US-China trade conflict leads to Wall Street sell-off

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A fall in US equity markets yesterday, in the wake of the escalation of the trade war between the US and China at the Asia Pacific Economic Community (APEC) summit at the weekend, has wiped out all the limited gains made earlier this month, following a sell-off in October.

The APEC meeting, held in Papua New Guinea, broke up in acrimony, with no final communiqué able to be issued, after US Vice President Mike Pence launched a broadside against China's trade and economic policies deliberately aimed at sabotaging the meeting.

The reaction in US markets was immediate. The Dow fell 395 points, a drop of 1.56 percent after dropping by more than 500 points in the course of the day, the S&P 500 index was off by 1.7 percent and the tech-heavy NASDAQ index dropped by 3 percent.

The sell-off was led by high-tech stocks which are sensitive to heightened trade war tensions because of the impact on their global supply chains and fears that trade conflicts will lessen demand for their products.

Markets had risen earlier this month, following the US mid-term elections, on the back of a resumption of talks between Washington and Beijing and statements by Trump of the prospect of a deal when he meets Chinese President Xi Jinping at the G20 summit in Buenos Aires, Argentina, at the end of the month.

This was taken as indicating there was a possibility that the escalation by the US of tariffs on $200 billion worth of Chinese goods from 10 percent to 25 percent at the start of next year could be put on hold. That now seems highly unlikely.

In his speech to the APEC meeting, Pence repeated Trump's threat to impose the tariff hike and said the US "will not change course until China changes its ways."

China has indicated that it is willing to increase its imports of US goods, in the areas of agriculture and energy, in order to reduce the US trade deficit as well as making other concessions. But this has been ruled out as insufficient by Washington.

The key US demand is that China undertake a fundamental shift in its economy by essentially scrapping its "Made in China 2025" economic program for the advancement of hi-tech industries as the next stage in its economic development.

Accusing China of the theft of intellectual property rights and imposing forced technology transfers, and demanding an end to what it calls market-distorting subsidies to state-owned industries, the US regards China's economic policies as a direct threat to its economic and ultimately military hegemony.

For its part, China is prepared to offer some concessions to the US but regards the demand that it scrap its key economic agenda as non-negotiable because it would reduce China to a position of economic subservience to the US as a kind of semi-colony.

The conflict at the APEC meeting means that rather than the meeting between Trump and Xi leading to an easing of trade tensions it could bring a further escalation. Trump said last week that he had received a long list of proposals from Beijing but they were not sufficient and were missing four or five big issues.

China does not appear to be holding out hopes for an easing of the conflict with its top trade negotiator, Vice-Premier Liu He, cancelling a plan to visit Washington for discussions with US Treasury Secretary Steven Mnuchin in advance of the Buenos Aires meeting between Trump and Xi.

Reporting on the cancellation, the *South China Morning Post* cited a source who said the sudden

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change of plan was the outcome of "work-level discussions." But the events at the APEC summit—indicating that the anti-China hawks in the Trump administration are directing operations—were no doubt the key reason.

Liu was badly burned last May when he reached a deal with Mnuchin only to have it overturned by Trump a few days later.

The escalating trade tensions are not the only factor in the market sell-off. Another key ingredient is the slowdown in the global economy and the prospect that the effect of the Trump tax cuts, which have boosted the US economy this year, will wear off in 2019.

All of the fastest growing stocks, the so-called Faangs—Facebook, Apple, Amazon, Netflix and Google's parent company Alphabet—have moved into bear market territory with their stocks down 20 percent from their peak.

Apple fell by 4 percent yesterday following a report in the *Wall Street Journal* that it had cut production orders for all of the three iPhone models in September. The report followed news that a series of Apple suppliers had lowered their earnings expectations.

The shares of one of those companies Lumentum Holdings dropped 33 percent last week after reporting that it had received "a request from one of the largest industrial and consumers" to "materially reduce" the supply of 3D sensors that power the facial recognition technology on the latest iPhones.

The slide in US markets is part of an emerging global trend. The *Financial Times* has reported that global bond and equity markets have contracted by $5 trillion so far this year, placing them on course for the worst year since the financial crisis of 2008 when they lost a total of $18 trillion.

The sell-off is taking place amid signs of a slowdown in the world economy. In 2017, the prospect was held out for "synchronised" global growth. But that is now very much a thing of the past.

Earlier this month it was reported that the gross domestic product in Germany, the key European economy, contracted at an annualised rate of 0.8 percent in the third quarter. This was the first quarterly decline in three and a half years, while the eurozone economy grew at an annualised rate of 0.7 percent in the same period, its weakest performance since early 2013.

The US economy has maintained a growth rate of above 3 percent, boosted by the stimulus provided by the Trump administration's corporate and personal income tax cuts. But the claim by Trump that this would be "fantastic for the economy" and lead to increased investment and sustained expansion has been exposed for the fraud it always was.

Last month the National Association for Business Economics reported that while its members reported rising sales and improved profit margins in the third quarter the tax cuts had "not broadly impacted hiring and investment plans."

Most of the increased cash has been used to finance share buybacks, rather than providing a boost to investment and economic expansion, and the impetus will now start to wear off under conditions where the world economy is starting to enter a period of "synchronised" slowdown amid rising trade conflicts.

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