Who's Winning the Trade War? Here's a Look at the Scoreboard

By Enda Curran, Lauren Leatherby and Alexandre Tanzi May 23, 2019

The U.S. and China are going toe to toe in their fight over trade. In one corner, President Donald Trump is swinging away with tariffs and blacklisting Huawei Technologies. In the other, President Xi Jinping is promising retaliation from Beijing just as a privately produced song that's gone viral on Chinese social media promises: "If the perpetrator wants to fight, we will beat him out of his wits."

With some tariffs in place for a year now, here's a look at how the combatants are faring:

The Shrinking Trade Deficit
This round U.S. 01 China 00

For Trump there's only one metric that shows whether the U.S. is winning or losing the economic scrum with China: the bilateral trade balance. The number still shows he's behind by a large margin, but the trade deficit with China has indeed narrowed in recent months. While economists debate who deserves credit for the recent shifts and whether trade balances are a useful metric at all, the U.S. gap with China was the narrowest in three years in March. Score one for the U.S.

Increasing Prices
This round U.S. 00 China 01

Critics say Trump's tariffs will drive up prices for American consumers, but so far it's not happening broadly. Still, signs of trade-war inflation are emerging in the world's largest economy. The price of items on U.S. store shelves in seven tariff-hit categories increased 1.6% through April following the first round of tariffs in July. For China, its higher tariffs on U.S. imports don't have a direct effect on the prices Chinese consumers pay because many of those are industrial inputs, not end-use products. The top seven tariffed imports from the U.S. are soybeans, gold, copper waste, paper waste, liquefied natural gas, cotton and liquefied propane. As Americans feel more of the sting of import taxes, score a point to China.

Bruised Consumer Confidence
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While U.S. consumer confidence rebounded in April, helped by a tight labor market and higher wages, retail sales growth fell for the second time in three months. It was a similar story in China over the same month when retail sales growth slowed more than expected, denting the economy's biggest source of growth. For now, Americans generally aren't too pessimistic about their prospects in a trade war, but that could change if Trump follows through with his threat to put tariffs on all Chinese imports. Call it a draw at this stage.

Year-on-year China retail sales vs U.S. retail and food services sales
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The yuan has weakened about 7.5% against the dollar over the past year. That offers Chinese exporters an important cushion against Trump's tariffs, with further weakness possible. The trick for China is how far to allow the yuan to weaken before it triggers pressure to get money out and in turn forces the government to burn through its reserves. A weaker yuan could have both good and bad outcomes for China's economy, resulting in a draw.

Diverging Equity Markets
This round U.S. 01 China 00

Equity markets in both countries slumped last year by the most in a decade, but China took the bigger beating. A 25% plunge in the Shanghai Composite Index was four times the drop in the S&P 500 in 2018. More recently, the bulls have been unleashed in both nations, yet the question is how long it lasts with trade talks at a stalemate. For those keeping score, Chinese stocks are down almost 14% since the start of 2018, U.S. share prices are up about 6%. Score to Trump.

Slowing Economic Growth
This round U.S. 01 China 00

Both economies are showing signs of weakness in recent weeks but China's appears to be slowing at a faster pace. China reported that industrial output, retail sales and investment all slowed in April by more than economists forecast. In the U.S., along with weaker retail sales, factory production fell for the third time in four months. If tariffs begin to hit growth, Xi has more fiscal and monetary firepower to stoke demand than Trump. High corporate debt is tipping the balance in China toward greater use of fiscal policy, away from the old reliance on ramping bank loans to industrial firms. Trump doesn't have that kind of fiscal firepower. More winning for the U.S.—but worth watching.

Falling Foreign Direct Investment
This round U.S. 00 China 01

In 2018, U.S. investment in China declined only marginally, while Chinese investment in the U.S. has slumped noticeably. That's according to a new report by the U.S.-China Investment Project, which found a more than 80% drop in Chinese foreign direct investment on American shores to $5 billion last year, from $29 billion in 2017 and $46 billion the previous year. American FDI in China, meanwhile, dropped to $13 billion last year from $14 billion in 2017, the report found. As the U.S. misses out on investment, chalk one up for China.

Combined U.S. and Chinese FDI

As trade talks stall and the two superpowers further entrench their positions, a long road remains ahead. The results for now are somewhat of a mixed bag: the U.S. is ahead in some ways, while China has an advantage in others. Ultimately, though, everyone pays a price.

"In terms of economic growth, no one wins in a trade war. In terms of geopolitical rivalry, what matters is who loses more," Bloomberg chief economist Tom Orlik said. "The U.S. is betting that will be China. China is betting the U.S. won't have the stomach for the fight."