

China to hit back if new US tariff threat goes ahead

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Talks between US and Chinese trade representatives, which start in Washington today and will extend into Friday, appear to be the last chance to avert a full-scale trade war between the world's number one and number two economies.

Earlier this week, the US said it will escalate tariffs on hundreds of billions of dollars worth of Chinese goods. China has indicated it will retaliate if the threat is carried out.

On Sunday Trump tweeted that the US would lift tariffs on \$200 billion worth of Chinese products from 10 percent to 25 percent on Friday and that a 25 percent tariff on \$325 billion worth would be imposed "shortly."

As a result, it appeared unlikely that the talks would go ahead. However, Chinese Vice Premier Liu He, the country's chief negotiator, decided yesterday to come to Washington to meet with his counterparts US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin.

The character of the negotiations has undergone a qualitative change. They had been intended to wrap up the months-long negotiations and come to a final deal, which would then be presented to US President Trump and his Chinese counterpart Xi Jinping for signing.

That perspective has been cast to the winds. It is extremely doubtful if anything like it can be put together again, given the US actions and demands.

The US has claimed that China backtracked on previous agreements to write its concessions into Chinese law but then retreated, saying the measures would be carried out by regulations that carry less weight.

According to reports in the *Wall Street Journal*, the US is demanding China submit an inventory of laws and regulations that it would enact to guarantee that it

was complying with any agreement. In other words, the US would effectively dictate economic policy to the Chinese government.

Beijing appears to have rejected this demand, regarding it as an infringement on its national sovereignty.

The Chinese decision to attend the talks is based on the hope that negotiations will be able to continue in some form and so prevent, or at least delay, a rapid escalation of the trade conflict.

Even that limited prospect is under a cloud given that the position of both sides is hardening.

Yesterday Trump posted a further inflammatory tweet: "The reason for the China pullback and attempted renegotiation of the trade deal is the HOPE that they will be able to 'negotiate' with Joe Biden or one of the very weak Democrats, and thereby continue to ripoff the United States (\$500 billion a year) for years to come."

Trump was referring to remarks by former Vice President Biden earlier this week suggesting that it was implausible that China would "eat our lunch" and that China was "not competition for us."

Uncertainty over the talks caused share prices to plunge on Monday with the Dow down more than 450 points. It fell a further 200 points on Tuesday, but recovered after Trump offered some prospect of a trade deal, and finished flat.

In an effort to calm the stock market, Trump said: "China has informed us that they are coming to the US to make a deal... We'll see but I am very happy with over \$100 billion in Tariffs filling US coffers ... great for US, not good for China."

In fact, the revenues from tariffs, which so far have totalled about \$34 billion, are not paid by Chinese exporters but by US importers.

While Trump stepped up the war of words against China, the office of US Trade Representative yesterday filed the necessary papers for the tariff hike scheduled tomorrow. It stated that in recent negotiations “China has chosen to retreat from specific agreements agreed to in earlier rounds.”

China has responded to the latest US threats by saying it will retaliate if the US goes ahead.

“The escalation of trade friction is not in the interests of the people of the two countries and the people of the world,” a Chinese Commerce Ministry spokesman said. “The Chinese side deeply regrets the action. If the US tariff measures are implemented, China will have to take necessary countermeasures.”

Trump’s press secretary Sarah Sanders said that the US had indications that China wanted to “make a deal” and that “our teams are in continued negotiations.”

However, that prospect looks increasingly unlikely. One of the main sticking points has been the US insistence that existing tariffs on Chinese goods would not be lifted immediately after an agreement was signed but would be reduced progressively as the US deemed China was complying. This was to ensure that there was an “enforcement” mechanism.

The US also maintained that it should retain the right to impose additional tariffs without a retaliation by China. These demands had already been rejected by Chinese negotiators who have insisted any enforcement mechanism should operate both ways.

But now it is confronted with the threat of new tariffs coupled with the insistence by Washington that it be allowed to rewrite Chinese law according to a list that it has drawn up.

Both sides are under considerable domestic pressure. Trump wants to secure some kind of agreement fearing that failure to do so will see sharp falls on the stock market.

He is also concerned that trade war escalation will severely impact several US states that form a considerable portion of his electoral base. These states have already been hard hit by Chinese retaliation to existing US tariffs directed against American agricultural products. Some rural areas are reporting the worst situation since the farm crisis of the 1980s.

At same time Trump is fearful that if he too readily comes to an agreement he will be attacked by sections of both the Republican party and the Democrats for

making a “weak” deal. These layers maintain that trade as such is not the central issue. The US must secure the imposition of so-called “structural reforms” that suppress China’s industrial and technological development, which is regarded as an existential threat to the economic, and ultimately military, dominance of the US.

On the Chinese side, Vice Premier Liu He may be willing to undertake the “reforms” demanded by the US and pull back somewhat on subsidies to state-owned industries, to which the US objects on the grounds they are “market distorting.” But he is also under pressure.

Powerful sections of the ruling regime will not agree to conditions that recall the imposition of the “unequal treaties” that formed a key component of the imperialist domination of China in the 19th century and the early part of the 20th.

The immediate issue is the threat of additional tariffs set to come into force on Friday. If Trump withdraws them at the last minute, then he is certain to come under attack for bluffing and having his bluff called.

However, if they are imposed and China retaliates, the trade war will undergo a major escalation.



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