

Threat of trade war looming larger

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An American trade war with China came a step closer with the decision last week by a US trade panel to continue an anti-dumping investigation into Chinese-made aluminium products. The US International Trade Commission determined that “US industry is materially injured by reason of imports of common alloy aluminium sheet from China that are allegedly subsidized and sold in the US at less than fair value.”

The finding was the result of an investigation ordered last November by the US Commerce Department at the direct instigation of the Trump White House. The probe, which was greeted with vigorous opposition from China, marked the first time in 25 years that the Commerce Department launched such an investigation without a direct request from the industry concerned.

As a result of the decision, the Commerce Department will continue its investigation, with an anti-subsidy duty determination to be announced early next month and anti-dumping duty determinations to be brought down in mid-April.

Expressing its strong dissatisfaction with the move, the Chinese Ministry of Commerce said China would take all necessary measures to defend the rights of its enterprises.

Commerce Secretary Wilbur Ross, who launched the investigation, said President Trump had “made it clear from day one that unfair trade practices will not be tolerated under this administration,” and the decision was “one more step in fulfilling that promise.”

The aluminium investigation is only one of a series of measures initiated by the Trump administration against China. A potentially even bigger conflict looms over the results of a Commerce Department “Section 232” investigation, which allows the imposition of tariffs and other duties on steel imports on the grounds that they are a threat to national security.

The report of the investigation, which was launched in April, was delivered to the White House last

Thursday. The president has 90 days to determine what action to take. American steel industry chiefs greeted the news that the report had been delivered with calls for swift action.

American Iron and Steel Institute CEO Tom Gibson said he was hopeful action would be announced sooner than the 90 days allocated. “We are confident,” he said, “that we have made the case that the repeated surges in steel imports in recent years threaten to impair our national security.”

US Steel called for swift and decisive action. “Our nation cannot afford to allow the continued rise of foreign imports that undermine America’s capacity to produce the steel necessary for our country’s national and economic security,” the company said in a statement last Friday.

Another potential conflict with China is looming over a probe into alleged theft of intellectual property rights and cyber espionage due to be delivered on Thursday.

US Trade Representative Robert Lighthizer met with Trump at his Florida resort over the weekend to brief him on the anti-China measures and the further talks on the renegotiation of the NAFTA agreement with Mexico and Canada to be held later this month.

Lighthizer is one of the most strident proponents of the “America First” agenda in the Trump administration. Denouncing the policies of Beijing to capture increased global market share in remarks to the influential think tank Center for Strategic and International Studies last September, he said: “The sheer scale of their coordinated efforts to create national champions, to force technology transfer, and to distort markets in China and throughout the world is a threat to the world trading system that is unprecedented.”

His remarks were underscored by the National Security Strategy issued by the Trump administration last month, in which China was declared to be a

“strategic competitor” and accused of “economic aggression.” Trump declared that American strategy “for the first time” recognised that “economic security is national security.”

But the US trade war guns are aimed not only at China. Washington is in a major conflict with Canada over the Trump administration’s imposition of tariffs and duties on Bombardier airplanes, Canadian timber and newsprint.

In retaliation, Canada has launched a major case through the World Trade Organisation (WTO) against punitive tariffs the US imposes on other countries it deems to be selling products at unfair prices, the practice known as dumping. The 37-page case was issued on December 20 and made public last week.

In a clear effort to win international support, the Canadian document lists a series of problematic actions taken against China, South Korea, Japan and Germany as well as actions by the US against Italian pasta and steel from Austria, Brazil and South Africa.

In its complaint to the WTO, Canada says the US is illegally using anti-dumping tariffs “in excess of WTO-consistent rates” and has improperly calculated the level of subsidies that form the basis of much of the US complaints. Canadian Foreign Minister Chrystia Freeland has attacked the anti-dumping duties imposed on the country’s softwood lumber producers as “unfair and unwarranted.”

Another area of dispute is what is known as the “Chapter 19” system in NAFTA, allowing Canada to take US anti-dumping measures before an arbitrator. The US wants this provision scrapped and Canada is insisting it be retained.

The Canadian action has brought a threatening response from Lighthizer. Speaking before his weekend meeting with Trump, he said Canada’s WTO move was a “broad and ill-advised attack on the US trade remedies system.”

“Canada’s claims are unfounded and could only lower US confidence that Canada is committed to mutually beneficial trade,” he continued.

The drive by the US administration to step up its “America First” agenda is certain to be a hot topic of discussion, if not publicly then at least behind the scenes, when Trump attends the World Economic Forum’s annual meeting in Davos, Switzerland later this month. And it could well bring retaliatory action.

A foretaste of what might be in store was provided last week when US bond markets experienced a significant sell-off on the back of a Bloomberg report that China was considering pulling back on its purchases of US treasuries, partly in response to anti-China trade measures.

The report was denied by Chinese authorities, but Bloomberg cited high-placed and well-informed sources as the basis for its article.

An escalation of trade war could have significant implications for global financial and economic stability. Major global economic institutions have been pointing to the recovery in the world economy in 2017, expressing the hope that it will continue. But all of them cite trade conflict and the growth of protectionism as key “downside risks.” Those risks are clearly on the rise.



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