US-China trade war escalates

Nick Beams
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The US-China trade war has gone up a notch with the announcement from Washington that it will go ahead with the imposition of a 25 percent tariff on $16 billion worth of Chinese goods from August 23, to which Beijing has declared it will respond in kind.

This is the final tranche of tariffs on $50 billion of Chinese goods that the Trump administration decided to impose in July, invoking Section 301 of the 1974 Trade Act. As Beijing has matched Washington's tariffs, $100 billion worth of trade between the US and China will now be subject to the tariff hike.

The US trade war measures are set to escalate. The administration has threatened to impose tariffs on another $200 billion of Chinese products, possibly by the beginning of September, following public hearings on the proposed measures later this month.

The initial threat was a 10 percent levy but Trump has since directed US Trade Representative Robert Lighthizer to investigate a 25 percent impost. Trump has also threatened that a further $200 billion could be impacted, which would mean that virtually all Chinese imports to the US would be covered.

Beijing has released an additional list of $60 billion worth of US products it would start taxing if the White House proceeds with the further escalation.

The latest hike follows a series of tweets by Trump last weekend in which he claimed the US was "winning" the trade war against China. He pointed to the fall in Chinse stock markets, down by more than 25 percent so far this year, and the fall in its currency, the yuan.

China responded with an editorial in the state-owned *Global Times* saying it was prepared for a "protracted war" and did not fear sacrificing its short-term economic interests. "Considering the unreasonable US demands, a trade war is an act that aims to crush China's economic sovereignty, trying to force China to be a US economic vassal," it declared.

The Chinese Commerce Ministry responded to the latest US tariffs by releasing the list of goods to be targeted. "In order to defend China's rightful interests and the multilateral trade system, China has to retaliate as necessary," it said.

An editorial published by the official Xinhua News Agency on Wednesday stated that China would get through the storm and those imposing the tariffs would end up hurting themselves.

"Some people selfishly swim against the tide and act against morality, wantonly raising the barrier of tariffs and waving the stick of hegemony everywhere," it said.

While informal discussions are being held, there seems little prospect of top-level negotiations to de-escalate the conflict. This is because the central demand of the US administration is that China must not only reduce its trade deficit with the US, but must also take action to wind back its plan to develop its industrial and technological base under the "Made in China 2025" program.

The US maintains that the Chinese plan involves the appropriation of US intellectual property rights through theft and forced technology transfers. It also claims that state subsidies to Chinese firms give them an unfair advantage in global markets, especially in the key area of hi-tech.

As many commentators and economic historians have pointed out, the Chinese practices are a repeat of many of those used in earlier times by the US and other countries, including Japan and South Korea, as they sought to develop their industrial and technological capacities.

However, key anti-China hawks in the Trump administration, particularly Lighthizer and White House economic adviser Peter Navarro, insist that Chinese efforts to do the same threaten the economic and ultimately the military supremacy of the US and cannot be tolerated.

The view in Beijing is that the US objective is not primarily the reduction of the trade deficit but the subordination of the Chinese economy to the US, turning it into an "economic vassal."

This assessment was strengthened by the events of last May when Chinese vice premier Liu He came to Washington. He reached an agreement with US Treasury Secretary Steven Mnuchin to increase Chinse imports from the US by as much as $100 billion and put the trade war "on hold," only to have the agreement overturned by Trump within a few days.

While Trump is claiming the US is "winning" the trade war because of growing problems in the Chinese economy, the prospect of a significant downturn is striking fear among many countries in South East Asia that are dependent on Chinese markets.

As the *South China Morning Post* noted in a report on August 4, if China were forced to devalue its currency, "the only reaction in Southeast Asian capitals from Kuala Lumpur to Hanoi, Bangkok and Jakarta will be panic."

There are vivid memories throughout the region of the impact of the 1997-98 Asian financial crisis. Its effects were in some cases equivalent to the 1930s Great Depression in the West, and could have been even worse had the Chinese currency been devalued. The outcome of the crisis was a turn by South East Asian nations towards the Chinese economy, on which they have become increasingly dependent.

Concerns are also being raised in South Korea about another aspect of the US trade war—the threat to impose tariffs on cars and auto imports on "national security" grounds, under Section 232 of 1962 legislation. While this tariff threat has been put on hold following talks between Trump and European Commission president Jean-Claude Juncker last month, it has not be removed.

According to a *Wall Street Journal* article, if the tariff threat is carried through the South Korean parliament will not ratify the US-Korea trade deal announced earlier this year. Under that agreement the US won major concessions, including allowing it to retain a 25 percent tariff on South Korean trucks and an agreement to cap steel exports at 70 percent on their level over the past three years. South Korean officials have said they have not been able to get a clear commitment from the US on whether their country would be excluded from any US auto tariffs amid warnings that the trade deal will "blow up" if they go ahead.

The potential global impact of the escalating US trade war has been highlighted in a report issued this week by Oxford Economics before the latest measures were announced. It stated that the US-China conflict could reduce world output by 0.7 percent by 2020, with China's economy slowing by 1.3 percent and the US by 1 percent. It said while there was not yet a major risk of "damaging stagflation"—rising prices and a slowing economy—the prospect remained of a "bigger blow-up" that sharply reduced trade as took place in the 1930s.