

TRADE WAR TENSIONS

China's \$50-billion riposte

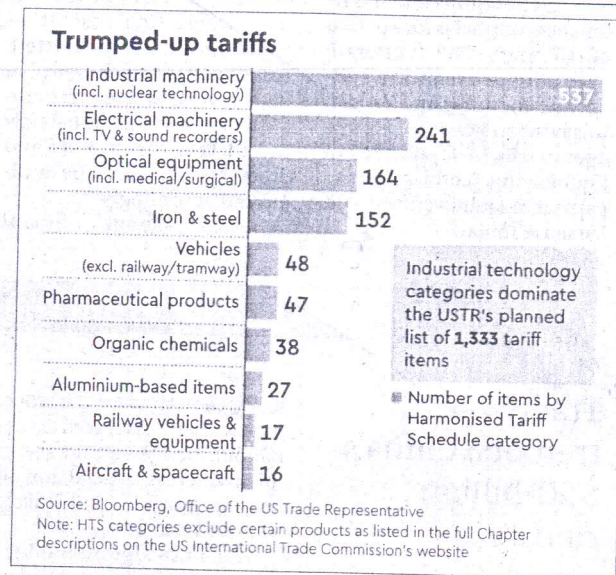
Announcing measures of equal intensity, Beijing takes aim at soya beans, aircraft in counter-punch to US levies; speed of retaliatory steps stuns financial markets

BLOOMBERG
Beijing, April 4

CHINA SAID IT would levy an additional 25% tariff on imports of 106 US products including soya beans, automobiles, chemicals and aircraft, in response to proposed American duties on its high-tech goods.

Matching the scale of proposed US tariffs announced the previous day, the ministry of commerce said on Wednesday in Beijing that the charges would apply to around \$50 billion of US imports. Officials signalled that the implementation of the proposed measures would depend on when the US applied its own, and that there was still time for both sides to agree to a settlement.

The step escalates a brewing trade war between the world's two largest trading nations, with the Trump administration's latest offensive based on alleged infringements of intellectual property in China. While the dispute centres around a \$375-billion goods trade imbalance in favour of China, the US is also now targeting high-tech sectors that Beijing sees as the future for its economy, prompting an angry reaction.



"China's response was tougher than what the market was expecting — investors didn't foresee the country levying additional tariffs on sensitive and important products such as soya beans and airplanes," said Gao Qi, Singapore-based strategist at Scotiabank. "Investors believe a trade war will hurt both countries and their economies eventually."

Asian stocks fell, with the MSCI Asia Pacific Index declining 0.6% to the lowest in

almost eight weeks. The yen advanced and futures on the S&P 500 Index tumbled.

Beijing's proposed targets strike at the core of commercial relations between the two countries, and at some of the most politically sensitive goods in core Trump constituencies. For example, China is the world's largest soya bean importer and biggest buyer of US soy beans in trade worth about \$14 billion last year.

Both sides have calibrated

their current actions around the figure of \$50 billion worth of imports, the US estimate of the annual damage to the domestic economy caused by China's intellectual-property infringements. That number accounts for roughly one-third of China's imports from the United States last year, versus less than one-tenth of China's exports to the US, according to data from International Monetary Fund.

The implementation date of China's retaliatory tariffs depends on the outcome of bilateral negotiations, and the US decisions, deputy finance minister Zhu Guangyao, told reporters after a news conference in Beijing. "Now both sides have put up our lists. We believe both countries have the ability and wisdom to address the problem," Zhu said.

The US list of planned charges on more than 1,300 product categories focused on China's industrial machinery and technology exports. China's envoy to the World Trade Organisation, Zhang Xiangchen, called it "an intentional and gross violation of the WTO's fundamental principles of non-discrimination and bound tariffs".

Trade war tremors: China's \$50-billion riposte

INDUSTRIES INCLUDING aerospace, information and communications technology, robotics and machinery were among those targeted by the US trade representative on Tuesday.

The agency said it chose products to minimise the impact on the US economy and consumers.

In addition to advanced technologies such as communication satellites, the US list includes items ranging from various types of steel to television components, medical devices, dishwashers, snow blowers and even flame throwers.

"The US list suggests that the government is targeting the 'Made in China 2025' initiative, while China's retaliation intends to bring Americans back to the negotiation table," said Zhou Hao, an economist at Commerzbank in Singapore, said in an email.

The release of the list by US trade representative Robert Lighthizer leads into a roughly 60-day period when the public can provide feedback and the government holds hearings on the tariffs. The 25% tariffs come on top of any existing levies. China's Made in China 2025 plan was announced in 2015, and highlighted 10 sectors for support on the way to China becoming an advanced manufacturing power, from information technology, to robotics and aerospace. China also has a separate development strategy for artificial intelligence, published last year.

"The current tariff measures from both parties are very unlikely to be implemented," said Ren Qing, a partner at Global Law in Beijing who has advised the Chinese government on its response to the intellectual-property investigation. "People from American industries may exert pressure on the US government and influence final policy implementation."