US steps up trade pressure on China

John Chan
12 April 2007

In a significant trade move against China, the Bush administration announced on March 30 the imposition of tariffs on Chinese-made coated papers, claiming that Beijing was providing state subsidies for these exports to the US. The US Commerce Department imposed tariffs of 10.9 percent and 20.4 percent respectively on two Chinese companies. In addition, a preliminary rate of 18.16 percent will apply to all other Chinese exports of glossy papers.

China's Ministry of Commerce has demanded that Washington reconsider the decision, saying it reserved the right "to take any necessary action". The possibility that China could retaliate by selling some of its $700 billion reserve of dollar-based assets, including US government bonds, triggered a sharp fall of the US dollar.

Major US corporations, concerned at the impact of trade tensions on their operations in China, also reacted to the announcement. Wal-Mart, the world's largest retail company, which imports more than $20 billion worth of goods from China annually, issued a statement calling for a "balanced approach" to trade relations with Beijing.

Erik Autor, vice president of the US National Retail Federation, warned that the anti-subsidy tariffs on Chinese goods would translate into higher costs for US consumers. "Almost every toy sold in the United States is imported from China. 70 percent of shoes imported are from China. We import 70 to 75 percent of clothing, and 20 percent of that is from China," he explained.

The Chinese government tried to block the move in the US Court of International Trade, but lost on March 29. The case was brought last year by Ohio-based paper maker, NewPage. Although imported glossy papers from China form a small segment of the US market, the trade doubled last year to $224 million.

The outcome is likely to encourage other American manufacturers to demand similar measures from the Bush administration. Commenting on the case, US Commerce Secretary Carlos Gutierrez declared: "With today's decision we are demonstrating our continued commitment to create an environment of true competition for American manufacturers, for workers and farmers."

Far from representing American workers, the latest policy is a response to growing pressure from sections of less competitive US businesses and the trade union bureaucracy. They accuse Beijing of causing the rising US trade deficit and job losses by manipulating the exchange rate of the yuan and providing subsidies to exporters. The US had a record $763.6 billion trade deficit last year, of which China accounted for the largest chunk of $232.5 billion.

The imposition of tariffs on Chinese coated papers is a step toward reversing a 23-year-old US policy of not applying duties to subsidised exports from countries designated as "non-market economies". In the 1980s, the Reagan administration refused to impose "countervailing" anti-subsidy tariffs on exports from so-called communist countries. The exemption was seen as a means of integrating them into the global capitalist market.

In the past three decades, transnational corporations have poured tens of billions of dollars into China where the regime uses tax rebates, systematic under-pricing of energy and a managed currency exchange rate to maximise investors' profits. Gutierrez commented: "China of 2007 is not a Soviet-bloc economy of the mid-1980s. Just as China has evolved, so has the range of our tools to make sure Americans are treated fairly."

However, while American protectionists often accuse Beijing of unfairly intervening in the market, the same is true for the US political establishment. The latest trade frictions came after US Treasury Secretary Henry Paulson failed to persuade Beijing leaders late last year to implement a more flexible currency exchange regime. In February, following the inauguration of the Democratic-controlled Congress, the Bush administration hauled Beijing before the World Trade Organisation (WTO) over its "illegal" industrial subsidies.

Shortly after imposing tariffs on glossy paper imports, the Bush administration took China to the WTO with another complaint over China's piracy of films, music and DVDs, and restrictions allowing only authorised state firms to import movies or books.

The Commerce Department's decision was in response to renewed calls from Congress, especially the Democrats, for new protectionist measures against China. Democratic Senator Charles Schumer and Republican Senator Lindsey Graham have called for a two-thirds vote to override any presidential veto and pass legislation to force Beijing to end its "currency manipulation" or face punitive US tariffs on Chinese exports.

Amid a new wave of corporate attacks on the wages and jobs of American workers, the Democrats and the Bush administration alike are using China's "unfair" trade as a diversion from the real roots of rising social inequality—which lie in the capitalist profit system.

The US trade conflicts with China are an aspect of the deepening economic contradictions of world capitalism. On the one hand, the US corporate elite needs cheap labour in China and elsewhere to offset the crisis of declining profitability and force American workers to accept lower wages and conditions. On the other hand, the same process has stimulated China's rapid economic growth, creating a new economic competitor.

China is no longer just a manufacturer of textiles or toys as in 1990s. A *Financial Times* article on March 7 pointed to the marked sophistication of China's industry. Its manufacturing productivity was growing at 15-20 percent annually, "putting the US productivity 'miracle' to shame". China's exports of aircraft parts, ships, microchips and cars increased 70 percent last year, "more than four times faster than traditional exports such as shoes and clothing".

Last year, China overtook the US as the largest source of European Union (EU) imports, with an increase of 21 percent to 191.5 billion euros, compared to 176.2 billion euros for the US. The EU displaced the US as China's largest trade partner in 2005. All these developments point to the decline of US economic power.

After the collapse of Soviet Union in 1991, the dominant voices in the US ruling circles—the Clinton administration in particular—were for global "free trade". Today, the growing advocacy of protectionism in the US expresses the reality that American capitalism is under pressure from its traditional rivals in Europe and Japan, as well as new competitors like China.

Trade tensions are not confined to China. GM and Ford are pressing the US Treasury Department to take action against Japan over the 20-year-low exchange rate for the yen. Ford's vice president Steve Biegun declared: "The Japanese need a warning shot fired across the bow." While the pretext was Japanese government intervention in currency trading—a practice Tokyo claimed to have stopped since 2004—the real aim was to somehow stop Japanese auto companies taking over the US market. GM, Ford and Chrysler are on the verge of bankruptcy.

The siege mentality of the American ruling elite was expressed in the 2007 National Trade Estimate released by US trade representative Susan Schwab on April 3. The report accused as many as 63 trading partners, large and small, of setting up "trade barriers" against US corporations. It criticised China's state subsidies to industry, as well as charging the EU with doing the same for Airbus.

The Bush administration is using the protectionist outcry in Congress to demand Beijing further open up its market to US transnationals. Franklin Lavin, the undersecretary of commerce for international trade, told US businessmen in Beijing in late March that China would pay a "political price" if it maintained "barriers" in aviation, steel and telecom to foreign investors. He also noted that US-China economic relations "might be the single most important bilateral relationship in the world.... If those two countries do not get along, if there are friction issues, it can affect the world economy."

The US economy is dependent on huge inflows of foreign funds, some $2 billion a day, to support its trade and budget deficits, and prop up the share market. The central banks of China and Japan in particular are investing massive sums in US government bonds and other dollar-based assets, using their nearly $2 trillion in foreign currency reserves—accumulated mainly through exports. The Bush administration fears that an escalating trade conflict with Beijing will force it to dump its dollar holdings, precipitating a financial crisis in the US.

The Chinese government is reluctant to antagonise Washington. Beijing is heavily dependent on expanding exports to generate high rates of economic growth and thus millions of jobs for the huge and growing influx of workers from the Chinese countryside. Any slowdown could intensify widespread social discontent and unrest. In order to defuse tensions with Washington, Beijing plans to buy $12.5 billion of US goods ahead of a second round of "strategic economic dialogue" with US in May.

However, Beijing cannot control the deepening economic contradictions. On March 27, an Asian Development Bank report warned that China's total trade surplus was expected to reach $257 billion in 2008, up from $177.5 billion last year, regardless of government efforts to slow exports. Beijing has been trying to curb speculative investment bubbles as well, but with little impact. "Should investment continue to run at more than 20 percent a year, what has been a source of growth for many years could turn out to be a curse, if it leads to a further buildup in excess capacity and deflation," the report said.