

# What's Behind the Trade War? Lashing Out At Allies, Confronting China

Trump's burgeoning trade war is more about asserting US dominance in the world than helping American workers.

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*[President Trump](#) slaps [tariffs](#) on imports from many of the US's traditional allies, condemning their leaders for unfair treatment. The mainstream media warns of the erosion of the global order.*

President Trump [threatens](#), and then imposes, high tariffs on Chinese products and other restrictions on trade relations with China. ZTE corporation, a leading state-owned, high-tech company in China, is barred on national security grounds from importing US-made components that are essential to their products. Then the ZTE action is reversed, leading some Democratic senators to denounce Trump for going soft on China. Whose side should we be on, if any, in this burgeoning trade war?

## Lashing Out at US Allies

There are two aspects to Trump's trade-war policy. One is the action against the EU, Canada, and Mexico; the other is the stance toward China. The issues are different in the two cases.

Trump's actions against the EU, Canada, and Mexico are driven by his [right-wing nationalist politics](#), which are shared by some of his closest advisors. That political posture helped propel his unlikely campaign to the presidency in 2016. According to the right-wing nationalist view of the world, global trade is a [zero-sum relationship](#). Tariffs are the battering ram that can be used to secure better deals for the US at the expense of others.

This right-wing nationalist stance runs contrary to the longtime establishment consensus, which favors "free trade" within a US-dominated global order. Both liberals and conservatives in the US have supported the relatively open global trading system — which, underneath the rhetoric about everyone benefiting, is designed to empower capital to move freely around the globe in search of low-wage labor, low taxes, and lax environmental regulation.

While the Left has long [criticized](#) this arrangement, Trump offers [nothing better](#) in its place. The US does not have the power to impose a flagrantly unfair set of trade rules on the rest of the world. The average US tariff rate of 2.79 percent is somewhat higher than that of other major developed countries, such as Canada (2.44 percent) and the EU countries (1.92 percent). Whatever the flaws of the current global trading system, it is not rigged against

the US. Continuing the tariff offensive against the EU, Canada, and Mexico could spark a global trade war, with no winner and major economic damage to every country.

## **Confronting China**

The Trump administration has invoked similar language in its aggressive trade actions against China. They claim that China has been taking advantage of the US, even suggesting that the Chinese economy's decades of rapid growth are really due to a huge gift from the US.

Most of US big business, along with the policy analysts who reflect their views, have criticized the Trump's administration's tariffs against China. US corporations have been making huge profits in China, which a trade conflict over tariffs would imperil. At the same time, big business supports pressuring China to change its ways. They just disagree with the Trump administration's approach. Instead, they recommend a united front with US allies to press China to alter its trade practices, a bargaining strategy that can't be pursued if Trump is alienating those partners by slapping tariffs on their products.

US big business has long felt conflicted about China. On the one hand, access to the storied China market — which has exerted a pull on the imagination of US businesses since the nineteenth century — has allowed them to make hefty profits. Today, major US companies conduct a substantial share of their global business in China. In fiscal year 2017, Apple received 20 percent of its sales revenue from China. That number was even higher for Intel (23 percent) and Qualcomm (65 percent). On the other hand, US corporations resent the strings that are attached. The Chinese state follows a “developmental state policy,” forcing foreign companies to meet certain conditions if they want to enter the country's market. Unlike in most developing countries, the US government cannot exert its will over the Chinese government to allow US business to do whatever it wants.

Critics of China levy several interrelated charges. The loudest complaint is that China steals US technology. Next, there is the accusation that the Chinese state, through its “industrial policy,” unfairly tilts the playing field by providing subsidies and financing to certain domestic firms. China has used policy to promote industries of the future with some success. For example, China has become the major supplier of solar panels to the world market. A final gripe is that China has a significant sector of state-owned enterprises, some of them in high-tech industries and some of which actively participate in the global market through exports and foreign direct investment. Critics grumble that China's state-owned enterprises have an unfair advantage due to their state backing.

There is an irony to these charges of unfair competition. [Neoliberal economic theory](#) holds that industrial policy weakens a country's economy since it puts the state in the business of making decisions about what economic activities should be encouraged — decisions, it argues, that only the free market can make effectively. Similarly, neoliberal theory insists that state-owned enterprises are inherently inferior to privately owned ones, and that they will only drag a country's economy down. Yet when confronted with China's rapid advance, neoliberals suddenly forget their fundamental beliefs and cry unfair competition!

Does China steal US technologies? It appears there have been a few cases of actual theft by Chinese companies, by such means as paying employees of foreign companies to pass along technological secrets. For perspective, though, it is useful to recall how the US began

to industrialize around 1800, when the economy was mainly agricultural. A machine-based textile industry got its start in the 1790s when **Samuel Slater**, an English mechanic who worked in a textile factory, memorized the design of the machinery, emigrated to Rhode Island, and teamed up with a wealthy merchant to launch a new company. The US, in other words, stole the key technology of the day from England. If less developed countries are to advance economically, then they have to acquire the superior methods of the already developed countries. Theft is one means of accomplishing this, although it would be better if such technology transfer could take place within the law.

There is an important principle here. Socialists usually believe that knowledge should be made [freely available](#). A technology, like all forms of knowledge, is a public good in that once it has been discovered the cost of using it again is effectively zero (since it need not be rediscovered). Hence, the price of using knowledge should be zero, even according to the principles of mainstream economics.

Complaints about Chinese pilfering also overstate its pervasiveness. The main means of technology transfer to China hasn't been direct theft but rather a deal commonly offered to Western companies: if you want to operate in the country, you have to accept a local partner company, which will then receive access to your technology. Western companies don't like the trade-off, but they usually grudgingly accept it. This method of state regulation has helped China to move up the technological ladder. At this point, though, the practice is becoming less important, since the Chinese state has been making huge investments aimed at discovering new technologies. Rather than importing advanced technologies from elsewhere, it's flexing its own R&D muscles.

What about US workers, though? We can't ignore the cost to working people in the US when relatively high-wage jobs are shifted to China or Indonesia. However, Trump's tariffs are less a solution than an exercise in scapegoating, diverting attention from the real causes of the problem. We should instead demand policies that protect US workers from the collateral damage of Third World economic development that occurs within the global capitalist system.

A combination of measures would do the trick: 1) a [government jobs program](#) to hire, at a living wage, any worker who needs a job; 2) an industrial policy focused on [greening](#) the US economy through major investments in renewable energy, efficient forms of mass transit, and a transition to energy-efficient buildings; 3) generously funded retraining and education for workers displaced by imports; 4) an increase in the minimum wage to the level of a living wage. While not in the realm of political possibility in the immediate present, such a program would ensure that the rise of less developed countries wouldn't harm the living standards of US workers.

### **Why the Attack on China Now?**

Why is US big business only now demanding that something be done to change China's behavior? One reason may be that Trump has raised the question of "doing something" about China. But another factor stems from the dynamics of capitalist imperialism. Until recently, China sat relatively low on the technology scale, and US business could establish highly profitable relations by occupying and controlling the more advanced places in the division of labor. China produced toys and clothing to sell to the US through powerful US retailers like Walmart, while the US produced aircraft and advanced computer components to sell to China. Most of the profits generated in both directions accrued to US capital.

Flash forward to today, and China has advanced to the point where it can aim for the technological frontier in many advanced industries, a goal that appears to be reachable in a few decades. This changes the relation with the US to one of rivalry, at least in the near future. Why is that a problem for US big business? Other countries have companies at the world tech frontier, such as Germany and Finland.

This is where the role of capitalist imperialism comes into play. The biggest capitalist states, responding to the profit drive of capitalism, always seek to dominate markets, to control sources of raw materials, and to secure locations for profitable investment of capital. That impels such states to exercise political dominance over as much of the world as possible.

The US, as the dominant imperial power since 1945, can tolerate advanced countries that are small enough, and friendly enough, to accept US leadership (that is, US domination). Thus, Germany and Finland are not a threat. But if any country begins to challenge US economic dominance in key sectors, the alarm bells go off. In the 1970s and 1980s, when Japan was asserting a dominant position in several key markets in the US, it set off a nationalist wave aimed at restricting Japanese imports. Japan was forced to accede to demands for limits on automotive vehicle exports to the US. The “Japanese threat” receded after 1989, when Japan entered a long period of stagnation.

Today, China is on the verge of making the transition to “developed country” status. It is on pace to become the US’s economic equal in a few decades. As a very large country, with institutions that work effectively to promote economic development, and with a state that will not agree to subordinate itself to the US, China’s economic ascent is seen by the US ruling class as a threat to American hegemony. The dominant capitalist power will always try to stop the emergence of an equal. In fact, that’s been the US’s [official policy](#) since the demise of the Soviet Union.

### **A Dangerous Moment**

The conflict with China is a very dangerous one. It is not the same as the Cold War, which pitted two different systems — capitalism and state socialism — against each other. It is a battle between US-led capitalism and a rising power whose system is difficult to classify, with an economy that is largely capitalist but a state that retains many of the practices of state socialism. China’s leadership has consistently claimed that it does not seek dominance in the global system but just wants to participate in it freely. Yet the dynamics of China’s market-driven system have led the country to increasingly insert itself into the global economy — not just through trade in goods but through [direct investment](#) and acquisitions of companies in many parts of the world.

What we’re witnessing is an impending collision between a weakened capitalist hegemon and a rising economic power that, whatever the form of its socioeconomic system, is integrated into the global capitalist system. The situation is more akin to the pre-World War I tensions between the leading capitalist states — which led to two devastating world wars — than to the Cold War (really, a Cold Peace) between capitalism and state socialism. The Cold War was a contest for political influence and the loyalty of the world’s population between two different systems, not a contest between intertwined economic rivals.

In this complex set of dangerous global conflicts set off by Trump’s trade war, socialists need a short-run and a long-run policy stance. In the short run, we should press for resolving the growing global tensions through negotiation and compromise rather than threats. We should support reform of the current global trading system to let states pursue industrial

policy, to allow a place for public enterprise, and to promote the rapid diffusion of new technologies through compulsory low-cost licensing and a bigger role for public institutions in the development of and control over new technologies.

In the long run, we should work for a socialist future in which the economy is based on production to meet human wants and needs instead of the profit of a small wealthy class, in which new technologies are freely available to all, in which economic progress in one nation will not be seen as threatening to other nations, and in which cooperation replaces competition in the global economy.

If the current trajectory toward trade war cannot be redirected, we will see more acrimony and high-stakes conflict — a disaster for anyone who cares about the interests of the vast majority.

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