Creating Two Trade Spheres in the World

The U.S. flag flies over a container ship unloading it's cargo from Asia, at the Port of Long Beach, Calif., on Aug. 1, 2019. Mark Ralston/AFP via Getty Images

By Christopher Balding
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Commentary

Since the Trump administration rolled out its "Liberation Day" tariffs, many questions have arisen about the specific objectives and the reasons behind these actions.

One series of actions that has faced scrutiny is the confusion surrounding the administration's decision to impose tariffs on various countries, including Mexico and those in Europe and Asia, such as Japan and Vietnam. The reasons behind these tariffs are becoming increasingly clear.

Given President Donald Trump's penchant for posting on social media and holding free-for-all press conferences, one can be excused for being confused about the objectives of the recent trade actions. It seems contradictory that an administration focused on securing critical minerals and advanced technology to counter China would impose tariffs on products from countries we consider allies and those not directly involved in the fundamental schism between the two great powers.

The reason, however, seemed evident early on, but given the passage of time, it is clear.

In 2018, when the first Trump administration imposed tariffs on China, we witnessed a couple of specific phenomena. Direct trade with China has dropped significantly; however, unique responses tied directly to China have led to the new strategy we are witnessing now.

Chinese companies began to engage in transshipment through third countries. In some cases, this meant that Chinese products were shipped to third countries and relabelled as made in Mexico, Vietnam, or whatever nation accepted the products.

The Trump administration has strongly emphasized to countries that they must actively crack down on this type of trickery if they want their own products to have good access to the U.S. market. It would seem that ensuring Mexican companies and workers have priority access to the U.S. market over Chinese companies would resonate with Mexican politicians, but 2025 is a crazy time.

The drop in the U.S. deficit with China was offset by a corresponding increase in the U.S. trade deficit with the rest of the world, excluding China, and China's surplus with the rest of the world, excluding the United States, rose. Even when we exclude transshipment, China's exports to the rest of the world were increasing, while countries around the world were selling more goods to the United States. This trend is significant for several reasons.

The biggest loser from China's rise is not the United States but countries that would compete with China, such as Vietnam, Mexico, and others at similar levels of development. If these countries continue to prop up China even indirectly by running a surplus with the United States and a deficit with China, then China will be able to act as a predatory trader with the rest of the world.

Additionally, Chinese companies have expanded internationally to take advantage of lower tariff rates in other countries. Given the apparent focus on decoupling from China as deeply as possible, there is concern that it may become more difficult to achieve this if Chinese companies simply change their names and establish operations in different countries.

Finally, very real security risks target both third countries and the United States when those countries do not adequately recognize the China risk. The United States is pushing these countries to take the China threat seriously, whether it is access to sensitive technologies, money laundering, or espionage.

We see these examples playing out in the negotiations between the United States and other countries. In the recent announcement of an agreement with the United Kingdom, a major part of the agreement focused on China-centered aspects that limit the communist regime's influence. The Trump administration just went public, demanding that Europe increase tariffs on Chinese products to secure an agreement with the United States. The administration has pushed for similar clauses in trade agreements with Canada and Mexico, but is also focusing on illicit activities, including drug smuggling, money laundering, and intelligence leaks.

The net result from the Trump administration's treaties with third countries other than China is relatively simple: if they want to work with the United States, they can enjoy preferential access to the U.S. market; if they do not, they will not get good access to the U.S. market or the Chinese market. Put another way, they can continue to run a trade surplus with the United States or a trade deficit with China, but not both at the same time.

The bewilderment about why the Trump administration placed tariffs on third countries is reasonable. It is clear now that it is the strategic approach. Breaking the world into two major trade blocs is not for the faint of heart.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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