

# “Act now” on trade or it will get worse, Trump threatens China

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13 May 2019

US President Trump has warned China to “act now” to conclude a trade deal with the United States or face worse terms after what he predicted would be his certain re-election in 2020.

The warning came in a series of Trump tweets issued over the weekend declaring the US was “right where we want to be.” He claimed that China had been “beaten so badly in the recent negotiations” they considered they might as well as well wait to see if they could get a Democrat win.

“The deal will become far worse for them if it has to be negotiated in my second term. Would be wise for them to act now,” Trump tweeted.

Prominent Republican senator Lindsey Graham weighed in behind Trump in an interview with Fox News saying the Chinese were trying to wait Trump out. He said the present situation was “the best chance of my lifetime to get China to change their cheating ways” and that the US would have to endure “short-term pain”.

The increasingly belligerent US rhetoric is being matched by action. Today the administration is expected to release details of a further \$300 billion worth of Chinese goods it intends to hit with tariffs of 25 percent. This followed the lifting of tariffs on \$200 billion worth from 10 percent to 25 percent on Friday.

The enactment of the new measures will mean that virtually all Chinese imports into the US will be hit with a 25 percent impost. However, they may not come into force for some months because there will be hearings to take submissions from US firms seeking exemptions.

There is no doubt, however, that the Trump administration intends to go ahead. Commenting on the latest developments, Chad Brown, a senior fellow at the Peterson Institute for International Economics, noted: “[T]he facts are what they are. For all of President Trump’s rhetoric about deals, to date his only real policy has been to shut down trade. After all of these [moves],

his end game may be just tariffs.”

As it steps up pressure on Beijing, the administration is keeping a very close watch on Wall Street. It is working to prevent a plunge, following significant falls last week that were only arrested by reassuring comments from officials that, despite the escalation of tariffs, negotiations were proceeding.

Larry Kudlow, the director of Trump’s National Economic Council, who functions as a kind of “minister for massaging the markets,” was again sent out to perform his duties on Sunday. He said that was a “strong possibility” that Trump would meet with Chinese President Xi Jinping at the G20 summit in Japan next month.

“We don’t think the Chinese have come far enough. We will wait and see. The talks will continue,” he said.

Kudlow indicated that China had issued invitation for US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin to go to Beijing for further talks. But there is no indication when they would take place or what would be discussed, given the escalation of US penalties and its insistence that changes in China’s economic policies be written into the country’s laws.

The negotiations were nearly scrapped last week after Trump announced tariff increases. He claimed that China had backtracked on commitments to enshrine the specifics of any agreement in law and would only make changes in regulations. This is regarded by the US side as being too weak.

Following the announcement, according to a report in the *Wall Street Journal*, the Chinese leadership, including President Xi, held a top-level meeting. They seriously considered not sending Vice Premier Liu He, their chief trade negotiator, to Washington—an action which would have effectively ended the negotiations.

In the event, it was decided he should go, fully aware there was no prospect of progress. It was “simply to keep

the talks going,” in the words of one unnamed Chinese official cited in the report.

Following the discussions in Washington, Liu responded to the US allegations about previous Chinese commitments. He said China had not “renege” on past assurances, saying the two sides were still in the process of exchanging draft agreements when Trump made his announcement of higher tariffs.

“We believe that before an agreement is reached, any change is very natural,” he said. “We did not backtrack. We had disagreements over how to write some of the text.”

Liu said China wanted a deal “premised on equality and dignity,” adding that the remaining differences were on “matters of principle” on which China cannot make concessions.

One of the key issues, which had emerged before the latest moves by Trump, was over whether tariffs imposed by the US would be lifted once a deal had been signed. The US side has insisted they must be in place and only be removed gradually, part of an “enforcement” mechanism, as it determined whether China was complying with the agreement.

This was rejected by China on the grounds that it represented “unequal” treatment. Now the Chinese side is confronted with the additional tariffs imposed last Friday, which will come into effect in about three weeks’ time when ships that left China after May 10 start arriving in the US. It also faces the threatened imposition of still more imposts on its exports.

The issue of changes to Chinese laws is also a major sticking point. Even if China were to agree to such changes, Washington is almost certain to demand the right to virtually dictate the text of the legislation, regarding any other option as not sufficient. However, it is extremely unlikely this will be acceptable to Beijing because it would be open infringement of its national sovereignty.

Liu indicated as much in his comments over the weekend.

“We are very clear that we cannot make concessions on matters of principle. We hope our US colleagues understand this,” he said. “The trade procurement figures should be realistic, the text must be balanced and expressed in a way that is acceptable to the Chinese people and does not undermine the country’s sovereignty and dignity.”

The trade conflict between the US and China is being watched closely in both Japan and the European Union.

Using the threat of 25 percent auto tariffs on the grounds of “national security,” Trump has secured agreements from both Japanese Prime Minister Shinzo Abe and European Commission President Jean-Claude Juncker for bilateral trade negotiations. Both of them resisted out of fear that in one-on-one negotiations, rather than multilateral talks, they would be subjected to the same kind of strong-arm measures now being applied to China.

The negotiations with the EU have already begun but have run into a major obstacle because the US has insisted—contrary to all available evidence—that agriculture has to be included. The EU maintains that agriculture was never part of the agreement reached between Trump and Juncker last July. The dispute bears a remarkable similarity to the US claim of Chinese “backtracking” over changes to its laws.

An unnamed senior EU diplomat told the *Financial Times* that the US-China conflict did not “bode well with our talks with either partner, as they will each surely copy and paste to us whatever they agree among themselves.”

The greatest threat, however, does not come so much from China, which will be looking for agreement with the EU to bolster its position against the US. Rather in trade negotiations with Brussels, Washington will use the same methods it has adopted against Beijing.

Pointing to the wider implications of the US-China conflict last week, Juncker said he feared a “major part of the economic problems the world is facing have to be read in the context of these trade tensions between the US and China.” If investors did not think this problem could be resolved soon, “the appetite for investments on both sides of the Atlantic and throughout the world” would weaken.



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