

Wall Street falls as US-China trade conflict intensifies

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Wall Street had its third-biggest fall for the year yesterday after President Trump issued a barrage of tweets indicating a further escalation of the trade war against China. The outburst followed the decision by Beijing to impose tariffs on a range of American goods, worth \$75 billion, in retaliation for US tariff measures.

After the markets had closed, Trump then announced a series of increased tariff measures. The 25 percent levy on \$250 billion worth of Chinese goods will rise to 30 percent from October 1. The tariff on another \$300 billion worth of goods, due to come into effect from the beginning of next month, will now be set at 15 percent rather than 10 percent as previously announced.

The reaction in financial markets to the announcement by China earlier in the day, that it was imposing retaliatory measures against the US, was relatively muted because it had been expected. But markets started to fall sharply after the Trump tweets because they indicated an intensification of the conflict, which took concrete form with the tariff hike announcement a few hours later.

Trump's tweets were his most belligerent to date, taking aim not only against China, but US corporations and the Federal Reserve, calling its chairman Jerome Powell an "enemy."

"We don't need China and, frankly, would be far better off without them," Trump tweeted. "Our great American companies are hereby ordered to immediately start looking for an alternative to China, including bringing your companies home."

Stocks then started to slump. The S&P 500 went down 2.59 percent, the Dow dropped by 600 points or 2.37 percent, and the Nasdaq lost 3 percent. Another factor in the market fall was the lack of any indication by US Federal Reserve that it intended to cut interest rates or make other significant changes to its monetary

policy.

In his widely followed speech to the meeting of central bankers at Jackson Hole, Wyoming, Fed chair Jerome Powell maintained the line he has used in recent months: "We will act as appropriate to sustain the expansion."

Powell said uncertainty over trade was "playing a role in the global slowdown and in weak manufacturing and capital spending in the US." But he appeared to rule out linking monetary policy and trade. He said setting trade policy was the business of Congress and the administration and that while monetary policy is a "powerful tool that works to support consumer spending, business investment and public confidence, it cannot provide a settled rule book for international trade."

Powell's speech brought another attack on the central bank from Trump. "As usual, the Fed did nothing! ... My only question now is who is our bigger enemy, Jay Powell or Chairman Xi?"—a reference to Chinese President Xi Jinping.

As stocks fell in response to Trump's Twitter comments, there was another flight to safety as money moved into US Treasury bonds. The yield on the two-year Treasury bond fell by 10 basis points to 1.51 percent, while yield on the 10-year Treasury bond dropped to slightly below that level. It was the fourth time this month that the yield curve has "inverted" from the normal situation where the yield on long-term debt is higher than that obtained on short-term debt. Such inversion is widely regarded as indicator of recession.

Trump's "order" to US firms to get out of China brought criticism from business organisations.

"The president does not have the authority to tell companies what to do," Myron Brilliant, head of

international affairs at the US Chamber of Commerce, told the *Wall Street Journal*. “He can provide guidance, he can provide his own thought, but US companies are going to continue to invest and do business with China because it’s too important a market.”

David French, senior vice president of government relations at the National Retail Federation, said it was “unrealistic for American retailers to move out of the world’s second largest economy as 95 percent of the world’s consumers live outside our borders.”

But even as his policies are being denounced as economically irrational, counter-productive and unrealistic, Trump is preparing to escalate them.

His latest measures against China came on the eve of the G7 summit meeting to be held in France over the weekend. Such has been the escalation of tensions that French President Macron, who is hosting the meeting, said he intended to dispense with a final communiqué because they were only studied to search for differences.

If there are major conflicts at the G7, they could erupt in the Sunday morning working session on the global economy, which was added at the last minute at the request of the US. Trump has already clashed with the Macron government over its decision to impose taxes on high-tech firms, threatening to impose tariffs on French wines in retaliation.

Another source of tensions is the proposed trade deal between the US and the European Union, which the American side has insisted must include agriculture, in the face of strenuous opposition from Brussels. The negotiations are being conducted under the threat by Washington it will impose tariffs of up to 25 percent on EU-manufactured cars and auto products if concessions are not forthcoming.

Speaking at a rally on Thursday, Trump said: “The European Union is worse than China, just smaller. It treats us horribly: barriers, tariffs, taxes.”

In comments to reporters in the lead up to the summit, Macron said: “We’re facing a historic challenge to the world order.” But the conflicts and antagonisms, not only between the US and China, but among the Western allies, are set to deepen.

As *Financial Times* columnist Edward Luce noted, the meeting of the G7 is likely to be one of the most “bizarre” in its history. “Summits are supposed to make global problems easier to manage. The G7—and

others of its kind, notably the G20—are reaching the point where the result is the opposite: a world less manageable than if the leaders had never met.”



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