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Trump escalates tariff threats against China on eve of G20 summit

For the past month, since US President Trump had a phone conversation with China's President Xi Jinping on trade, attention has been focussed on the talks between them due to take place at a dinner on Saturday night during the G20 summit meeting in Buenos Aires.

The hope is that the discussion will lead to at least some easing of the US trade war against China, possibly putting on hold the planned escalation of tariffs on \$200 billion worth of Chinese goods from 10 percent to 25 percent at the start of next year.

While a "deal" is still possible, the chances seem very remote in the light of Trump's comments and those of other members of his administration this week.

On Monday in an interview with the *Wall Street Journal*, Trump indicated that it was "highly unlikely" that he would agree to any Chinese request not to go ahead with increased tariffs. Furthermore, if the talks did not produce a favourable outcome for the US, he would go ahead with tariffs on an additional \$267 billion worth of Chinese goods not covered so far, either at 10 percent or 25 percent.

"If we don't make a deal, then I'm going to put the \$267 billion additional on," Trump said.

Another indication of the probable tone of the discussions is that the dinner with Xi will be attended by Secretary of State Mike Pompeo and National Security Adviser John Bolton, both regarded as "hardliners" on the question of China.

The belligerent tone struck by Trump in his interview was echoed in comments by the director of the US National Economic Council, Larry Kudlow. His remarks were significant because he is one of those in the administration regarded as more amenable to a trade deal with China.

But Kudlow held out little prospect for an agreement, saying talks in the lead-up to the Trump-Xi meeting had made no progress and that it was up to the Chinese president to “step up and come up with new ideas.”

“We can’t find much change in their approach,” he told reporters. He said he hoped Xi would have more to say in the talks with Trump “but at the moment, we don’t see it.”

The following day, in an effort to calm the stock market, Kudlow said Trump had indicated that there was a “good possibility” that a deal could be made but “certain conditions have to be met with respect to fairness and reciprocity.”

It is precisely those “certain conditions” that are at the heart of the conflict. The essential demand, which Washington placed before Beijing last May, is that China essentially abandon its plan to advance its technological and industrial base, which the US regards as a threat its economic and military position. The US accuses China of seeking to make this development through intellectual property theft, forced technology transfers and “market-distorting” subsidies to state-owned industries.

The US demands, however, are unacceptable to Beijing as they amount in essence to a directive that China cease its industrial development and remain subservient to the US, as a kind of economic semi-colony, particularly in the key areas of advanced telecommunications, robotics and artificial intelligence.

Kudlow has underscored the significance of these issues claiming that it was necessary to “break through these Chinese walls.”

“They are so resistant to change: we have to protect our country, that’s all. We have to protect our technology, our inventiveness, our innovation,” he said.

Aside from the public comments by Trump, another indicator of the increasing conflict is the less publicised decisions being made by the administration.

Last week, in an update of its review of the investigation into China being conducted under Section 301 of the 1974 Trade Act—under which the existing tariffs have been imposed—the office of the US Trade Representative (USTR) concluded that China had not changed its alleged predatory practices. The USTR is led by Robert Lighthizer, one of the key anti-China hawks in the administration.

“China fundamentally has not altered its acts, policies and practices related to technology transfer, intellectual property and innovation and indeed appears to have taken further unreasonable actions in recent months,” the USTR said in its report.

In another move clearly directed against China, the Commerce Department announced last week it was considering imposing restrictions on the export of advanced technologies. It said it was seeking public comment by December 19 on “whether there are certain emerging technologies that are essential to the security of the US.”

Exports deemed to fall into this category—ranging from genome research to microprocessor technology, computer vision and flight control algorithms—could then be subject to outright bans or restrictions. Earlier this month, the US banned exports to Fujian Jinhua, a major start-up technology group heavily backed by the Chinese government, after it was accused of stealing technology from a US chipmaker.

Little hope for an agreement is held on the Chinese side. In an interview with the *Wall Street Journal*, the Chinese ambassador to the US, Cui Tiankai, said for negotiations to proceed positions had to be clear and consistent and not shifting. If an agreement were reached then “people have to remain committed to this agreement and try to make further progress. You cannot have some tentative agreement one day and reject it next day.”

Cui was referring to events last May. China’s vice premier and chief trade negotiator Lui He reached an agreement with US Treasury Secretary Steven Mnuchin for an increase in US exports to China—a deal which Mnuchin said had put the trade war “on hold.” However, Trump overturned it within days.

The ambassador said he was in regular contact with and received advice and assistance from US figures such as former Treasury Secretary Hank Paulson and Steven Schwarzman, the head of the multi-billion-dollar Blackstone equity fund. In an extraordinary outburst earlier this month, Peter Navarro, the White House trade adviser, denounced such people as being part of a Chinese “influence operation” and “unregistered foreign agents.”

Cui also warned of the global implications of the US trade war against China and that if it continued “there’s real risk the global market might become fragmented.” He also issued a veiled warning to the Trump administration, which claims the US is winning the trade war because its economy is growing strongly while China is experiencing problems.

Although the current position of the US was “good,” he said, a similar situation to that which emerged ten years ago during the global financial crisis could not be ruled out.

“But under the current circumstances, do you think that people will still be as ready and open as they were in 2008 to have effective international policy coordination and coordinated stimulus actions? I’m not sure about that,” he said.

In the immediate aftermath of the US meltdown, China played a crucial role in stabilising the global economy through a major government spending program coupled with the expansion of credit, providing markets for commodity-exporting countries.

While the main thrust of the US measures is directed against China, Trump made clear in his WSJ interview that his “America First” agenda is aimed against the entire global trading system.

The problems with China, he said, began with the World Trade Organisation (WTO). “The World Trade Organisation is absolutely unfair to the United States, and they’re going to have to change their ways.”

The US administration has already taken aim at the WTO by refusing to allow the appointment of new members to its appellate body, effectively leading to a situation where its disputes settling procedures are grinding to a halt.

Trump also denounced the European Union, repeating his assertion that it was “almost as bad as China, just smaller.”

“They treat us very badly. They don’t take our farm products. They don’t take our cars. They don’t take anything. ... And the EU was set up in order to hurt the US,” he said.

At present, US action against the EU in the form of a tariff on cars imposed on “national security” grounds has been put on hold following an agreement between Trump and European Commission President Jean-Claude Juncker in July to open trade negotiations.

When asked if he would go ahead with a tariff on cars, Trump, who told the interviewers he was a “tariff person,” replied: “If they don’t make a fair deal with us, I’d do it in about 12 minutes.”

A decade ago, in the aftermath of the global financial crisis, the G20 became the principal global economic forum. Its summits issued pledges that never again would the major powers go down the road of tariff barriers and trade restrictions, which played such a disastrous role in deepening the Great Depression and helped to create the conditions for World War II.

It is measure of the rapid rise of global economic tensions and the enormous dangers they contain, that the proposed draft communiqué for the weekend G20 summit has reportedly dropped the commitment to “resist protectionism,” after having regularly included it in previous statements.