



By: Tomorrow's Affairs Staff

Can the calming down of the US-China tariff war start with the aviation sector?



Boeing aeroplanes have a significant place in the history of economic and political relations between the USA and China and are highly symbolic.

In 1972, during his historic visit to China, Richard Nixon **presented** Boeing aeroplanes to the hosts, opening up one of the world's largest markets to the American giant.

Ten years ago, the Chinese leader Xi Jinping started his **visit** to the USA in Seattle, the headquarters of Boeing, of all places, with a meeting with the American business elite, and only then did he travel to Washington to meet with the then President Barack Obama. Then, as in all subsequent years, Xi Jinping flew on Boeing's 747.

Now, as the pendulum of cooperation between the world's two largest economies swings rapidly to the side of trade conflicts or even a tariff war, Boeing is there again— both as a real problem and as a symbol.

China's tendency for using symbols, even in the context of highly measurable things like trade, stems from Beijing's **decision** to ban domestic companies from ordering new Boeings.

The political elite reportedly introduced this ban as another reciprocal measure amid the tariff war with the US, immediately following the decision to increase tariffs on imports of American goods to 125% in response to the US tariff wall of 145%.

Bad news for Boeing

One of the symbols of American industrial power, the giant from Seattle, is just one of the victims of the tariff war raging between Washington and Beijing.

Boeing's shares fell 3.7% following the news from China, and the company lost 7% of its value since the beginning of the year. The outlook following Beijing's latest decision is not encouraging.

Since the beginning of the year, Boeing has delivered a total of 18 aircraft to Chinese customers. It is still uncertain how the ban on further orders will affect the 10 Boeing 737 Max that are ready for delivery to a Chinese customer. It is still possible that the company will receive these orders if the payment and paperwork are finalised before the Chinese authorities' decision comes into effect.

The troubling news for the American manufacturer, however, is that the already agreed-upon deliveries of at least 178 aircraft for the three largest Chinese airlines—Air China, China Eastern Airlines, and China Southern Airlines— over the next two years are being cancelled at this moment. That is, of course, unless something changes in the meantime, i.e., the tariff war ends.

The ban on ordering Boeing aircraft is a step further compared to the previous course of the "war"

Beijing's motives for this decision are multiple. The first is certainly to deal a blow to the American administration by implementing the policy of increasing tariffs on exports to the US.

The ban on ordering Boeing aircraft is a step further compared to the previous course of the "war", in which Beijing adhered to the principle of reciprocity and responded to the same measures taken by Washington.

Protection of domestic production

The motive that directly affects Boeing, not so much the trade policy of the government in Washington, should not be underestimated. China was the first country to ground Boeing aircraft after two 737 Max disasters, first in Indonesia in 2018 and then in Ethiopia in 2019. It was also one of the last countries to allow Boeing aircraft back into service.

Therefore, the new Chinese protectionist measure should be placed in the context of the ambitions of the domestic aviation industry, i.e., the incentive to buy the Chinese C919 narrow-body aircraft, with which the economic planners in Beijing have enormous ambitions.

However, favouring domestic manufacturers by banning the import of aircraft from America is a double-edged sword for Beijing. The latest ban not only affects the ordering of Boeing aircraft but also the ban on the import of parts and equipment for the aviation industry from American manufacturers.

The supply chain at Chinese manufacturer Comac could be severely disrupted by the new measures taken by the government in Beijing

Here we come to a very long list of components made in America that will be **installed** on the new pride of Chinese industry, the C919 aircraft - from General Electric engines and Honeywell navigation systems to wheels, brakes, weather radars, and fuel systems.

The supply chain at Chinese manufacturer Comac could be severely disrupted by the new measures taken by the government in Beijing, jeopardising around 1,000 C919 orders.

Against the background of the Chinese ban on importing aircraft and parts from the USA, it is also possible to recognise Beijing's intention to improve its negotiating position by increasing pressure in the tariff war.

Will de-escalation come after escalation?

Although the government in Beijing is the only one to explicitly rule out the possibility of negotiations with the Trump administration on tariff equalisation, its latest move suggests otherwise.

Its ban on ordering Boeing aircraft undoubtedly reflects badly on the company's business, which has been quite turbulent for years. But at the same time, the impact on the Chinese aviation sector could also be quite dramatic.



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By banning the import of American aircraft parts, Chinese companies could run into similar problems as Russian airlines that are unable to properly maintain their fleets due to the sanctions.

On the other hand, if China really wants to become the largest global market for commercial air transport in two decades, and forecasts say that it will then have a 20% share, then its protectionist measures cannot lead to this goal.

Both Boeing and other aeroplane manufacturers will undoubtedly exert pressure to weaken the tariff regime because they are getting the message from other markets, not just China, that customers do not want to participate in paying new US tariffs.

It is possible that the easing of the tariff war will begin in this sector because Beijing has taken an escalating step in it.

That geopolitics cannot be left aside is also confirmed by the rapid **reaction** of the Russian authorities to the US-Chinese conflict in the aviation industry, where they showed interest in starting the purchase of Boeing aircraft

from frozen funds in the West.

In this triangle between Washington, Beijing and Moscow, the ground is already slowly being prepared for the transactional approach to policy that the US president is inclined to take.