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U.S. Imposing Economic Sanctions on China under Tougher Foreign Policy Approach

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On March 22, U.S. President Donald Trump signed an executive order to impose higher tariffs on imports from China as economic sanctions for its alleged theft of U.S. intellectual property. The higher tariffs will target $50 billion or around 10% of imports from China. President Trump said the sum could reach $60 billion.

In response to the executive order, the Office of the U.S. Trade Representative (USTR) will reportedly prepare a list of some 1,300 products for the higher tariffs within 15 days and subject it to public comment for 30 days before making an official decision to enforce the higher tariffs. These targets are expected to include high technology products, according to media reports. The USTR had investigated China's alleged theft of U.S. intellectual property under instructions by President Trump and identified the theft's harm to U.S. industry. Washington is expected to enforce the higher tariffs estimated at 25% and restrictions on Chinese companies' investment in the United States, invoking Article 301 of the U.S. Trace Act providing for tough trade restrictions. Specific investment restrictions will be determined by the Treasury Department within 60 days under instructions by President Trump, according to media reports.

Behind the tough trade policy approach is the United States' huge trade deficit with China. President Trump has criticized China for stealing U.S. intellectual property and urged the Chinese government to reduce the U.S. trade deficit with China by $100 billion, while the deficit reached as high as $375.2 billion in 2017. When signing the executive order, President Trump said the he was respecting Chinese President Xi Jinping and that China was a friend. Given that the trade deficit with China has failed to decline, however, President Trump might have decided to resort to the tough policy measure.

President Trump has retained his tough stance against the trade deficit with China since the presidential election campaigns. Ahead of the midterm congressional election this autumn, President Trump might be attempting to solidify and enhance his public support by fulfilling his campaign promises and implementing his "America First" foreign policy for trade strongly in response to his low public approval ratings.

In addition to the economic sanctions on China, the Trump administration was to invoke unusual restrictions on steel and aluminum product imports on March 23, as announced on March 1. The Trump administration announced a 25% tariff on steel imports and a 10% tariff on aluminum imports under Article 232 of the U.S. Trade Expansion Act, claiming that China's steel and aluminum overproduction allowed excessively cheap products to flow into the United States to hurt U.S. production and weaken industrial infrastructure, posing a national security threat to the United States.

The USTR said seven economies including the United States' North American Free Trade Agreement partners, the European Union, Australia and South Korea would be exempted from the steel and aluminum import tariffs. In addition to China as a main target, Japan is also subject to the import restrictions. The Japanese government sees the import restrictions as regrettable and has vowed to urge Washington to exempt Japan from the curbs.

Such a unilateral, tough trade policy could trigger a strong, harsh backlash from U.S. trading partners, a chain of retaliation and even an escalated trade war that could lead to the shrinkage of free trade and the global economy. Particularly, a strong backlash has come from China that has been directly subjected to the economic sanctions.

On March 23, the Chinese Commerce Ministry revealed that it was considering imposing additional tariffs of up to 25% on some imports from the United States including wine and some farm products to counter the U.S. restrictions on steel and aluminum imports. The revelation may be designed to check the economic sanctions under Article 301 of the U.S. Trade Act that would have a greater impact than the steel and aluminum import tariffs. The Chinese Embassy in Washington on March 23 expressed strong dissatisfaction with and opposition to the Article 301 sanctions and indicated strong countermeasures in a manner to strongly check the United States.

The stock market reacted to the growing tension of U.S.-China economic friction. On March 22, the Dow Jones industrial average on the New York Stock Exchange plunged by 724 points to 23,958, slipping below 24,000 for the first time in one month and a half since a stock market crash in early February. In response to the Dow Jones average's dive, Japan's Nikkei stock average also suffered a steep loss, indicating that the impact of the U.S. trade measures would spread throughout the world.

Future developments will depend on how tough the specifics of the U.S. sanctions would be, how strong their impact would be, whether these sanctions would be enforced, and how China and other U.S. trade measure targets would move to counter the U.S. measures. No optimism can be warranted. New risk factors have rapidly arisen for the U.S. economy and the world economy that have smoothly grown so far. We must carefully watch future actions by the Trump administration and major U.S. trading partners.

The U.S. economic sanctions have impressed the world with the Trump administration's toughening foreign policy approach. In addition, the Trump administration has recently attracted attention with key cabinet member replacements. On March 7, Gary Cohn resigned as director of the National Economic Council over his gap with President Trump over the steel and aluminum import restrictions. On March 13, the president fired State Secretary Rex Tillerson who reportedly had gap with the President over some issues on foreign policy. On March 22, the White House announced that the president's national security adviser H.R. McMaster would step down. Key administration officials have thus been replaced one after another.

President Trump has nominated Central Intelligence Director Mike Pompeo as new state secretary and former U.N. ambassador John Bolton as new national security adviser. Both Pompeo and Bolton are known for their hardline foreign policy approaches. These nominations indicate that the Trump administration's foreign and national security policies, including policies on China, North Korea, the Middle East and Iran, would grow even tougher. The Trump administration's policy management in all directions could greatly affect not only the United States but also the world.

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