US-China trade tensions sharply escalate

John Chan
16 September 2009

In a move that threatens to trigger a major trade conflict, US President Barack Obama last Friday signed an order to impose a 35 percent tariff on Chinese-made tyre imports over the next three years. The drastic US action and China's rapid response, with antidumping investigations into US auto and poultry imports, has shocked economic commentators, provoking fears of a wider trade war. On Monday, China formally took the US to the World Trade Organisation (WTO) and lodged a complaint over its tyre tariff.

While the actual trade involved in the disputes is relatively small, the US-China dispute has the potential, as happened in the Great Depression of the 1930s, to spiral out of control. For all the previous rhetoric about combatting protectionism, the world's largest and third largest economies are heading to the G20 summit in Pittsburgh next week at loggerheads over trade.

The US-China trade row is only the most dramatic of a rising global trend towards protectionism. Both the WTO and Global Trade Alert (GTA) published reports on Monday warning that the G20 powers continued to implement protectionist measures, despite pledges in Washington last November, repeated in London in April, not to do so. GTA coordinator Simon Evenett told the *Financial Times*: "On average a G20 member has broken the no-protectionism pledge once every three days."

Already the US-China trade brawl has spooked the share and bond markets. The fear is that China, which has huge holdings of US bonds and other dollar assets, might retaliate by stopping its purchases or selling off existing ones. London's FTSE index dipped below 5,000 on Tuesday and Japan's Nikkei lost more than 2 percent. Both Wall Street's Dow Jones and US bonds also fell.

In July's US-China Strategic and Economic Dialogue, senior officials from both countries have talked a great deal about the importance of their economic interdependence. China is heavily reliant on the US as an export market, while Washington needs Beijing to recycle its export earnings to finance the massive US debt, which is set to rise further with this year's projected budget deficit of $1.56 trillion.

Now the winds have shifted. Pushed on by the trade union bureaucracy led by the United Steelworkers, President Obama has reached for the weapons of protectionism to divert popular discontent in the US over rising unemployment and falling living standards. In comments to *Bloomberg.com*, Obama declared: "We're not going to see a trade war". But that is precisely the direction in which his decision leads.

US Trade Representative Ron Kirk justified the decision by referring to US International Trade Commission's finding that a "surge" of Chinese tyre imports had battered the US tyre industry and destroyed 5,000 jobs. The Obama administration rejected the ITC's recommendation of a 55 percent tariff, but did impose a 35 percent tariff, reducing to 30 percent in the second year and 25 percent in the third.

The US administration maintains the fiction that its decision was not protectionist, but merely enforcing its rights. China's tyre exports to the US have increased from 14.6 million units in 2004 to 46 million in 2008 or about 17 percent of the American market. As part of the agreement to allow China's entry into the WTO in 2001, the US retained temporarily the right to impose tariffs in the event of a "sudden surge" of Chinese imports. This was enshrined in Section 421 of the US Trade Act and will expire in 2013.

The American trade unions, however, has no qualms about using Chinese exports as a convenient scapegoat to divert attention from the destruction of jobs, conditions and living standards which they have helped implement. Using the language of trade war, Leo Gerard, the head of the United Steelworkers, told the *Washington Post* that the US should not be frightened by Chinese retaliation: "[E]veryone's afraid to tick off our banker. If our government had the guts to retaliate, [China] is going to be on the losing end."

Completely indifferent to the fate of Chinese workers, the unions' reactionary nationalist calls to "protect American jobs" can only serve to subordinate American workers to the Democratic Party and block any unity with the Chinese working class. According to the China Rubber Industry Association, Washington's tyre tariffs will cost the jobs of up to 100,000 Chinese tyre workers.

In many cases, Chinese and American workers are being exploited by the same corporations. Chinese commerce ministry spokesman Yao Jian pointed out that two-thirds of Chinese tyre exports to the US are manufactured by four American companies operating in China. As a number of analysts have pointed out, under conditions of globalised production, the US tariffs will only result in a shift in tyre production from China to other cheap labour platforms such as South Korea, Poland and Mexico.

While the US economy was still growing, the former Bush administration largely ignored calls by the unions and less competitive US manufacturers for protectionist measures. Bush rejected all four recommendations from the US International Trade Commission to take action against China.

Now, however, the ruling elites in the US and China are scrambling to shore up their interests at the expense of their rivals amid continuing global economic turmoil. Both countries have implemented huge stimulus bailouts that are aimed above all at protecting their own financial and manufacturing sectors.

As the *Financial Times* noted: "Since the US frequently accuses China of illegal state aid to its exporters, Beijing would score valuable propaganda points by making a counter-accusation stick, particularly in light of the vast US motor industry bail-out." Beijing's targetting of US auto parts is not accidental and could impact heavily on US corporations. China is on track to overtake the US as the world's largest auto market with sales of 12 million units this year, compared to 10 million vehicles in the US.

Beijing's singling out of US poultry is also carefully chosen. American exporters have long been pushing for greater access to the Chinese market, which already accounts for one fifth of US poultry exports. Beijing is seeking to defend its own emerging agribusinesses as well as millions of small farmers. China is now the world's third largest poultry exporter after Brazil and the US, but has been banned from exporting to the US on the pretext of low food safety standards.

As in the US, the Chinese regime has deliberately encouraged virulent nationalist sentiment, particularly among layers of the emerging middle class, to divert attention from the deepening class divide between rich and poor. The latest US tariff has prompted an outpouring of anti-US comments and demands for tougher retaliatory measures. The *New York Times* cited one Internet posting by a "Group of Angry Youth" declaring: "Why did our government purchase so much US government debt? We should get rid of all such US investments."

The nationalist clamour on both sides of the Pacific has a logic of its own. Commenting yesterday, the *Wall Street Journal* asked: "What does it mean for the world economy if America now has its first protectionist President since Herbert Hoover?" The newspaper recalled that Smoot-Hawley Act of June 1930 precipitated open trade war and a disastrous collapse of global trade. "Mr. Obama may not intend to start a trade war, but then Hoover didn't set out to pick one either. His political abdication is what made it possible, however, and trade passions once unleashed can be impossible to control," it warned.