

# China imposes tariffs as trade war heats up

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China has imposed tariffs on a range of US imports, making good on its commitment of two weeks ago to retaliate for the imposition of tariffs by the US on steel and aluminium. The tariffs, which appear to target areas where US President Donald Trump has enjoyed political support, cover a range of agricultural products.

Imports of American pork will be hit by a tariff of 25 percent, along with eight other products, while a 15 percent tariff will apply to fruit and 120 commodities. The total value of the products to be hit is around \$3 billion per year.

China criticised the steel and aluminium tariffs, imposed under section 232 of a 1962 US trade act on “national security” grounds, as causing “severe damage to our country’s interests.” The finance ministry said the counter-measures were intended to “protect our country’s interests and balance the damage created by the US’s 232 measures.”

Trump has not commented so far on the Chinese moves but they appear to have had an impact on the stock market. Yesterday’s fall on Wall Street left the Dow Jones index down by more than 450 points at end of the day, after falling at one stage by more than 750 points.

According to the *Wall Street Journal*, stocks “tumbled” as “sliding technology shares and rising global tensions dragged major indexes lower.” The *Financial Times* said US markets had “tumbled into correction territory ... as deepening declines for technology companies and rising trade tensions unnerved investors.”

The S&P 500 index fell by 2.2 percent, leaving it more than 10 percent below its high in January—a fall defined as a “correction”—and below the 200-day moving average that is regarded as key market indicator.

In and of themselves, the Chinese tariffs, while dealing a blow to agricultural producers, may not have a broader impact, but the concern is over what could follow. The Trump administration is in the process of deciding on imposing tariffs on up to \$60 billion worth of Chinese goods in response to what it alleges are violations by China of American intellectual property rights.

China has yet to respond directly to the US threat and is waiting for the outcome of negotiations on the issue with members of the Trump administration. However, Beijing is reported to be preparing tariffs on imports of US sorghum and possibly soybeans if the measures go ahead.

US Trade Representative Robert Lighthizer indicated during a Senate finance committee hearing on March 22 that the US would not be deterred from the imposition of tariffs by the threat of Chinese retaliation.

He said it was “not possible to take the position that because of soybean farmers we’re not going to stick up for our rights in a whole variety of ways, and have hundreds of billions of dollars with the other exporters and domestic producers be punished because of unfair trade.”

The US treasury department is preparing a response to the alleged infringements by China on technology, with indications that the list of potential targets will come within the next few days.

“Senior administration officials” told the *Wall Street Journal* they are looking at 1,300 different product categories covering high-tech areas, including semi-conductors, communications and aerospace.

After the list is announced, US industry will have 30 days in which to comment before the administration decides which products to hit.

Key sections of the Trump administration regard the Chinese regime’s “Made in China 2025” plan, aimed at moving into hi-tech products, as a long-term threat to the US domination in these areas.

So far, the Chinese measures have been relatively restrained, indicating its reluctance to escalate the developing trade war with the United States. A major consideration in this response has been to cultivate its relations with Europe and, if possible, form a common front against the US measures, or at least prevent Europe and Japan joining the US in trade disputes.

According to a comment by Arthur Kroeber of Gavekal Dragonomics, a Beijing-based research group cited by the *Financial Times*, this is a key aspect of Chinese policy.

“China knows it can hold its own in a commercial conflict with any individual rival, including the US. But a concerted effort by the industrial democracies to constrain China’s mercantilist development program would cause it much more pain,” he wrote.

The Xi Jinping regime is under internal pressure to step up its actions. The *Financial Times* reported that “some influential commentators in China have called for a more robust response to the US’s next set of tariffs” aimed at technology.

For its part, the US is seeking to win Europe to its side by offering to hold talks until the beginning of May to secure permanent European exemptions from the steel and aluminium tariffs. The Trump administration has been somewhat vague about the talks, which will not only cover overcapacity in steel, which the US regards as emanating from China. They will also probe whether the European Union will side with the US on the issue of technology and China’s alleged theft of intellectual property rights.

Recent events, beginning on March 1 when the Trump administration announced the steel and aluminium tariffs, followed by the threats over technology three weeks later, point to the accelerating speed of the trade conflicts.

A year ago, the meeting of G20 finance ministers in Germany received a shock when the Trump administration vetoed a reference to “resisting protectionism” being included in the final communiqué.

Today, trade war has broken out. The major combatants are engaging in the initial manoeuvres of a global conflict that has the potential to repeat the disasters of the 1930s on even-wider scale.



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