Trump administration officials try to calm trade war fears

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US administration officials went on Sunday television talk shows in a bid to play down fears of a trade war with China and prevent a market selloff today.

Markets fell sharply on Friday—the Dow Jones index was down by 572 points—on the back of President Donald Trump's announcement Thursday that the US was considering imposing tariffs on an additional $100 billion worth of Chinese goods.

The president's announcement was made in an official White House statement rather than a tweet. It was in response to a decision by China to impose tariffs on 106 US products, mainly hitting agriculture, if the US went ahead with plans to impose tariffs on 1,333 Chinese goods, worth $50 billion.

Speaking on the CBS "Face the Nation" program, Treasury Secretary Steven Mnuchin said he did not "expect there will be a trade war," but if China did not agree to conditions for what he called "free and fair reciprocal trade," the US would defend its interests.

On Friday, Mnuchin had warned of the "potential of a trade war" but was criticised by various television "talking heads" on the basis that such things should not be said.

Trump's national economic adviser Lawrence Kudlow, a former commentator on the business channel CNBC, assumed the role of chief market calmer. In an interview with "Fox News Sunday," he declared he did not think there was "any trade war in sight."

Kudlow said he knew there were "jitters out there," but the US had yet to impose tariffs and any such action would be the result of a "long process."

However, he also made clear that Trump was not bluffing and pointed to the basic driving force of the US trade war. This is the fear that China's move into hi-tech development, which the US claims is the result of China's theft of intellectual property, is jeopardising American hegemony.

"Technology is everything to this country," Kudlow said. "We can't just let China willy-nilly steal our technology."

On NBC's "Meet the Press," White House National Trade Council director Peter Navarro underscored the crucial importance of hi-tech development, both for US economic and military supremacy.

Host Chuck Todd asked whether the administration was trying to "have it both ways" by telling the Chinese the US was serious about tariffs but then telling the public it was simply a negotiating ploy.

"It's both," Navarro replied and quickly got to the central question, which is not the US trade deficit with China but its development of hi-tech products, one of the key planks of its "Made in China 2025" plan.

Navarro said the US was moving forward in a "measured way" with tariffs and what it wanted from China was very clear. "We want them to guard our intellectual property and not steal it from us."

At stake, Navarro said, were "the industries of the future, artificial intelligence, robotics, quantum computing. And what's at stake is not just our economic prosperity. It's also our national security because many of these industries of the future have profound military implications."

Navarro pointed to crucial changes in US policy orientation.

"We've changed now our designation in the national security strategy of China to a strategic competitor. What does that mean? It means that they are in competition with us—over economic prosperity and national defence. And this is a competition the president takes very, very seriously."

Over the weekend, Trump again entered the trade battle, sending out a tweet that China will "take down its trade barriers because it's the right thing to do." He claimed that a deal would be made on intellectual property and he and Chinese President Xi Jinping would "always be friends."

Insofar as there is a rational kernel to Trump's tweets, it appears he is trying to sooth market nerves, while making clear the determination of the US to press ahead.

US officials are holding out the prospect of negotiations and alluding to "back channel" talks, but this is not matched by comments from Beijing.

A Chinese commerce ministry spokesperson said on Friday: "It has been months since fiscal and economic officials from both governments have had any negotiations. The US started its 301 [section 301 of the US 1974 Trade Act] investigations and proposed another $100 billion of tariffs. Against this backdrop China will not negotiate."

Lu Kang, a Chinese foreign ministry spokesperson, echoed this position, saying: "We will accompany [the US] until the end, we will not hesitate in paying any price."

The eyes of the economic and trading world are now turning to the Chinese government-sponsored forum on Hainan island tomorrow—sometimes dubbed the Chinese equivalent of the World Economic Forum's annual Davos summit—where Xi Jinping will deliver a major address on Chinese economic and financial policies.

The Bo'ao Forum will mark the 40th anniversary of Deng Xiaoping's "reform and opening" policies—a key turning point in the Chinese Stalinist regime's restoration of capitalism. Xi is expected to comment on the US tariffs and China's response to them.

Concern is being voiced in some economic and academic circles about the impact of Trump's measures and the economic ability of the US to conduct a trade war.

In a comment published on Bloomberg, long-time China observer Stephen Roach, formerly head of Morgan Stanley Asia and now a professor at Yale, wrote that the administration was "failing to appreciate a crucial reality: The United States needs China more than China needs the US."

Roach noted that while China was an export-dependent economy and America was its largest customer, Beijing's dependence on exports had fallen from 37 percent of gross domestic product in 2007 to less than 20 percent today. On the other hand, China was America's third largest and most rapidly growing export market and the US was also dependent on the imports of cheap Chinese goods. The imposition of tariffs would have "huge potential consequences on the purchasing power of beleaguered American consumers."

Roach further pointed to US dependence on China to finance its government debt to the tune of $1.3 billion and warned that "a lack of Chinese buying could turn the next Treasury auction [of US bonds] into a rout."

If China pulled out, this would send the price of US bonds down and lift interest rates (the two move in an inverse relationship) and severely impact on US financial markets.

Roach warned: "In the 1930s, protectionist tariffs and a global trade war exacerbated the Great Depression and destabilised the international order. Sadly, one of the most painful lessons of modern history is now at risk of being ignored."

Roach called for talks and negotiations, both on the US deficit and technology and intellectual property rights. He said an important distinction had to be made between joint ventures and outright theft, about which there could be no tolerance.

However, these distinctions and the appeals to economic logic and "sweet reason" ignore the fact that the central US concern is not intellectual property theft as such. Washington regards any major technology advances by China, now designated a "strategic competitor," as a threat to both its economic and military supremacy and will use whatever means it considers necessary to prevent them.