

CAPITAL ACCOUNT

Despite Trade Truce, U.S.-China Cold War Edges Closer

Mutual mistrust, U.S. concerns about national security, human rights widen split between two countries



Events like the Hong Kong protests have given a voice to human-rights hawks exercised by China's intolerance of democracy and dissent. PHOTO: JORGE SILVA/REUTERS



By Greg Ip

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When President Trump first hit China with tariffs more than a year ago, he was pursuing narrowly defined, transactional goals: a smaller bilateral trade deficit and better treatment of U.S. companies inside China.

But the trade war has since blossomed into a broader, deeper ideological conflict. Events in the last week show that the two economic superpowers, though reaching a truce in their trade war, are drifting closer to a new Cold War.

From China's 2001 entry into the World Trade Organization until 2017, the U.S. and China moved toward greater integration and engagement. Skeptics of that process fell into three camps: economic hawks unhappy with China's treatment of foreign firms, national-security hawks

suspicious of its geopolitical designs, and human-rights hawks exercised by its intolerance of democracy and dissent. Historically, these three camps have been separate and only intermittently influential.

Events in the last year have changed that. Business disenchantment with the China market and Mr. Trump's trade war empowered economic hawks. They joined forces with national-security hawks who see China's economic and military rivalry as inseparable. Separately, China's treatment of its Muslim minority in Xinjiang and wayward western businesses like the National Basketball Association, and the Hong Kong protests gave human-rights hawks a voice.

Events in the last week starkly illustrate how this broad opposition is widening the split between the two countries. The so-called trade mini-deal is most notable for what it didn't do: roll back any tariffs. It simply delayed increases in tariffs announced only two months ago. China agreed to resume purchases of U.S. farm exports but has been vague on the scale and timing.

A year ago, the consensus of outside analysts was that the U.S. and China would reach a broad agreement resolving their main concerns because it was in the interests of both. Now, the consensus is that they won't.

"I think the Chinese really don't believe a full-fledged agreement is possible," said Scott Kennedy, a China expert at the Center for Strategic and International Studies. "Not only do [China and the U.S.] have limited trust in each other, neither side seems to be in a position where they desperately need a deal."

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Arthur Kroeber, head of research at Gavekal Dragonomics, a China-focused research service, said in a report that any eventual deal won't include "any substantive measures to get China to change the core economic practices that the U.S. finds objectionable" or "blunt ongoing U.S. efforts to constrain the flows of U.S. technology to China."

Underlining this last point, the U.S. last week added 28 Chinese entities including eight artificial-intelligence companies to a blacklist that cuts off access to U.S. suppliers of crucial inputs, because of Beijing's repression of Muslim minorities in China's northwest Xinjiang region. "I do not recall the entity list ever being used to pursue a human-rights agenda," said Dan Rosen, a veteran China analyst at the Rhodium Group, a research firm in New York.

Mr. Rosen sees that as evidence of the increased sway of hawks in the professional national-security establishment who have long sought to "lock in the stark sense of contrast between

American and Chinese values.”

The NBA controversy has further fueled the hawks’ case that the U.S. and Chinese systems are incompatible. After Daryl Morey, general manager of the NBA’s Houston Rockets tweeted support for the Hong Kong protesters, Chinese online stores dropped the team’s merchandise, Chinese television stopped showing its games, and its Chinese corporate partners suspended cooperation.

Mr. Morey deleted the tweet and apologized, the NBA called the comments “inappropriate,” and Los Angeles Lakers superstar LeBron James said Mr. Morey was “misinformed.” That climbdown then triggered blowback from both Democrats and Republicans who saw China using its economic leverage to censor American speech. Sen. Marco Rubio, a Florida Republican, in a tweet accused the NBA of throwing Mr. Morey “under the bus to please the Communist Chinese Govt. Disgusting.”

Mr. Rubio, firmly planted in all three hawkish camps, embodies the shift in American opinion that impedes a return to the pre-2018 status quo. He has warned the administration against relaxing restrictions on Chinese companies accused of stealing U.S. technology or spying on Americans, pressed the federal civil service retirement fund not to track stock indexes that include Chinese stocks, and sponsored bipartisan legislation tying favorable economic treatment of Hong Kong to its continued autonomy from Beijing and its respect for civil liberties that passed the House of Representatives this week.

That pressure makes it difficult for the administration to relax the many restrictions it has imposed on China, from tougher export controls to blacklisting its technology champions, which may now be a bigger barrier than tariffs. Daniel Ahn, chief U.S. economist at BNP Paribas, estimated the contribution of those restrictions to the drop in China-U.S. trade and converted that effect to a tariff equivalent. Including all imposed tariffs, the effective tariff on China is 28%, compared with 4% just after it joined the WTO.

So don’t let the mini-deal fool you: Beneath the surface, the split between the U.S. and China is widening.

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