China should quickly get out of its huge US trade problem

Dr. Michael Ivanovitch
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Shipping containers sit stacked at Qingdao Port after snow on February 14, 2019 in Qingdao, Shandong Province of China.

Beijing's incantations about "win-win cooperation" and its alleged search of a harmonious "great power relationship" ring hollow when confronted with an unwisely excessive and systematic trade surplus China maintains with the United States.

All that talk is blatantly at odds with China's $794.4 billion trade surplus on its U.S. goods trade since the current administration took the helm in Washington in January 2017.

One can also be forgiven for taking that as a brazen provocation of an American government pledging to stop the accelerating growth of its foreign debt, and to protect the little employment that remains in America's devastated import-competing manufacturing industries.

Like all excesses, this one too can badly backfire on China. And it's not clear what China's economic and political interests are served as Beijing keeps deliberately pushing the U.S.-China trade relationship into a growing and unsustainable imbalance.

No, China should know that, at some point, the abused party wants out — sometimes violently.

China is playing a dangerous game

An act of enlightened statesmanship, therefore, would want to avoid such a conflict, especially if its guiding principles in international relations are a "win-win cooperation" and great power ties compatible with "a community of shared future for mankind."

None of that can be seen in China's relations with the present U.S. administration. In the course of 2017, China's trade surplus on American trades increased 8.1 percent. Last year, the growth of China's trade surplus accelerated to 12 percent, with its exports to the U.S. surging 17.4 percent, to a whopping $594 billion, while China's purchases from the U.S. fell 7.4 percent to the pitiful $120.3 billion.

That's not a mere provocation; that's a triumphant defiance.

In spite of all that, President Donald Trump eagerly announced a few weeks ago that he could be hosting a trade deal signing ceremony with China's President Xi Jinping in Florida later this month.

That sounds like an extravagant — perhaps even foolhardy — generosity of a man whose presidency is on the line as a result of losing an unassailable trade case against China. The legions of Trump's discontents, and those whose livelihoods have been destroyed by trade with China, are certain to remind him — at the ballot box — that allowing Beijing to get away with record-breaking amounts of net income on its American trades is an unforgivable piece of economic mismanagement.

If that is not part of China's hidden agenda, here are some ideas of what Beijing could do to avoid a major bilateral crisis that could seriously damage an already dangerously tense U.S.-China relationship.

WATCH*: Trade deal or no deal, the U.S. and China are still fighting for global power*

Beijing can do much better

First, approach the issue with a sense of urgency it deserves. Promptly begin to diversify Chinese exports away from U.S. markets, and strongly step up purchases of American goods and services to quickly stop and markedly reverse the trend of China's growing bilateral trade surpluses.

Second, with such a sincere show of good faith, Beijing should adopt regulatory changes offering internationally comparable guarantees for the protection of intellectual property and prohibition of forced technology transfers to Chinese joint-venture partners. China's apparently large panoply of non-tariff barriers to trade should also be dismantled.

The vigilant members of the China-based American and international chambers of commerce, and the World Trade Organization, will serve as keen observers that China is properly implementing and enforcing its trade regulations.

Third, China can benefit from an enhanced International Monetary Fundsurveillance, technically called Article IV consultations. That would make sure that China's monetary, fiscal and structural economic policies — which include both domestic and foreign trade — are fully in compliance with international rules and best practice policies.

In addition to that, China may also wish to engage in extensive biannual economic examinations with the Organization of Economic Cooperation and Development to get an independent expert assessment of the entire spectrum of its economic policies. That's what the OECD does well, and that could be a very useful source of unbiased advice. Such examinations would also shield China from widely publicized amateurish attacks on its economic management.

Fourth, the IMF consultations and the OECD's biannual examinations would provide unimpeachable expert opinions on China's monetary policies and its managed floating exchange rate. That would preserve China's monetary sovereignty and offer much-needed advice about the country's highly sensitive capital account transactions.

How China frames those steps within the ongoing trade negotiations with the United States is a matter of its own judgment.

But one thing should be clear: Dragging on the negotiating process while continuing to accumulate China's huge surpluses on American trades is over. Washington has finally come to the point where it can no longer tolerate inconclusive talk fests while China laughs all the way to the bank.

To be sure, though, getting the trade surplus issue out of the way will not radically improve the U.S.-China relations. That's impossible as long as America's security experts consider China a "strategic competitor" and "a revisionist power" determined to challenge America's world order.

One could expect, however, that a meaningful progress on bilateral trade problems could open more space to address acute security issues in a constructive manner, although, again, there is no guarantee for such an outcome. China's contested maritime borders, Korean problems and Beijing's Belt and Road transactions will remain America's war and peace issues for the foreseeable future.

Investment thoughts

The financial community should stop fretting about the U.S.-China tug of war on trade issues. That is a peripheral and purely trading event.

The policy of the U.S. Federal Reserve is the only thing that can crash Wall Street, and the rest of world bourses, relegating them to a protracted bear market.

At the moment, with a relatively well-behaved U.S. inflation, the Fed has no reason to provoke a sustained decline of American and world asset prices.

China would do well for itself to get its unsustainable trade imbalance with the U.S. out of the way — quickly and resolutely.

Commentary by Michael Ivanovitch, an independent analyst focusing on world economy, geopolitics and investment strategy. He served as a senior economist at the OECD in Paris, international economist at the Federal Reserve Bank of New York, and taught economics at Columbia Business School.