Confronting the Threat of Trade War

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The threat of a global trade war poses a problem for socialists, leftists, and all who support the rights of working people.

President Trump imposes tariffs on imports from many of the traditional allies of the U.S., condemning their leaders for “unfair” treatment of America. The mainstream media warn of the erosion of the American-designed and American-led postwar global order. But before we join that chorus, recall that those of us on the left have long been critics of that order, which is really American hegemony within a system that always favors capital over labor.

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?

There are two aspects to Trump’s trade war policy. One is the actions against the EU, Canada, and Mexico, and the other is the measures taken against 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 his closest advisors. That political stance propelled his unlikely presidential campaign to victory and the presidency in 2016 (see "The Specter of Right-Wing Nationalism, Jacobin, May 30, 2017, https://www.jacobinmag.com/2017/05/donald-trump-neoliberalism-right-wing-nationalism). According to the right-wing nationalist view of the world, one nation can benefit from trade only by imposing bad deals on other nations. Global trade is a zero-sum relationship. Tariffs are the battering ram that can be wielded by the U.S. to force new deals with other states that will benefit the US at the expense of others.
This right-wing nationalist stance runs contrary the long-time establishment consensus in favor of “free trade” within a U.S.-run global system. Both traditional “liberals” and “conservatives” in the US have supported the relatively open global trading system, which, behind the rhetoric about everyone supposedly benefitting, 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 system, Trump offers nothing better – and nothing at all that is attainable – 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. As mainstream experts have pointed out, the average US tariff rate of 2.79% is somewhat higher than that of other major developed counties, such as Canada (2.44%) and the EU countries (1.92%). Whatever the problems of the current global trading system, it is not rigged against the U.S. A continuation of the tariff offensive against the EU, Canada, and Mexico could lead to a global trade war, with no winner and major economic damage to every country.

The Trump Administration has invoked similar language in its aggressive trade actions against China. They claim that China has been taking unfair advantage of the US, even suggesting that the decades of rapid growth of China’s economy really are due to a huge gift from the USA. Most of US big business, along with the policy analysts who reflect their views, have criticized the China tariffs. US business has been making huge profits in China, which are threatened by a trade conflict over tariffs.

However, as has been widely reported in the mainstream media, big business nevertheless supports putting pressure on China to change its ways. They just disagree with the Trump Administration’s tactics. Instead, they recommend a united front against China with US allies to pressure China to change its trade practices, a bargaining strategy that is foreclosed by alienating
those allies through imposing tariffs on their products.

US big business has long been conflicted about China. On the one hand, they have gotten the opportunity to make high profits in the storied China Market, which has exerted an attraction for US business since the 19th century. Some major US companies do a substantial share of their global business in China today – in fiscal year 2017 Apple got 20% of its sales revenue from China, Intel got 23%, and Qualcomm got 65%. On the other hand, US big business resents the conditions imposed on them in exchange for access to the China market. China follows a developmental state policy, which imposes conditions on foreign companies that want access to its market. Unlike in most developing countries, the US government cannot pressure the Chinese government to allow US business to do whatever it wants in China.

The are several inter-related charges against China. The loudest complaint is that China steals US technology. Second, there is also a charge that the Chinese state unfairly assists Chinese companies in the battle of competition, by providing subsidies and financing on preferential terms, under a policy known as “industrial policy.” Under this industrial policy, China has promoted “industries of the future” with some success. For example, China has become the major supplier of solar panels to the world market. Third, China has a significant sector of state-owned enterprises, some of them in high-tech industries and some of which have begun to enter the global market through exports and foreign direct investment. China’s state-owned enterprises are accused of having an unfair advantage due to their state backing.

There is an irony to the complaint about unfair state backing of Chinese companies both private and state-owned. 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, a decision that can only be made effectively by the free market according to neoliberal theory. Similarly, neoliberal theory insists that state-owned
enterprises are inherently inferior to privately owned ones – that they are inefficient and technologically backward – and so they will only drag a country’s economy down. Yet when confronted with China’s rapid advance based on industrial policy, along with a core of state-owned enterprises, neoliberals suddenly forget their fundamental beliefs and cry “unfair competition!”

Does China steal US technologies? It appears that there have been a few cases of actual theft of so-called intellectual property by Chinese companies, by such means as paying employees of foreign companies to pass along technological secrets. How should socialists, who have been know to assert that “property is theft,” assess such actions? It is useful to recall how the USA began to industrialize around 1800, when the economy was mainly agricultural. A machine-based textile industry got its start here 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. That is, the US stole the key technology of the day from England.

Leftists should support the economic advance of less developed countries, which can benefit working people in those countries. Economic development in low-income countries requires getting access to 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. Even mainstream economics can be used to point out that a technology – a kind of knowledge – is, like all knowledge, 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.

However, the main means of technology transfer to China is not direct theft but a deal
commonly offered to Western companies. If they want to operate in China, they must accept a local partner company, which gets access to the foreign company’s technology. Many Western companies, while not liking the deal, accept it to get access to China’s market. This method of state regulation has facilitated movement up the technological ladder. However, this practice is becoming less important for China, since the Chinese state has been making huge investments in science, technology, and education aimed at discovering new technologies, rather than importing advanced technologies from elsewhere. As China’s own R&D prowess has advanced, official policy, departing from traditional socialist formulations, has been calling for “strict protection of intellectual property rights.”

While socialists and leftists generally should support the economic rise of less developed countries for the benefits it can bring to working people in the Third World, we cannot ignore the cost to working people here at home when relatively high-wage jobs are shifted to China or Vietnam. However, Trump’s tariffs are not a solution but rather a part of his scapegoating politics that directs working people’s attention away from the real causes of their problems. Instead, we should demand policies here in the US that will protect working people from the collateral damage of Third World economic development that occurs within the global capitalist system.

The following program would address this problem: 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. If such a program were enacted, the rise of less developed countries would not threaten the living standards of US workers.
Why is US big business only now demanding that something be done to change China’s behavior? One part of the answer may be that Trump has raised the question of “doing something” about China. However, another factor stems from the dynamics of capitalist imperialism. Until recently China was relatively low on the technology scale, and US business could establish highly profitable relations based on the US side 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 such as Walmart, while the US produced aircraft, advanced computer components, and automotive vehicles to sell to China. Most of the profits generated in both directions accrued to US capital.

However, China has now advanced to the point at which 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 U.S. 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 Switzerland.

This is where the role of capitalist imperialism enters. 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 is not a threat, but if any country begins to challenge US economic dominance in key sectors, there is a response. 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. China is on a trajectory to become the economic equal of the US in a few decades. As a very large country, with institutions that work effectively to promote economic advance, and with a state that will not agree to be subordinate to the US, China’s continuing economic advance is seen by the US ruling class as a threat to US hegemony. The hegemonic capitalist power will always try to stop the emergence of an equal – an aim that was made official US policy after the demise of the Soviet Union in a famous 1992 Pentagon Defense Planning Guidance [insert link to https://www.pbs.org/wgbh/pages/frontline/shows/iraq/etc/wolf.html].

The conflict with China is a very dangerous one. It is not the same as the Cold War between the US and the USSR, which was a conflict between two different systems, capitalism and state socialism. It is a conflict 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. However, the dynamics of China’s market-driven system have led China 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.

There 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. This is akin more to the pre-World War I tensions between the leading capitalist states that 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 based on negotiation and compromise rather than threats. We should support reform of the current global trading system to allow states to 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 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 by other nations, and in which cooperation replaces competition in the global economy.