on an equal amount of American products — including pork, poultry, soybeans and corn — imports from the United States are expected to fall.

“The large bulk of the American goods aren’t going to be competitive with a 25 percent tariff, so they won’t be shipped,” Scissors said.

The value of imports to China reached an all-time high of $188 billion in May, up 26 percent from the same time last year, trade data shows. The biggest increases came in commodities such as soybeans, copper and iron ore.

Orders from the European Union notably jumped the most last month (18.3 percent), with South Korea, Japan and the United States trailing behind.

Analysts predict Europe stands to gain serious business from China as the country battles with the United States over trade.

One sign of a strengthening relationship was German Chancellor Angela Merkel and Chinese Premier Li Keqiang jointly announcing Monday in Berlin that they oppose policies that shrink free trade.

Li also told European business leaders that China plans to buy more agriculture goods from the continent, including meat, dairy products, honey and wine.

Trump hasn’t revealed plans thus far to aid American farmers, who fear they will feel the first sting of trade pain in the United States.

Separately, thousands of U.S. companies have applied to the Commerce Department for exemptions on new border taxes Trump imposed on their suppliers of metals from China, Russia, Switzerland, Japan and other nations.

In a radio interview in April, the president said producers may have to deal with temporary discomfort.

"We may take a hit," Trump said, "and you know, ultimately we're going to be much stronger for it, but it's something we have got to do."

Danielle Paquette
Danielle Paquette is a reporter focusing on national labor issues. Before joining The Washington Post in 2014, she covered crime for the Tampa Bay Times in St. Petersburg, Fla. Follow