

Trump escalates trade war against China

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The Trump administration has stepped up its trade war against China with the announcement that US Trade Representative, Robert Lighthizer, will begin an investigation with a view to putting a 10 percent tariff of \$200 billion worth of Chinese goods by the end of August.

The latest decision comes on top of the imposition of a 25 percent tariff on \$34 billion of Chinese exports last Friday, with a further \$16 billion expected to be hit by the same levy within weeks.

The additional tariffs, foreshadowed several weeks ago, were taken in response to China's decision to retaliate against last Friday's US measures by putting tariffs on the same value of US exports.

The statement issued by Lighthizer was that of an imperial overlord whose word is law, to be obeyed without question, with any opposition to be met by escalating reprisals. The US has already indicated that it is prepared to impose tariffs on another \$200 billion worth of goods, on top of those targeted in Tuesday's announcement, with Trump saying that as much as \$500 billion could be hit—the value of all Chinese exports to the US.

Turning the situation on its head, Lighthizer said that China's retaliation against the imposition of US tariffs last Friday was “without any international legal basis or justification.” In fact, it is the US measures, introduced under Section 301 of the 1974 Trade Act, which contravene international trade rules.

“For over a year,” Lighthizer said, “the Trump administration has patiently urged China to stop its unfair practices, open its market, and engage in true market competition. We have been very clear and detailed regarding the specific changes that China should undertake.

“Unfortunately, China has not changed its behaviour—behaviour that puts the future of the US economy at risk. Rather than address our legitimate concerns, China has begun to retaliate against US products.”

The Chinese Commerce Ministry declared it was “shocked” by the US actions, which were “hurting China, hurting the entire world and hurting the US itself.” China had “no choice but to take necessary countermeasures” without specifying what they might be.

China does not have the option of replying in a tit-for-tat manner against the latest tariff measures, as it does not import enough from the US to match Washington dollar for dollar. It has said it will launch an appeal through the World Trade Organisation against the “US side's unilateralist actions.”

But such steps are not going to make any impact as the Trump administration and its “America First” advocates regard the WTO and the so-called rules-based international trade order as detrimental to the interests of the US.

The course of the limited negotiations between China and the US has made it clear that the key issue is not the US trade deficit with China. Beijing offered to boost US exports to China, particularly of agriculture and energy products, by around \$100 billion, but this was dismissed by Trump and his officials as not addressing the central issues.

The *Wall Street Journal*, citing “people with knowledge of the previous rounds of negotiations” said the offer made by China so far, “whether they are increasing purchases of US products or the gradual opening of financial-services sector” had “failed to solve Washington's demands for deeper structural changes.”

The main demand of the US, which was set out in a statement issued on May 4, is that China cease its attempt to develop its technological and industrial base under its “Made in China 2025” plan. In language similar to that directed against North Korea and its nuclear program, it has demanded that China take “immediate, verifiable steps” to ensure the cessation of Chinese government-conducted, sponsored or tolerated measures targeting US trade secrets and technology.

It also insisted that China take no action, either by means of retaliation or action in the WTO, against US

tariffs imposed against it.

The response in the US to the latest trade war measures, both in political and business circles, has not been to oppose the trade war against China as such. Especially the issue of technology development is regarded as a threat both to the economic and ultimately military dominance of the US.

However, there is criticism of Trump that his tactics are misplaced. By targeting potential allies, above all in Europe with tariffs on steel and aluminium and the threatened tariffs on auto products, he is making impossible an alliance against China.

Republican Senate Finance Committee chairman Orrin Hatch said he opposed the proposed new measures. “Although I have supported the administration’s targeted efforts to combat China’s technology transfer regime, tonight’s announcement appears to be reckless and is not a targeted approach.”

In fact, Hatch indicated that he wants more severe measures.

“We cannot turn a blind eye to China’s mercantilist trade practices, but this action falls short of a strategy that will give the administration negotiating leverage with China while maintaining the long-term health and prosperity of the American economy,” he said.

This is also the view of wide sections of the Democratic Party, which want increased action against China but warn that Trump’s actions are alienating US allies.

Sections of business have warned that the trade war measures will impact on the US economy. David French, a senior official at the National Retail Federation, told the *Financial Times* that they could “boomerang back” and hit consumers and workers. The prices of everyday products would rise and “the retaliation that will follow will destroy thousands of US jobs and hurt farmers, local businesses and entire communities.”

The US Federal Reserve is also concerned, noting at its June meeting that it had received reports that some businesses were putting investments on hold or reducing them because of fears over the repercussions of the trade conflict.

However, the Trump administration has brushed aside such concerns and is pressing ahead not only against China but also against the European Union, which Trump has declared to be as bad as China, only smaller. Having refused to give the EU a carve out from the tariffs on steel and aluminium, the US has begun an investigation into auto imports to determine if increased tariffs should be imposed on the grounds of “national security.”

The latest measures against China could well have been a warning shot across the bow of the EU and a signal that the US will brook no opposition. Before the latest anti-China announcement, German Chancellor Angela Merkel and Chinese premier Li Keqiang held a meeting in Berlin in which they pledged to uphold the rules-based order. The meeting ended in an event, hosted by Merkel, at which the German chemical company BASF signed a preliminary accord to spend up to \$10 billion on a second complex in China.

In what amounted to a rebuttal of Trump, Merkel said: “This shows that China’s market opening in these areas isn’t just talk, but action.”

Li said that, combined with Chinese moves to open up to foreign finance companies, the deal was a signal that multilateralism plays “a strengthening, bolstering role” for the world economy.

Merkel said she was concerned about the expansion of US tariffs against EU exports. “We should try to reach a deal, otherwise we will be forced to take action,” she stated and expressed the hope that China and Germany “won’t get caught up in a global spiral of protectionism.”

The *Wall Street Journal* cited an unnamed US official who said Trump “values the relationship we have with European allies” and has “made clear the importance of working together with Europe on unfair Chinese trade practices.”

The article noted that US industry officials had said the new tariff threats against China “were bound to be seen as a signal to Europe that the US wouldn’t back away from the trade fight” and “also could be a specific warning” to Merkel.

The EU and China will hold an economic summit meeting in Beijing next week with reports suggesting that China is pressing the EU to issue a strong statement against Trump’s trade policies.



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