US to launch trade measures against China

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The Trump administration is set to announce tariff measures directed against China, possibly this afternoon, aimed at countering what it claims are malpractices on technology transfers and the state-subsidising of companies competing with hi-tech US firms.

US Trade Representative Robert Lighthizer set out the plan's broad outlines in testimony to the US Congress House Ways and Means Committee yesterday. Lighthizer will speak to the US Senate today. Then, according to the *Wall Street Journal*, the measures will be announced. The actual implementation will follow after consultation with US business groups.

The tariff measures have been the subject of a months-long discussion in the administration. Trump ordered an investigation into Chinese trade practices last year under Section 301 of the 1974 Trade Act, which allows the president to take action against any harm inflicted on US businesses.

In his written statement, Lighthizer said action would be taken outside the framework of the global trade regulatory authority, the World Trade Organisation, because it "has proven to be wholly inadequate to deal with China's version of a state-dominated economy that rejects market principles."

"Our view is that we have a very serious problem of losing our intellectual property, which is really the biggest single advantage of the American economy," Lighthizer said. This advantage was being lost to China in a way that did not reflect economic fundamentals.

The administration claims that in requiring US companies in China to form joint ventures, Beijing pressures them to transfer important technology to their Chinese partners. It also maintains that the Chinese government subsidises firms looking to compete with US rivals in hi-tech products, including semi-conductors, artificial intelligence and robotics.

Lighthizer's office has claimed that the damage to US companies from so-called forced technology transfers is $30 billion per year.

Mindful of the possible impact of tariffs on US companies and consumers in raising prices, Lighthizer said his office had developed an "algorithm" that would "put maximum pressure on China and the minimum pressure on American consumers."

Citing the annual US trade deficit with China of $375 billion, he said: "We think that it is perhaps the most important thing that will have been done in a long time in terms of rebalancing trade with China."

The US did not want a trade war but "the reality is that if you are on a course that is unsustainable you have to do something to change."

US Treasury Secretary Steven Mnuchin also articulated the increasingly aggressive mood in the White House earlier this week. He spoke at the close of a G20 finance ministers meeting in Argentina that was overshadowed by the proposed US tariffs on steel and aluminium and the impending moves against China.

The US actions were not about protectionism, Mnuchin asserted, but concerned unfair trade practices. "We need to be prepared to act in US interests to defend free and fair trade and reciprocal trade." While there was a risk of retaliation, "we are not afraid of getting into a trade war."

The steel and aluminium tariff measures are due to come into effect on Friday. The European Union has been scrambling to secure an exemption, with the senior EU trade negotiator, Cecilia Malmström holding talks with US officials in Washington this week.

The US is reported to have offered concessions, provided the EU supports its actions on overcapacity in steel, as well as measures against China over intellectual property rights.

In his remarks, Lighthizer offered a concession to the EU, indicating it would not face immediate tariffs on steel and aluminium while negotiations were taking place on possible exemptions. This is a clear sign that the administration is looking for support in its actions against China.

The EU will give its response at a leadership meeting in Brussels today after publishing a 10-page document listing possible tariffs on US exports if the steel and aluminium measures go ahead.

The depth of the conflict was indicated by one unnamed euro zone finance minister cited by the *Financial Times*. The minister said Trump knew what he was doing and wanted to "put his finger in the wounds of Europe" and "we have to show we are strong … otherwise there is no reason for Europe anymore."

The response of Kevin Brady, the Republican chairman of the Ways and Means Committee, to the proposed measures on China reflected the views in broad sections of US business and political circles that they must be skillfully directed.

Brady warned against imposing "indiscriminate" tariffs against China and called for a public discussion before any measures are implemented. "The challenge for any president in tariffs is to ensure that ultimately, you don't punish Americans for China's misbehaviour," he said. This was "not about backing down, it's about hitting the target."

China has taken a low-key approach to the steel and aluminium tariffs, largely because it is no longer a major exporter to the US. But Beijing has been preparing retaliatory action under measures imposed under Section 301.

These counter-measures will likely target US exports to China of soybeans, sorghum and live pigs. They could have significant effect. Around one third of the soybeans that the US produces go to the Chinese market.

According to a report in the *Wall Street Journal*, the Chinese Commerce Ministry set out the retaliatory measures at a meeting last month with importers of US farm products, and Chinese firms have been lining up alternative sources of supply.

China is reported to be offering some concessions to the US through easing restrictions on activities by US financial corporations. But the Chinese regime rejects the central US claims of malpractice with regard to technology and intellectual property.

"China places a high priority on protecting intellectual-property rights and improving its business operating environment," a Commerce Ministry spokesperson told the *Wall Street Journal.*

While it is impossible to predict the outcome of the variousmanoeuvres—measuresandcounter-measures—it is clear that the first stages of a global trade war have been set in motion.

While the Trump administration has provided the catalyst for this conflict, its actions are only the particular expression of deeper processes—above all, the long-term economic decline of the US.

In international trade, the US still carries considerable clout. It is the world's largest importer and the second largest exporter, but its overall weight in the world economy has declined.

In 1960, the US accounted for around 40 percent of global gross domestic product. By 2016, its share had declined to about 25 percent. Faced with the loss of strength against its old rivals in Europe and confronting new ones in China and elsewhere, it is seeking to maintain its dominance. Trade war measures can only lead ultimately, as the bloody history of the 1930s shows, to military methods.