

US-China trade tensions escalate

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Trade tensions between the US and China continue to rise against the backdrop of a continuing campaign by the Obama administration to pressure Beijing over a range of issues, including UN sanctions against Iran's nuclear programs, Internet censorship and climate change as well as on economic policy. China's hardening resistance to US demands has led to a marked deterioration of relations since the beginning of the year.

On February 5, Beijing and Washington imposed tit-for-tat tariffs amid increasingly heated rhetoric over trade issues. China's commerce ministry announced import duties of up to 105.4 percent on US chicken products after its investigation found US dumping had caused "substantial damage to China's domestic industry". Later the same day, Washington retaliated by slapping anti-dumping duties of up to 231.4 percent on Chinese-produced gift boxes and ribbons on the grounds of "unfair" pricing.

The Chinese investigation, along with another into American auto parts, was set in motion in September in response to US tariffs on imported Chinese tyres and steel pipes. According to the Chinese commerce ministry, an estimated \$US7 billion worth of Chinese exports were subjected last year to US trade measures. Chinese trade penalties on US auto parts are also possible, as Beijing argues that Washington's bailouts of GM and Chrysler amount to unfair state subsidies.

Until recently, China has been reluctant to impose tariffs on US goods, fearing even harsher American retaliation. Beijing's decision to put import duties on US chicken products is part of its tougher stance towards Washington more generally. Late last month China demonstrated its hostility to a recently announced US arms sale to Taiwan worth \$6.4 billion by threatening to impose sanctions on four US corporations involved in the deal, including the giant Boeing Company.

President Obama has already made clear his intention to take further action against China over trade and economic

issues. In a meeting with Senate Democrats on February 3, he again called for the revaluation of the Chinese yuan against the US dollar. Obama said he would "make sure our goods are not artificially inflated in price and their goods are not artificially deflated in price". In response, Beijing criticised Obama's "wrongful accusations" saying the yuan was at a "reasonable and balanced level".

In his State of the Union address last month, Obama called for a doubling of US exports over the next five years to over \$3 trillion. Under conditions of slow or shrinking world trade, the US export drive will inevitably bring it into conflict with China, which is currently the world's largest exporter.

Concerned about the international economic ramifications, a *Financial Times* editorial last week called on China to back off. "If China presses ahead with sanctions on big US exporters, such as Boeing, it risks unleashing a tit-for-tat round of trade sanctions that would damage China much more than the US... If China appears to be actively initiating a trade war, the American reaction may well be: 'Bring it on'," the newspaper warned.

The rising trade tensions highlight the weaknesses of the Chinese economy. Since July 2008, China has already effectively re-pegged the yuan against the dollar to a rate of around 6.83. Any further revaluation will impact on China's markets in the US and Europe and affect Chinese exporters who have already been hard hit by the global economic crisis. Tens of millions of jobs have been lost as a result and many more would go.

The Chinese economy grew by 8.7 percent last year as a result of a huge government stimulus package and massive bank lending, but such policies are unsustainable. Beijing has already had to rein in lending in a bid to control rampant speculation in stocks and property.

Under intense US pressure, China could retaliate in ways that could severely impact on the US economy. Any move

by Beijing to slow its purchase of, or even dump, Treasury bonds and other US investments would provoke turmoil in the US financial system and impact on the US government's ability to fund its huge debts. China currently holds \$1 trillion in US assets.

The danger was underscored in a new memoir by former US Secretary of Treasury Henry Paulson entitled "On the Brink". He recalled that when the US-backed Georgia started a war with Russia in 2008, Moscow urged Beijing to dump investments in the US housing giants Fannie Mae and Freddie Mac to "create a sudden loss of confidence" and "shake the capital markets". China, which held \$400 billion of bonds in the two companies, declined, fearing such a move would provoke a dramatic fall in the overall worth of its American assets.

Moscow and Beijing have both denied Paulson's account. However, Russia did sell all of its \$65.6 billion of Fannie and Freddie bonds that year. If China had joined Russia, the financial meltdown that began with the collapse of Lehman Brothers in September 2008 might have come a month earlier. In his book, Paulson expressed appreciation for Beijing's cooperative attitude in holding onto US assets during the global financial crash.

China might not be so cooperative in the future. In an interview in *Outlook Weekly* this week with three Chinese generals, one openly called for Beijing to retaliate against the US arms sale to Taiwan by "dumping some US government bonds". General Luo Yuan explained: "Just like two people rowing a boat, if the United States first throws the strokes into chaos, then so must we."

When Obama came to office, he faced a deep financial crisis and initially attempted to maintain a close relationship with China. At the same time, however, underlying disagreements were already evident. Obama's aggressive intervention into Afghanistan, foreshadowing a US push into energy-rich Central Asia, threatened Chinese interests in what it regarded as its backyard. US demands this year for tough new UN sanctions against Iran cut across China's burgeoning economic links with that country.

China signalled its determination to take a far more assertive international stance at the Munich Security Conference on February 5. Attending for the first time, Chinese foreign minister, Yang Jiechi, declared that his country represented "one fifth of mankind" and deserved "a chance to express our views on how things should be run in the world... One country, two countries, three or four

countries can definitely not decide the future of the world."

Yang criticised the US for selling weapons to Taiwan and defended China's threat of sanctions, saying: "We approached the US side very seriously on many occasions. Yet, the US went ahead and forced the Chinese government and people to react. We think it is in our sovereign right to do what is necessary."

On Iran, Yang indicated that China was prepared to defend its energy interests in Iran at the UN Security Council, even if Russia, which has sided with China in the past, backed new sanctions. He also rejected US and European criticisms of Beijing's restrictions on the Internet and of China's role in opposing their plans at the Copenhagen climate change summit.

Behind the intensifying US-China rivalry are fundamental shifts in geo-political relations. As an emerging economic power, China has been compelled to seek raw materials and markets in virtually every corner of the globe bringing it into sharp competition with existing powers. The US, which is in economic decline, has sought to shore up its global dominance by aggressively using its military might in key strategic areas, including the Middle East and Central Asia. This great power competition has now been compounded by the global economic crisis.

Tensions are likely to step up another notch when Obama meets Tibet's Dalai Lama on Thursday. Last year, when the US wanted China's economic help, Obama declined such a meeting. Now he has decided to get together with the Tibetan figure, knowing full well that it will antagonise Beijing. China has voiced its strong objections and may well announce retaliatory measures against the US.



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