



## COSA: China—March 4, 2019

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### **(U) China: Increased Tariffs will further hinder China's economic growth**

**(U) Increased tariffs would likely worsen China's economic slowdown, leading to increased unemployment. Higher tariffs will likely prompt investors to focus their investments in neighboring countries.**

- China's GDP growth in 2019 will likely drop to around 6.1% from 6.6% in 2018. If tariffs are not increased, GDP growth will likely slow to around 6.2% in 2019, according to CNBC.<sup>i ii</sup>
- China's slowing economy has negatively impacted industrial firms which have experienced a 2.8 million decline in job positions within the span of a year. 60% of manufacturers have either cut staff already or plan to do so due to trade tensions.<sup>iii</sup>
- Foreign investors in labor intensive industries in China will very likely increase their focus in neighboring countries—such as Vietnam, Bangladesh, India and the Philippines—or move supply chains out of China entirely.<sup>iv v</sup>

**(U) China will very likely increase stimulus efforts in response to these tariffs to counteract economic downturn; however, Beijing is likely to avoid an overflow of public spending efforts which could undermine the government's goal of reducing China's high debt levels.** Higher tariffs will likely harm small Chinese companies who export mainly to the United States, forcing these companies to lay off workers.

- In January 2019, Beijing announced an increase in stimulus efforts, while noting that they would not resort to “flood-like” stimulus in order to avoid rising debt levels, according to CNBC.<sup>vi</sup>
- JP Morgan's chief economist Haibin Zhu reports that Chinese workers will likely be laid off in increasing numbers if tariffs are increased, particularly those working for small firms that export mainly to the United States. China introduced policies giving benefits to companies that do not lay off young adults and refunding unemployment insurance payments.<sup>vii</sup>



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**(U) China will likely retaliate against increased tariffs, which would increase the damage done to the U.S. economy. This would very likely damage investor confidence in China.**

- Chinese retaliation against an increase in tariffs would likely slow U.S. GDP growth by around 0.3 percent.<sup>viii</sup>
- Chinese stock markets would likely be damaged as investors lose confidence in the Chinese economy.<sup>ix</sup>
- It is unclear whether China would seek to devalue the yuan if trade negotiations collapse and tariffs are increased. Though a depreciation of the yuan would likely mitigate some of the damage from tariffs, a stable yuan would help to further some of Beijing's long-term goals, such as shifting China's economy towards a more consumer based model and promoting the yuan as a universally accepted currency around the world.<sup>x xi</sup>

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<sup>i</sup> Domm, P. 2018. "Trade wars could be worse for China's economy than the pain they inflict on US." Consumer News and Business Channel. September 19. Retrieved from: <https://www.cnbc.com/2018/09/19/chinas-economy-could-feel-far-more-pain-than-us-in-trade-wars.html>

<sup>ii</sup> Curran, E. 2019. "The Trump-Xi Trade Truce Ends March 1. What Then?" Fortune. February 12. Retrieved from: <http://fortune.com/2019/02/12/trump-xi-china-trade-war/>

<sup>iii</sup> Balding, C. 2019. "Bad jobs data could bite a slowing China." The Edge. February 21. Retrieved from: <http://www.theedgemarkets.com/article/bad-jobs-data-could-bite-slowng-china>

<sup>iv</sup> Cheng, E. 2018. "US companies aren't in a hurry to leave China despite the trade war, analysts say." Consumer News and Business Channel. November 19. Retrieved from: <https://www.cnbc.com/2018/11/20/us-firms-arent-ready-to-leave-china-despite-trade-war-analysts-say.html>

<sup>v</sup> Rapoza, K. 2018. "Trade war casualties: factories shifting out of China." Forbes. July 30. Retrieved from: <https://www.forbes.com/sites/kenrapoza/2018/07/30/trade-war-casualties-factories-shifting-out-of-china/#51577867103e>

<sup>vi</sup> Lemarque, K. 2019. "China signals more stimulus as economic slowdown deepens." Consumer News and Business Channel. January 14. Retrieved from: <https://www.cnbc.com/2019/01/15/chinas-finance-ministry-says-to-step-up-fiscal-expenditure-this-year.html>



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