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By Nick Beams
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US-China trade war intensifies

The developing trade war between the United States and China significantly escalated this week with the imposition by each country of tariffs on $50 billion worth of products.

The first move came late Tuesday afternoon when the Trump administration announced a list of 1,333 goods that could be subject to the imposition of a 25 percent tariff. Hours later China responded with a list of 106 products, mainly agricultural goods, which would be subject to the same tariff if the US went ahead.

The most significant impact will be on the export of soybeans to China, worth $12.3 billion last year, just under a tenth of total US exports to China. Overall, Beijing's proposed measures target around one-third of all US exports to China.

The Chinese finance ministry issued a statement that the American measures "have seriously violated the rules of the World Trade Organisation and have seriously violated China's legal rights."

Speaking at a press briefing, the Chinese vice-minister of commerce, Wang Shouwen, said China did not want a trade war because no one would win. "But if someone insists on fighting a trade war, we will be there," he added.

Under the Trump measures, US businesses will have until May 22 to make submissions on the plan, after which the administration has 180 days to decide what action to take.

Yesterday, Trump administration officials hit the airwaves to raise the prospect of negotiations. In a clear attempt to calm financial markets, Commerce Secretary Wilbur Ross appeared on the business channel CNBC before trading opened to claim that the

Chinese measures should not have surprised anyone and that the US was not entering "World War III," leaving open the prospect of negotiations.

"Even shooting wars end with negotiations," he said.

Larry Kudlow, newly appointed as Trump's chief economic adviser, took the same line, telling Fox Business: "These are just the first proposals… I doubt there'll be any concrete actions for several months."

Treasury Secretary Steven Mnuchin issued a statement that the administration "will continue to engage in discussions with China to address these issues of reciprocal trade."

Besides concerns over immediate market reactions, an aim of the media interventions by members of the administration was to counter opposition from within US political and business circles. Sections of the Republican Party are opposed to the measures, reflecting concerns within major corporations about the impact of Chinese retaliation.

The president of the American Soybean Association, John Heisdorffer, said the Chinese tariff would "have a devastating effect on every soybean farmer in the US." He called on Trump to "engage the Chinese in a constructive manner, not a punitive one."

The president of the National Association of Manufacturers, Jay Timons, said Chinese unfair trade practices hurt US competitiveness, but that the tariffs would create "new challenges" in the form of higher costs and retaliation, and called on Trump to pursue a bilateral agreement with China "that wholly restructures our economic relationship."

The Association of Equipment Manufacturers said it was "very concerned" about the deterioration in the US-China relationship and that, while there had to be efforts to create a fairer system, "imposing taxes on equipment used by construction workers and farmers across the country is not the way to achieve those ends."

Trump, however, has continued his bellicose rhetoric, declaring in a tweet: "We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the US. Now we have a trade deficit of $500 billion a year, with intellectual property theft of another $300 billion. We cannot let this continue!"

The comments of administration officials appeared to have the desired effect of preventing an immediate market sell-off, with the Dow lurching from an opening of more than 500 points down to finish the day up by 200, the latest in a series of major intraday swings that reflect the underlying instability of the financial markets.

Whether an all-out conflict can be averted by talks and negotiations is another question, however.

As the *Financial Times* noted in a worried editorial comment, the "good news" was that both sides still had time to back down. The "bad news" was that "according to Donald Trump's negotiating team, the two sides were already at the negotiating table, and purportedly making progress, before the latest escalations were announced."

The threat of an intense and deepening trade war arises from the nature of the conflict. While Trump rails against the US deficit with China, regularly inflating the figure from $375 billion to $500 billion, the driving force of the US action is the attempt to prevent China from developing its capacities in high technology sectors, including communications, robotics, aircraft and pharmaceuticals.

Under its "Made in China 2025 program," initiated by President Xi Jinping at the end of 2015, China has announced its intention to become an "innovation nation" by 2020, an "innovation leader by 2030" and the "world powerhouse of scientific and technological innovation by 2050."

The words are being backed by action, with hundreds of billions of dollars devoted to Chinese high-tech research and development, prompting fears in the US that its technological dominance could be eclipsed.

The US tariff targets reflect these concerns. They are not aimed primarily at the still relatively low-tech goods imported into the US, which are the main contributors to the deficit. These imports are in large part the result of the global supply chains established by US corporations in order to take advantage of heaper Chinese labour. Chinese exports are still concentrated in sectors such as consumer electronics and appliances, clothing, footwear, furniture and toys. The Apple iPhone, for example, will not be impacted.

This point was underscored by Ross in his CNBC interview. He said the tariffs were directed at those products where the US was not "terribly dependent" on China. The focus of the measures was to protect intellectual property rights, which the US has accused China of infringing through so-called technology transfers by companies investing in China as well as outright theft.

Intellectual property had to be protected, Ross said, because it was "the key to our future." The rules of the World Trade Organisation did not address intellectual property and the Chinese had to stop stealing it, he added.

This issue was at the centre of a comment published in the *Financial Times* earlier this week, before the latest US measures were announced, by Richard Staropoli, the former chief information officer for the US Department of Homeland Security. He wrote that the new tariffs would not be directed at "old economy" targets such as steel and aluminium, the subject of new tariffs last month, but would explicitly hit Chinese technology.

He wrote: "The new round will aim straight at Beijing's 'Made in China 2025' program, which the US sees as a direct threat to American hegemony… We are in a new cold war with Beijing to retain control of the technology critical to the modern economy."

The economy is not the only concern. Developments in information and communications technology have far-reaching military implications, even more so than steel, on which Trump imposed tariffs last month, invoking national security and military preparedness as the justification.

Staropoli noted that in 5G phone technology, Chinese equipment makers were taking "centre stage," in "stark contrast" to an earlier period "where underlying technology originated almost exclusively in Europe and the US."

While the outcome of immediate events is impossible to predict amid the ongoing moves and counter moves, the basic trend of development is clear. The post-World War II international economic and trading system, created by the United States, is being smashed to pieces and the world is rapidly descending into a trade war on a scale potentially more disastrous than that of the 1930s, which produced economic chaos and led ultimately to the Second World War.