

The China-US Trade Dispute: Will It Escalate into a “Global Trade War”

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The headlines are filled with news of China – United States trade disputes and imposition of damaging tariffs on steel and aluminum by the U.S. and countervailing tariffs by China on U.S. agricultural and other exports.

Will trade disputes escalate into a trade war between the world two largest economies? A trade war is a fight that almost all economists agree that both parties will be bloodied. No one will win. This is the position of Chinese Premier Li Keqiang, an economist. President Donald Trump famously opined on March 2 that

“Trade wars are good and easy to win.”

Well founded economic wisdom is: free trade good – trade war bad. Negotiation between nations, adherence to international trade agreements, WTO rules, and dispute resolution is the path forward. Equally supported is the belief that developing economies, from the United States to China, practiced an aggressive policy of import substitution using protective measures to shield their infant industries from foreign competitors.

Now we have the world’s two largest economies about to square off in potential ruinous economic combat if it spirals out of control with ever escalating tariffs. No one really knows if Donald Trump’s negotiating style is just bluster and brinkmanship with limited goals to appease his base supporters.

Some conservative U.S. business interests are more than just rhetorically concerned. The Koch Brothers are planning to focus their very substantial organizing and lobbying powers in support of free trade in the 2018 Republican primaries fight where they can exert substantial influence.

President Trump could have declared victory in March in trade talks with China when Premier Li Keqiang announced a further cut of 30 million metric tons of steel capacity in 2018 as part of ongoing plans to reduce overcapacity in Chinese government and provincial owned and financed steel. This was combined with Premier Li’s announcement of deficit reduction from 3 per cent to 2.6 per cent meaning less subsidy that could be reflected in steel pricing. Chinese steel exports in 2017 decreased 31 percent from 2016 for a total of 73.3 million metric tons, or 23% of world total steel exports.

Chinese steel total production is enormous, about 50% of global steel production. In 2017, China produced 825 million metric tons of steel and used 87 percent of this production domestically. This is the practical meaning of China becoming the global factory.

Some subsidized state-owned steelmakers, alleges economist Wolf Richter, “have turned into loss-making zombies,” an industrial version of bad debt laden banks. At the same time as wasteful steel overcapacity as being trimmed, a reduction of 150 metric tons of coal were announced for 2018, again ahead of schedule.

The U.S. and China as the two largest global economies have common interest in being global leaders cooperating in global renewable energy conversion, carbon dioxide emissions reduction, and rebuilding global industrial infrastructure to meet sustainable ends of a global ecological civilization that is China’s express policy. But the United States under Trump has expressed little or no interest in these common pursuits. Indeed Trump is indifferent or hostile on renewable energy and is doing everything he can to subsidize and maintain the U.S. coal industry unable to compete with zero fuel cost renewable power and with fracked natural gas.

Long Term Significance

What is the context and long-term significance of China-United States trade disputes? The current imbroglio was driven by the unanticipated rise to power by Donald Trump with an America First ideology that on the world stage means America Last.

Trump’s America first policies are an unfortunate mixture of opposition to free trade, an anti-internationalism that’s more than just tinged with racism and American nativism. Such racist nativism was historically expressed in the United States by the odious Chinese exclusion acts starting in 1882. This led to the 1929 National Origins Act that banned all Asian immigration. Not until the Immigration Act of 1965 that large scale Chinese immigration to the U.S was allowed to begin again.



China in 2018 is no longer just a source of cheap labor. China is the world’s second largest economy, rapidly overtaking the United States as world economic leader. At bottom, this is the dynamic driving China- U.S. trade disputes. One of Donald Trump’s first act as president was to withdraw from the Trans Pacific Partnership, a carefully constructed U.S. plan to act as a firewall against Chinese economic expansion that was torn down by the new administration.

The new administration left the door wide open for Chinese influence and at the same time savaging U.S. international leadership. On March 18, 11 nations, Australia, Brunei, Chile, New Zealand, Peru, Singapore, Vietnam, Japan, Malaysia, Canada and Mexico signed the TPP without the United States.

In 2018, it is President Xi Jinping that is warmly welcomed in Davos. It is Premier Li Keqiang, with an economics doctorate, leading Chinese trade initiatives, and cautioning the United States that there will be no winner in trade wars. And it is U.S. business publications like Forbes noting that the U.S. trade deficit with China is the basis for purchase of U. S. treasury notes and bonds by China to help finance the huge U.S budget deficit rapidly accelerating into more than one trillion dollars a year as a consequence of Trump administration business friendly tax cuts. What will happen when recession strikes the U.S.?

While the focus is on steel and aluminum, the long term question is very much on China's concrete plans to be world leader in renewable energy, super computers, quantum computing, robotics, artificial intelligence, and leading edge scientific and medical research. Today, many of the world's leading scientific researchers are choosing China as the place to lead laboratories not in the United States. As the United States turns a cold visa shoulder toward young scientists it is China that embraces them with open arms.

It is China's pursuit of the enormous and ambitious Belt and Road initiative to tie China to Asia Europe and Africa through transport, energy and infrastructure investments that is of concern in Washington. It is China's very substantial and growing investment across Europe in energy, in real estate, in ports, in factories that can not escape notice.

Made in China 2025 is a bold plan to move Chinese manufacture up the value chain, gaining leadership in emerging high technology fields and increasing Chinese made content of systems to 40% by 2020 and 75% by 2025. Chinese companies that are already competitive internationally shall expand and consolidate their markets. This a classic industrial policy exercise similar to Germany's efforts to build and maintain a high value high tech high skilled manufacturing and technology sector. China simply intends to compete and beat the best of the world at their own high technology game and do so within the context of an enormous domestic market to complement international efforts.

Made in China addresses 10 key areas: Computer chips, sensors, and cloud computing; Robotics; Aircraft, jet engines, space craft; High tech ships; High speed rail; Electric and hybrid vehicles; Renewable energy; Farm equipment; Materials and rare earths; Medicine and drugs.

Made in China combined with Belt and Road initiative is a recipe for China to escape the so-called middle income trap of competing on the basis of low value added commodities and cheaper manufactured goods. China wants not to just be the assemblers of Apple phones with profit margins driven down to minuscule levels by competitive supplier bids that suppress labor costs and working conditions. China wants to develop the new high tech, high value added high margin products.

Trump's threatened 25% tariff on Chinese high tech exports are as likely to hurt than to help American manufacturers. Much of China's high tech imports are used by U.S. high tech companies like Boeing who markets its products internationally. Kristin Hopewell points out in the Washington Post that such a tax would raise the price on Boeing exports and assist European Air Bus competition.

What's an unhappy U.S. superpower to do? Already, as Trump talks tariffs, U.S. governors like Jerry Brown of California and Charlie Baker of MA are talking joint ventures. China should invite the United States and its governors, Europe, and other OECD nations to join with China in working together to help plan and build the global renewable energy infrastructure

to replace fossil fuels. This is the crucial path to save all of us from the emerging ecological catastrophe of climate change.

As Elon Musk of Tesla has made clear that it is an enormous and achievable industrial challenge to produce the storage batteries, solar panels, and wind machines to power an ecological civilization the 21st century and beyond.

If Made in China helps open the door for such global cooperation China, the United States and all the world will be a better place for it. President Xi Jinping can help catalyze and lead the pursuit of a coordinated and planned efficient renewable energy transformation just in time to mitigate climate disaster.

Fact check

[Trump: 'Trade wars are good, and easy to win' - CNBC.com](#)

Mar 2, 2018 - Even if new tariffs spark an international trade war, Trump is confident the United States would come out on top.

[China Steel Exports Report 2017 Annual - International Trade ...](#)

In 2015, China's steel exports reached a record high of 110 million metric tons — an increase of 20.5 percent from 2014. In 2017, exports decreased 31 percent from 2016 for a total export volume of 73.3 million metric tons.

[Who Dominates Global Steel Production & Trade?](#)

by Wolf Richter • Jun 1, 2018 • 108 Comments

[Chinese Exclusion Act \(1882\)](#)

Harvard University Library

[11 countries sign TPP trade pact without the United States](#)

by Patrick Gillespie @CNMoney

[China's 36-page official report on its goals for 2018, in four charts](#)

Zheping Huang March 05, 2018

[What is 'Made in China 2025' — and why is it a threat to Trump's trade goals?](#)

By Kristen Hopewell

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Roy Morrison's Latest Book is Sustainability Sutra (2017). He is working on building solar on working farms www.dual-cropping.com.

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