

US tariff hike against China goes ahead

By Nick Beams
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The Trump administration today carried out its threat to raise tariffs on \$200 billion worth of Chinese goods from 10 percent to 25 percent. It also again indicated that more is to come, signalling the imposition of a 25 percent tariff on another \$325 billion worth.

The hike went into effect one minute after midnight Friday, US time, just five days after Trump first issued the threat in tweets last Sunday. The new tariffs were imposed following the first session of discussions yesterday between the US negotiators, led by US Trade Representative Robert Lighthizer, and Chinese vice premier and chief trade negotiator Liu He.

The talks are scheduled to continue today but whether any progress will be made is very much a moot point.

However, the higher tariffs will only affect goods leaving China today, not goods already in transit to the US. This leaves a period of three to four weeks before they come into effect, during which time the US will continue to press for the concessions it has demanded from China.

Yesterday, in an effort to prevent a stock market plunge, with Wall Street opening more than 200 points down on the Dow, Trump said he had received a “beautiful letter” from China’s President Xi Jinping, and he expected to have a phone call with Xi, thus holding out the prospect of a deal.

The trade talks would proceed, Trump said, but in an expression of the improvised ad hoc character of the administration’s decision-making, he added: “I have no idea what’s going to happen.”

Until Trump’s tweets, the negotiators had been expected to announce an agreement ready for signing by the two presidents. The breakdown came after the US accused China of backtracking on commitments to enshrine agreements in Chinese law. The US has so far failed to specify on which agreements China reneged.

A Reuters report published on Wednesday, principally attributed to three US government sources,

said China had been on the brink of surrender but then tried to wriggle out at the last minute. The report said the seven-chapter draft agreement had included binding legal language that China change its laws covering intellectual property theft, forced technology transfers, competition policy, currency manipulation and access to financial services.

The Chinese side has strenuously denied the charge of backtracking. At a press conference on Thursday, Ministry of Commerce spokesman Gao Feng rejected Washington’s claim and said Beijing had been seeking to resolve the disputes with the US.

“Lots of [broken] promises have been foisted on China,” he said. “China is committed and has kept its promises, and this has never changed.”

Gao warned there were no winners in trade wars and called for the US to solve problems through dialogue rather than unilateral measures. “At the same time, China is well prepared, determined and capable of safeguarding its legitimate rights and interests,” he said.

It is not clear what measures China could enact in retaliation, given that a considerable portion of US exports have already been hit by earlier tit-for-tat tariffs. Retaliatory measures could include increased regulations directed at US goods, which would slow access to Chinese markets.

Beijing does have a more powerful weapon at its disposal. It holds \$1.3 billion of US Treasury bonds and could threaten to sell them off—a move that would cause significant turbulence in financial markets. But a resort to this “nuclear option” would have a major impact on China itself because of the increased integration of its financial system into global markets.

On the issue of changes to Chinese law, Gao said China did not legally mandate foreign companies to transfer technology to Chinese partners. Beijing has repeatedly insisted that if such transfers do take place,

these are commercial arrangements.

“The newly passed foreign investment law further stipulates that government departments and officials shall not use administrative means to engage in the forced transfer of technology, further enhancing legal protection for foreign enterprises,” he said.

But these laws are regarded as inadequate by the US and too easily by-passed. In effect, it is demanding that Washington be able to dictate Chinese legislation. This is regarded by Beijing as an unacceptable infringement on China’s national sovereignty.

At same time, the US is continually stepping up the pressure on all fronts, not only from the Trump administration.

On Monday, the US-China Economic and Security Review Committee, a body established by Congress in 2000 as China was moving to gain entry to the World Trade Organisation, released a report entitled “How Chinese Companies Facilitate Technology Transfer from the United States.”

The report pointed to the essential driving force of the conflict, which is not trade as such, but China’s efforts to enhance its industrial and technological development, regarded by Washington as a threat to US dominance, both economically and militarily.

The committee said China used a variety of methods, “many of them covert or coercive,” often at the direction of, and with assistance from, the government, as part of “Beijing’s larger effort to develop its domestic market and become a global leader in a wide range of technologies.”

These issues have been at the centre of the conflict, which began last May when the Trump administration set out its base position, essentially demanding that China end its efforts to develop hi-tech industries and assume a semi-colonial status with regard to the US.

Shi Yinhong, an adviser to China’s State Council, told the *South China Morning Post* the US had pressed China to make changes on structural issues such as subsidies for state-owned industries. Beijing it found difficult to accept these demands but did not reject them outright.

“China wanted to offer some smaller concessions, hoping the US would accept,” Shi said. “But Trump would not allow it.”

The newspaper cited an unnamed professor at the Chinese Academy of Sciences, also a senior adviser to

the Chinese leadership, who said some of the US demands, especially those on cancelling subsidies, would be “suicidal.”

“It means that China has to give up its development pattern,” he said. “China would rather accept the US raising the tariffs to 25 percent. China will not give up its bottom line just for the sake of reaching a deal.” China could “bear the consequences” and was “prepared for failure.”

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