China retaliates against US trade war measures

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The Chinese government yesterday announced new tariffs on $60 billion of American imports in retaliation for the Trump administration's decision this week to impose another tranche of tariffs on $200 billion worth of Chinese goods.

The US has already imposed tariffs on $50 billion of Chinese goods, to which China has responded in kind. The escalating trade war is heightening economic instability and fueling geo-political tensions, not only between the US and China, but internationally.

The latest round of US tariffs is likely to end a tentative proposal for US-China trade talks. "We have been stressing that talks need to happen on the basis of parity, equality and good faith," a Chinese foreign ministry spokesperson said. "What the US has done shows no sincerity and good faith at all."

Fang Xinghai, vice chairman of China's securities regulator, warned that Trump was "poisoning" the atmosphere for negotiations. "President Trump is a hard-hitting businessman, and he tries to put pressure on China so he can get concessions from our negotiations. I think that kind of tactic is not going to work with China," he said.

Fang, who was speaking at a World Economic Forum event in the port city of Tianjin yesterday, is regarded as close to Vice Premier Liu He, China's top trade representative and senior economic adviser to President Xi Jinping.

The level of the latest Chinese tariffs is in line with those imposed by the Trump administration which have initially been set at 10 percent, but could be escalated to 25 percent from January 1 next year if no agreement is reached with China. Beijing has responded with tariffs levied at 5 and 10 percent, instead of the previously proposed rates of 5, 10, 20 and 25 percent.

China is not in position to impose strictly equivalent sanctions on $200 billion worth of American goods as its imports from the US amount to a total of just $130 billion. As a result, Beijing could seek to hit back at other areas of the US economy.

For his part, Trump has threatened to dramatically intensify the trade war by imposing a third round of tariffs on $267 billion worth of China goods if Beijing supposedly targeted his electoral base of support. If these tariffs proceeded, Washington would in effect be imposing punitive measures on all Chinese exports to the United States.

"China has openly stated that they are actively trying to impact and change our election by attacking our farmers, ranchers and industrial workers because of their loyalty to me," Mr Trump wrote yesterday. Later he lashed out more broadly, declaring: "We are the piggy bank to the world," he said. "We have been ripped off by China, we have been ripped off by …the European Union."

The intensifying trade war has provoked expressions of concern around the world.

EU trade commissioner Cecilia Malmstrom told the media: "This escalation is very unfortunate. Trade wars are not good and they are not easy to win." The European Union Chamber of Commerce in China issued a statement yesterday warning that the US-China trade war was "now seriously disrupting global supply chains."

In an unusually blunt statement, top Australian official Frances Adamson warned that "the US is unsettling the international trading system that has underpinned global economic growth for 70 years." Adamson, who is secretary to the Department of Foreign Affairs and Trade, said that "smaller open economies" such as Australia "have much to lose if trade barriers rise around the world."

In a tweet last week, Trump made clear his intention to wage what amounts to an economic war aimed at undermining the Chinese economy. “We are under no pressure to make a deal, they are under pressure to make a deal with us,” he bragged. “Our markets are surging, theirs are collapsing. We will soon be taking in Billions in Tariffs & making products at home.”

There are certainly signs that the Chinese economy is under pressure as a result of US trade war measures. Its stock market is among the world’s worst performing with the Shanghai Composite Index falling by about 20 percent since the beginning of the year. China’s yuan has weakened by about 6 percent since mid-June, which has in part offset US sanctions.

Economic data released last week pointed to a slowdown in the Chinese economy with investment in houses, factories, railways and other fixed assets growing at the slowest rate on record last month. Fixed-asset investment grew 5.3 percent in the first eight months of the year, the lowest figure since at least 1995 and the fifth consecutive record low.

US demands, however, have placed China in an impossible position. The Trump administration is not only demanding trade concessions to lower the US trade surplus with China, but is also insisting that Beijing halt its efforts to develop more competitive technologies under its “Made in China 2025” program. Under the pretext of demanding a halt to intellectual property “theft,” the US is seeking to ensure that China is unable to challenge American technological dominance.

The hawkish state-owned *Global Times* on Monday published comments from Chinese analysts indicating a determination in ruling circles not to cave in. “People tend to overlook the overall picture of the Chinese economy whenever there are any negative signs,” Li Daxiao, chief economist at Shenzhen-based Yingda Securities, said. “They always forget that the Chinese economy is still one of the fastest-growing in the world, that we have about $3 trillion in foreign exchange reserves and that China has a massive domestic market.”

An article in the *Financial Times* pointed out that China is not as vulnerable to US trade pressure as Trump might imagine. “The Chinese economy’s direct exposure to the US tariffs is limited. Gross exports to all countries equalled 18 percent of China gross domestic product last year—high compared with other large economies but down from a peak of 35 percent in 2006. Exports to the US alone accounted for only 4 percent of Chinese GDP.”

The article also pointed out that the most vulnerable businesses in China would be foreign and privately-owned companies. Corporations with foreign investors, including joint ventures with Chinese partners, accounted for 43 percent of Chinese goods exported last year. Of the remainder, privately-owned Chinese companies contributed 44 percent of exports, and state-owned enterprises only 10 percent.

“Contrary to views in Washington, China can—and will—dig its heels in,” Bill Zarit, chairman of the American Chamber of Commerce in China told the *Financial Times*. “The downward spiral that we have previously warned about now seems certain to materialise.”

While US tariffs and Chinese retaliatory measures were at the 10 percent rather than 25 percent level, there is no sign of a deal that might halt or slow the further development of an all-out economic war between the world’s two largest economies. As in the 1930s, the danger is that an escalating economic conflict will lead to world war with catastrophic implications for humanity as a whole.

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