Trump escalates trade war with new tariff threat against China

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20 June 2018

President Trump has again escalated the trade war with China, threatening to impose tariffs on an additional $200 billion worth of goods, following the Chinese decision to retaliate against the imposition of 25 percent tariffs covering $50 billion of Chinese exports last Friday.

In a statement issued on Monday evening, Trump said he had directed US Trade Representative Robert Lighthizer to draw up a list of $200 billion worth of goods for a tariff of 10 percent.

Trump also indicated that he was prepared to impose tariffs on an additional $200 billion worth of goods beyond that. In other words, if all the measures were to go ahead, they would cover virtually all the Chinese exports to the US.

The new move, which sent stock markets down yesterday, follows through on the threat by Trump to pursue "additional tariffs" if China engaged in retaliatory actions directed against American exporters or American companies operating in China.

China has said it will impose tariffs on a range of products including agricultural and cars and that commitments to increase the flow of US exports, agreed to in negotiations over the past few weeks, are off the table.

"China apparently has no intention of changing its unfair practices related to the acquisition of American intellectual property and technology," Trump said in a White House statement. The US measures would go ahead "if China refuses to change its practices, and also if it insists on going forward with the new tariffs it has recently announced."

China's commerce ministry responded with a statement that the threat of additional tariffs was "extreme pressure and blackmail."

"If the US suffers a loss of rationality and issues a (tariff) list, China will have to adopt strong countermeasures, which will be comprehensive measures combining quantity and quality," the statement posted on its website said.

In his announcement of the tariff go-ahead last Friday, Trump made clear that the central goal of the US is not primarily the reduction of the US trade deficit with China. Rather it is preventing the development of Chinese capacity in high-tech development which it regards as a threat both to its economic and ultimately military supremacy.

The 25 percent tariff has been imposed on Chinese products that contain "industrially significant technologies." It includes "goods related to China's *Made in in China 2025* strategic plan to dominate the emerging high-technology industries that will drive future growth for China, but hurt economic growth for the United States and many other countries. The United States can no longer tolerate losing our technology and intellectual property through unfair economic practices."

The Senate has also voted against lifting a ban on the selling of US components to the Chinese telecom firm ZTE—an indication that the Democrats are on board with Trump's measures and may even want to go further.

While offering to take more US exports in a bid to reduce its trade surplus, Beijing has refused to abandon its plan for technology development—a demand that it regards as reducing China to semi-colonial economic status.

A warning of the latest measures was given in an address earlier on Monday by Secretary of State Mike Pompeo to the Economic Club of Detroit.

"Chinese leaders over these past few weeks have been claiming openness and globalisation, but it's a joke," he said. "Let's be clear. It's the most predatory economic government that operates against the rest of the world today. This is a problem that's long overdue on being tackled."

Pompeo declared that the alleged Chinese theft of US intellectual property was "an unprecedented level of larceny."

In an attempt to win support for the push against China, following the bitter conflict at the G7 meeting, particularly with Canada, Pompeo struck a more conciliatory tone towards US allies. He said that he was "convinced" that when negotiations were complete there would be "more volume, more dollars, and greater freedom of trade between the United States and Canada."

The latest moves by the US administration brought a fall on stock markets amid growing concerns that trade war will have a significant impact on investment and global supply chains. Markets fell across Asia on the announcement of proposed additional tariffs with the Hong Kong index down by more than 2 percent. Wall Street then followed with a fall of nearly 300 points in the Dow.

In the US, both the US Chamber of Commerce and the Business Roundtable, two major business lobby groups, have indicated that while they agree that action needs to be taken against China's "discriminatory trade practices," the imposition of tariffs is not the right approach.

The former head of the National Economic Council, Gary Cohn, who stepped down from the post in April over differences on trade policy, has warned that a trade war could wipe out the boost received by business from the Trump administration's corporate tax cuts.

Another warning has come from the chair of the customs law committee of the American Bar Association, Peter Quinter, who described the escalation of the trade conflicts as "frightening."

"The rhetoric for the first time has reached a level where it is real. I've been doing international trade law [for] 30 years and I've never seen anything this potentially dangerous to what I call the rule of law," Quinter told the *Financial Times*. Trade spats happened, he said, but this was a conflict between the world's two biggest economic powers.

Such views are spreading in international financial and business circles. Before the announcement of Trump's latest measures, the head of the global Swiss financial services group UBS, Sergio Ermotti, told the US business channel CNBC on Monday he was concerned the trade conflict between them US and China could "get out of control."

He warned that something could happen "that goes into a territory where the escalation of measures that are taken starts to impact business sentiment."

"I'm really worried that … these things are going to get out of control. Somebody is going to announce something that then triggers a more serious issue," he said, adding that the trade risk could "come from any side, Europe, US, China, you name it."

Protectionism would become a major problem if it was combined with other unexpected events, such as an acceleration by the US Federal Reserve in lifting interest rates.

"Asset classes are priced quite high across the board. Expectations for business profitability are quite high. The financial markets are not ready for any major discontinuity … in commercial ties between countries," Ermotti said.

It remains to be seen what the Chinese response to the latest measures will be. But with the US foreshadowing tariffs on $200 billion worth of Chinese goods, Beijing may have to look beyond tit-for-tat retaliation as it only imports around $137 billion of US goods. Other action could include measures against the $200 billion worth of US investments in China.

Pointing to the danger of such measures, a report on Bloomberg noted: "In a longer-term, worst-case scenario, there are also actions such as selling down its [China's] massive stockpile of US treasuries or devaluing the yuan, moves that would send shock waves through global markets."