Trump tariff war hits both China and US economies, threatening millions of jobs

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The impact of US President Trump’s tariff war against China is starting to show up in the economic data of both countries amid fears that much worse is to come in the months ahead.

On Wednesday, the US Commerce Department reported that GDP for the first quarter had contracted at an annual rate of 0.3 percent, largely as a result of companies trying to stock up on goods before the 145 percent tariff against China—a virtual economic blockade—comes into effect.

In China, official data showed a contraction in manufacturing activity and a slump in export orders to their lowest levels since the contraction due to COVID in 2022.

US GDP is calculated by subtracting imports from the total of government spending, exports, investment, and consumer spending. Imports for the first quarter surged by 41 percent, and the trade deficit hit a record high of $162 billion for March.

While the import surge was the main factor in the result, consumer spending showed signs of slowing, coming in at 1.8 percent growth, the smallest increase since mid-2023. Government spending also fell as the DOGE axe cut jobs and contracts.

Consumption demand, the main driver of US economic growth, is expected to slow further in the second quarter as Trump’s tariff hikes come fully into effect. Investment decisions by companies are being put on hold because of mounting economic uncertainty.

In a comment to the *New York Times*, Kathy Bostjancic, chief economist for the financial and insurance firm Nationwide, predicted worsening economic conditions.

“Once everything kicks in, we’ll have a slower economy, the labor market is slowing. Hiring has already stalled, and we expect the unemployment rate to start to rise.”

The chief economist at Moody’s, Mark Zandi, shared these sentiments in remarks to the *Wall Street Journal*.

The GDP report “probably overstates the economy’s weakness, but the economy’s weak,” he said, pointing to slower consumption spending and government cuts.

“If the administration can’t find an off-ramp on the tariffs soon… then I think we’re going to see a lot more negative GDP numbers ahead, and ultimately job losses.”

The sacking of 20,000 UPS workers is an indication of what is to come.

So far there are no signs of any significant easing of the economic war, the main target of which is China. In an interview on Tuesday to mark his 100 days in office, Trump acknowledged that the tariffs amounted to an embargo.

“That’s good,” he said. “They deserve it.”

“They were ripping us off like nobody has ever ripped us off. Almost every country in the world was ripping us off. They’re not doing that anymore.”

The administration has instituted a 90-day pause on the “reciprocal tariffs” against a wide range of countries to allow negotiations to take place. But all indications are that any lessening of the tariff for individual countries will be tied to an agreement that they act against China.

This is aimed at trying to overcome a perceived weakness in the US position. So far as exports to China are concerned—mainly grains and other agricultural products—China is likely to be able to find other sources of supply.

But there are few alternative sources of supply for the goods that the US imports from China, and, at least to some extent, China will be able to find other markets. Hence the push to ensure that barriers are put in place by third countries to shut off any escape route.

Beijing has stated repeatedly that there will be no negotiations with the US until the tariff hikes are withdrawn. President Xi Jinping has warned of a long battle and that China will "never kneel down" to Washington. The tariffs, however, are starting to have an effect.

The official purchasing managers' index issued by China's National Bureau of Statistics on Wednesday dropped to 49 for April, down from 50.5 in March, with a level below 50 indicating a contraction.

The index for export orders dropped even more sharply to 44.7, its lowest level since December 2022, in the midst of the COVID pandemic.

The bureau said the decline in manufacturing activity was due to "sharp changes in the external environment."

In a note to clients this week, Zichun Huang, China economist at Capital Economics, said the latest data "suggests that China's economy is coming under pressure as external demand cools" and that steps by the government to pump money into the economy were "unlikely to fully offset the drag."

Capital Economics, along with others, has forecast the Chinese economy will grow by only 3.5 percent this year, well below the government's target of 5 percent.

Earlier this week, the Japanese financial firm Nomura Securities predicted that if Chinese exports to the US dropped by 50 percent, then 5.7 million workers would immediately lose their jobs, and the number would grow to 15.8 million as the effects spread.

Last year, China relied on exports for around one-third of its economic growth, with Goldman Sachs estimating that between 10 million and 20 million manufacturing jobs in China are dependent on exports to the US.

At the same time, the impact of the China embargo is showing up at US West Coast ports, posing risks for jobs.

The number of containers to arrive at Los Angeles is set to drop by more than 35 percent next week compared to the same period last year, and a quarter of the ships scheduled for May have been cancelled, according to Gene Seroka, the port's executive director.

Based on conversations with companies, he told the *New York Times* that some of the 125,000 import companies which use the port, including big box retailers and home improvement firms, had halted nearly all their imports from China.

The situation is the same at the port of Long Beach, where the number of ships arriving from China dropped 38 percent this week from last week, and at least 30 ships scheduled in June have been cancelled.

In a report on the situation at the ports, the *Times* cited comments by Jason Miller, a professor of supply chain management at Michigan State University, who said what was underway was a "pure demand destruction scenario."

He indicated that if the downturn were sustained, the job consequences would go beyond port workers, extending to trucking and warehouse jobs, with "ripple effects for the broad economic community."

In a research note issued last month, Torsten Slok, chief economist at the financial firm Apollo Global Management, said the fall in shipments from China could lead to "significant layoffs" in trucking, logistics, and retail in May.

Christmas is still some way off, but it is at this time of year that retail outlets place their orders for toys, Christmas trees, and decorations, the vast bulk of which come from China.

An article in the *Times* this week said that "alarm in the industry is palpable," with some business owners consulting bankruptcy lawyers because they are simply unable to continue with 145 percent tariffs.

The article reported that in a survey of 410 toy companies, around 60 percent had cancelled orders, and around 50 percent said they would go out of business within weeks or months if the tariffs remained.

Just one month after Trump's economic war was launched on April 2, the data coming in points to the "destruction scenario" now rapidly unfolding. It has major political implications because it underscores the objective necessity for the unification of the struggles of American and Chinese workers as they confront the disaster being unleashed by the deepening breakdown of the global capitalist economy.