

# China prepares to strike back as US trade war intensifies

Nick Beams  
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China has responded to US President Donald Trump's threat to impose tariffs on a further \$100 billion of Chinese goods by declaring it is ready to fight a trade war.

The proposed escalation was announced by Trump on Thursday in response to China's decision that it would target 106 commodities, mainly agricultural products, if the US went ahead with its plan, announced earlier this week, to hit 1,333 Chinese goods worth \$50 billion.

At a briefing with reporters in Beijing yesterday evening, Chinese Commerce Ministry spokesman Gao Feng said the US move was "extremely wrong" and China was preparing to retaliate.

"China is fully prepared to hit back forcefully and without hesitation," Gao said. He added that the Chinese government had put in place "detailed counter-measures" and those measures did "not exclude any options."

One option could be a decision to sell off holdings of US Treasury bonds, of which China holds almost \$1.2 trillion. It is the largest foreign holder of US debt and any significant withdrawal would send US bond yields and interest rates up, causing major turmoil in US financial markets.

Bloomberg, citing highly placed but unnamed sources, reported in January that such a plan was under consideration in Chinese ruling circles.

The issue was raised by US Treasury Secretary Steven Mnuchin in an interview on the business channel CNBC. He said there was a "level of risk that we could go into a trade war."

But he sought to brush aside concerns that China would react by selling off its holdings of US debt under conditions where more money has to be raised to finance the Trump administration's tax cuts. "I'm not concerned about that," he said. "There are lots of

buyers around the world for US debt."

But the fact that the issue has been raised shows that the possibility of such a move is under consideration by both Chinese and US authorities in what would be a major escalation of economic warfare.

Since the initial tariff moves were announced on Tuesday, the US administration has been trying to calm markets by issuing assurances, particularly by the president's top economic adviser Larry Kudlow, that the tariff measures are an opening gambit in securing a deal and that negotiations and discussions with the Chinese are taking place.

However, that ploy suffered a major blow with Trump's announcement on Thursday that he had asked US Trade Representative Robert Lighthizer to consider tariffs on an additional \$100 billion worth of Chinese goods.

Wall Street fell sharply on Friday, with the Dow down by more than 572 points, after dropping by almost 800 points in the course of the day. In remarks yesterday, Trump said there would be "a little pain," but "we're going to have a much stronger country when we're finished, and that's what I'm all about."

How long the PR campaign, with claims that there are back-channel talks, can prevent a panic in US markets remains to be seen. But the Chinese authorities say no talks are taking place with members of the US administration.

Chinese Commerce Ministry spokesman Gao denied that there were any negotiations and said there had been none "for a period of time." Under the present circumstances, "it's even more unlikely for the two sides to engage in any kind of negotiations," he added.

Even Kudlow, the leader of the market-calming operation, has had to admit that serious talks with China "have not really begun yet," telling Bloomberg

that whatever talks have taken place have been “unsatisfactory.”

Given the underlying forces behind the US trade war drive, there is very little room for manoeuvre. Trump has pointed to the US trade deficit of \$375 billion with China and levelled accusations that through forced technology transfers and other measures Beijing is stealing American technology.

Of the two, the second is the more fundamental question. The overriding concern of the US administration is the “Made in China 2025” policy of the Xi Jinping regime, through which it is seeking to transform China into a technological leader in areas such as robotics, artificial intelligence, communications and pharmaceuticals. This is regarded as a direct threat to both US economic and military dominance.

The centrality of these considerations has been continually emphasised by White House trade adviser Peter Navarro, who, together with Lighthizer, is a key architect of the trade war measures. In a radio interview on Wednesday, he said: “If they [China] basically seize that high ground technologically by stealing from us, we will not have a future as a country in terms of our economy and our national security.”

In an interview yesterday, Navarro gave voice to the gangster-like character of the US actions. In words that recalled *The Godfather*, he said Trump had a “great relationship” with Chinese President Xi, but “this is business.” He continued, “And this is the kind of business where we have to stand firm against China’s unfair trade practices.”

As the trade war unfolds and escalates, both sides are seeking allies in the global arena, with attention focused on Europe and the European Union. Responding to questions from Bloomberg, the head of the Chinese Mission to the EU, Zhang Ming, said China and the EU “need to stand together with a clear-cut position against protectionism, and need to work with each other to uphold the rules-based multilateral trade order.” The US actions went “completely against the fundamental principles of the World Trade Organisation,” he said.

China has launched an action against the US under the WTO, but this will have no impact on the US administration because it regards the present system and the WTO itself as an essential cause of the US deficits. It maintains that the WTO framework cannot

deal with the key question of intellectual property rights.

For its part, the US is seeking to use the earlier threat of tariffs on steel and aluminium, imposed on March 1 under “national security” provisions of a 1962 law, as a means of pressuring the EU to back it against China. The imposition of the tariffs on European products has been suspended until May 1 pending negotiations, with the US making it clear that part of the price for an exemption is EU support for its actions against China.

The bellicose character of the US actions were underscored by Kudlow in remarks earlier this week, in which he reprised the rhetoric surrounding the US invasion of Iraq in 2003 by calling for a “trade coalition of the willing” for action against China.

Both the actions of the Trump administration and the rhetoric accompanying them indicate that, whatever the moves and counter-moves, there is a fundamental issue at stake, which is irresolvable within the framework of capitalist economics and politics.

The US regards the economic growth of China and its move, flowing from that growth, into high-tech development as an existential threat, which will further undermine its already diminished economic power and lead to a weakening of its military supremacy as well. It is determined to use whatever means necessary to prevent that, threatening to plunge the world into the kind of economic chaos not seen since the Great Depression of the 1930s, as well as world war if that proves necessary.



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