Markets fall on trade war fears

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Stock markets around the world fell sharply in response to the announcement of US tariff hikes against China, targeting $60 billion worth of exports, and ongoing conflicts with US "strategic allies" over exports of steel and aluminium. Fears were voiced that the measures could set off a global trade war.

Markets in Asia fell yesterday, in some cases by as much as 3 percent, after a more than 700-point fall in the Dow on Thursday. The slide continued on Wall Street yesterday, with the Dow down by more than 400 points, bringing to a close its worst week since the sell-off in January 2016.

So far Chinese reaction has been fairly muted. Government officials emphasised they are looking to avoid trade war but said they will take all action necessary to defend their "legitimate interests." China announced tariffs against US steel pipes, pork, fruit and wine, covering about $3 billion worth of goods. But these measures were imposed in response to the steel and aluminium tariffs, not the latest measures.

Interviewed on Bloomberg Television, the Chinese ambassador to the US, Cui Tiankai, would not rule out the possibility of China pulling back on purchases of US treasuries in response to the latest Trump tariffs.

"We are looking at all options," he said. "That's why we believe any unilateral and protectionist move would hurt everybody, including the United States itself. It would certainly hurt the daily life of American middle-class people, and the American companies, and the American financial markets."

If China did cut its holdings of US government debt, a step reported to be under discussion in January, it would have a significant impact on financial markets, pushing up interest rates and bonds and creating turbulence. China is the largest foreign creditor of the US, holding about $1.17 trillion worth of US government securities.

Stephen Roach, the former non-executive chairman for Morgan Stanley in Asia and now a senior fellow at Yale University, said while China's response to US actions had been "surprisingly modest" there could be more to come.

"As America's third largest and most rapidly growing export market and as the largest foreign owner of treasuries, China has considerably more leverage over the US than Washington politicians care to admit," Roach said.

One of the key reasons advanced by the Trump administration for its measures is that China is forcing US companies investing in China to make technology transfers to their joint venture partners.

In his interview, Tiankai said there was no Chinese law that required such transfers. Instead, US businesses made their decisions in line with what they considered to be beneficial to them. He also pointed out that while China had a large trade surplus with the US, which it was looking to reduce, it had a deficit with many other countries.

The US regards the question of technology as vital to maintaining its position in the global economy and fears that the "Made in China 2025" strategy, which aims at enhancing China's position in hi-tech products, will undermine US supremacy in these areas.

The American trade war measures are not only directed against China. It has the European Union (EU), which has a trade surplus of around $100 billion with the US, very much in its sights.

The Trump administration has granted temporary exemptions to the EU, Brazil, South Korea and Australia from the immediate imposition of the steel and aluminium tariffs. These tariffs, invoked on "national security" grounds, had been set to come into effect yesterday. But the exemptions will only apply until May, to allow negotiations to take place.

According to a report in the *Financial Times*, Trump officials, including Commerce Secretary Wilbur Ross, have told EU officials that permanent exemption is contingent on the EU "making progress" in reducing the US trade deficit with Europe. US trade representative Robert Lighthizer has said that "making headway with Europe" is a top priority for the US.

A joint statement by EU leaders said the US measures "cannot be justified on the grounds of national security, and sector-wide protection in the US is an inappropriate remedy for the real problems of overcapacity."

There was a sharp reaction to the US demand that negotiations on permanent exemptions had to be completed in little more than a month.

European Commission President Jean-Claude Juncker described the decision as "good news, bad news." He said the exemption for the EU "recognises our role as a longstanding and trusted security partner" but added that it seemed "highly impossible to cover all the issues" for permanent exemption by May 1.

French President Emmanuel Macron was somewhat more direct. "We will discuss anything, as a matter of principle, with a country that is a friend and that respects WTO [World Trade Organization] rules," he said. "We will discuss nothing, as a matter of principle, with a gun pointed at our head."

Likewise, Belgian Prime Minister Charles Michel said Trump's approach gave the impression "the US has a will to negotiate with the EU by holding a gun to our head."

EU Trade Commissioner Cecilia Malmström told the *Financial Times:* "We are always ready to talk, but not under threat." She said Trump's decision to grant only a temporary exclusion had come as a surprise. "What we and others are supposed to achieve" by May 1 was not clear. Other EU officials commented that nobody knew what Trump wants.

Japan, which has not been granted temporary exemption on steel, is also concerned about the broader implications of the US measures.

Japanese Trade Minister Hiroshige Seko, who has issued several appeals for an exemption, said the measures were "extremely regrettable." He said: "If we seek to counter the US steps by engaging in volleys of retaliation, it would really lead to a collapse of the free-trading system."

The chairman of a US group representing the Japanese steel industry, Tadaaki Yamguchi, was less restrained. He said it was an "outrage and a travesty" that Japan had been hit while South Korea and Brazil had been exempted.

Opponents of the Trump administration's measures hope to counter them by insisting that its actions threaten to bring down the global free trade system, for which the US itself was the architect after the devastation of the 1930s Great Depression and World War II.

Such considerations ignore a fundamental shift in US policy which, beginning under the Obama administration, has increasingly viewed this system as inimical to US global economic and strategic interests.

What was implicit in the orientation of the Obama administration to make the US the centre of global trade and investment—through measures such as the Trans-Pacific Partnership directed to Asia and the Transatlantic Trade and Investment Partnership directed to Europe—has become explicit under the Trump administration.

The White House considers that the global post-war economic trading order has led to the economic decline of the US relative to its old rivals and potential new ones, above all China. Washington is out to reverse this decline by whatever means necessary, regardless of the consequences, including trade war and ultimately military conflict.