



## Planning for China-US trade tensions -- insights and resources from the Conference Board

*Updated 27 March 2018*

The Trump Administration's announcement last week that it is planning to levy tariffs on \$50-60 billion worth of imports from China risks sparking a trade war that could hurt businesses in both countries and around the world, and even undermine the established global trading order if it spirals out of control. Given the importance of trade and foreign investor activity for China's economy, there is a chance that US actions will yield some concessions from China that are helpful for MNC business, but this scenario will likely take a while to play out.

The Conference Board China Center has been tracking US-China trade relations very carefully over the past 18 months, and we recommend that our members review several key pieces that we sent out previously which anticipated the events now transpiring and outlined a range of important planning assumptions for MNCs.

Collated below is a set of thought pieces that illuminate how and why the US and China got to where they are today, and the likely path the confrontation will take going forward. In particular, we recommend members quickly review two of the pieces, "**Locked and Loaded -- US Trade Policy on China**" and "**Hope for the best, plan for the worst -- A look at the potential negative consequences of US-China friction**".

With respect to interpreting current events, members should consider a few key things:

- The Trump team seeks a re-alignment in the very nature of the US-China economic relationship. The policies emerging in the wake of the new USTR report<sup>[1]</sup> are designed to curtail the trade deficit, constrain China's techno-nationalist ambitions, limit the ways in which US companies can be forced into supporting 'China's rise', and ultimately to create a new status quo where China feels compelled to take

seriously the question of reciprocity and level playing fields. There is broad consensus in Washington that the US needs to get tough on China. But according to the Trump cohort, China has been conducting a trade war against the US for a generation already and the US has not been fighting back.

- Given its druthers, China would necessarily seek to maintain the status quo, and avoid this confrontation altogether.
- The economic impact of a trade war could very well prove destabilizing for China. Our alternative growth series for China shows that external shocks have much higher impact on Chinese growth than the official data reveal. The appeals for discussion being made by the Chinese side, including calls to re-establish the nascent Trump-era *Comprehensive Economic Dialogue*, reveal this concern and evidence China's strong desire to avoid a serious escalation.
- China's forthcoming responses can be lumped into three types:
  1. **De-escalatory:** China continues, for example, to reply to US trade actions with more WTO lawsuits. This route would avoid head-on confrontation, attempt to slow things down, and demonstrate to the world that China is a responsible global player that respects the rules-based order.
  2. **Neutral:** China responds with a carefully calibrated tit-for-tat retaliation designed to cost US exporters a sum commensurate with what Chinese exporters lose. Retaliations will likely target products that affect the Trump base and the bases of key China hawks in Congress. Beijing has clearly signaled its capability in this regard with the \$3b in tariffs it announced in response to the initial US actions on steel and aluminum. At the scale of the announced Section 301 sanctions, this matching-type of response would still be quite painful.
  3. **Full-on confrontation:** China imposes broad-based tariffs and elevated operating and investment restrictions against US businesses designed to cause so much pain that US industry and consumers will be motivated to pressure the White House reach a negotiated settlement.
- A de-escalatory stance with some helpful concessions on market access and operating conditions is quite possible. Vice Premier Liu He's statement in Davos (in January) indicate as much: "...some of [our] reforms could exceed the international community's expectations".
- For the US side, it's impossible to know at this juncture whether Trump's whims will go, and how hard the US team will push for genuine and major concessions. It is quite possible that all of this is more about politicking in the run up to the 2018 mid-terms, or distracting from the President's various other problems, than deep rooted concerns about trading relationships. Alarming, it is also possible that an

extended trade war represents the Trump team's idea of a positive outcome.

We will be providing more insights as the dust begins to settle and final policy formulations begin to clarify.

In the meantime, we encourage member companies to review the following reports on this topic that we've published along the way:

[China Center Research Brief: CFIUS Reform Set to Disrupt Business as Usual for MNCs in China](#)

09 February, 2018

The reform and empowerment of the Committee on Foreign Investment in the United States (CFIUS) has the potential to dramatically disrupt many traditional partnership approaches MNCs have been using in China for many years – including co-investment arrangements that have become popular recently.

[China Center Quick Note: Locked and Loaded -- US Trade Policy on China](#)

30 October, 2017

History will likely show that 2017 represented not a time of relaxation on China by the Trump administration, but rather a period of tactical preparation by the administration's trade team.

[China Center Chart Dive: US-China trade relations—who needs who more? A global value chain & GDP exposure view](#)

22 April, 2017

Using WIOD data, we are able to identify the extent to which the economies of China and the United States are mutually reliant in terms of total national output – in trade-related terms.

[China Center Reference Paper: The New China Ideology -- Trump's Team](#)

06 April, 2017

The people the new president surrounds himself with will shape the future of US-China business relations. Who are they and what do we know about their thinking?

[China Center Chart Dive: New data reveal less severe trade imbalance between the US and China](#)

15 March, 2017

A new analysis from The Conference Board brings vast and complex global value chain dependencies into resolution and, in doing so, paints a starkly different picture of the bilateral trade imbalance.

[China Center Quick Note: Hope for the best, plan for the worst -- A look at the potential negative consequences of US-China friction](#)

06 March, 2017

China's treatment of Norway, South Korea, and Japan during recent politically motivated economic disputes is instructive for understanding how Beijing may respond to provocations from Washington. Foreign MNCs, especially US brands, should catalog their potential risk exposures stemming from China's formal and informal retaliatory tools and make appropriate preparations.

Additionally, the Conference Board's global offices, in conjunction with the China Center, has launched an initiative on Trade and Global Value Chains where the full resources of the Conference Board's thought leadership on this issue are now housed. Please see here to access that content: <https://www.conference-board.org/resources-on-trade/>

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[1] Report: <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>;  
announcement: <https://www.youtube.com/watch?v=JCVpnS9R6lw>

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