

Trade and tariffs

The G20 has produced no answers to the burning question of future trade relations between the USA and China. Mr Trump tells us he had a great meeting with President Xi, and talks will resume on the outstanding issues. He has conceded that he will not press ahead with the extra tariffs he threatened, whilst China has conceded that the tariffs already imposed remain whilst new talks are underway.

The USA has raised serious strategic and security issues over technology which are not easily resolved for the sake of a trade deal. The Huawei ban clearly worries China considerably. The USA has difficulties believing new Chinese promises to respect Intellectual Property and to trade fairly. The US wants China to take her tariffs down to US levels as they are currently skewed heavily in China's favour.

For her part China does not want to give in to what it sees as US bullying. Chinese military power and reach grows by the day, and China is extending her military authority throughout the Asian region. The US defence establishment is concerned about this, and seeks to preserve freedom of navigation in international waters.

The US President also keeps mentioning the big imbalance of trade the USA has with Germany/EU, especially in cars. He may wish to open a new front in his trade war over that. EU tariffs are four times the level of US tariffs on cars, which the US understandably challenges.

Most economists regard the trade war as a negative for the world economy and damaging to the US as well. Mr Trump sees extra Treasury revenues from the tariffs and expects the tariffs to lead to more domestic production and fewer imports. It seems likely that China – and Germany if the US attacks them too – have more to lose from this trade war. Their huge trade surpluses have led to this action by the USA, and the asymmetric tariffs and trade practices do need sorting out. They have many more exports at risk than the USA.