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Global Trade War? Contradictions of US Trade Policy in the Trump Era

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Less than halfway through Donald Trump's presidency, the world stands at the precipice of a global trade war. In January 2018, Trump imposed tariffs on Chinese solar panels and washing machines; he extended these two months later to steel and aluminum. In June, he levied tariffs on steel and aluminum exports from the EU, Canada, and Mexico and threatened the EU with an additional $350 billion in tariffs. In July, he targeted China's high-tech industries with a further $34 billion in tariffs and proposed an additional $200 billion on China's exports as the US Congress passed bipartisan legislation designed to restrict China's military and economic activities. The EU, Canada, Mexico, and China retaliated with tariffs aimed at US farmers and manufacturing workers. French Finance Minister Bruno Le Maire has declared that 'the war has already started', while the Chinese Foreign Ministry proclaimed that the US has begun 'the largest trade war' in history.

The EU and the United States reached a tentative agreement at their July 25, 2018, summit in Washington, and both sides have refrained from the imposition of further tariffs. Efforts to renegotiate the North American Free Trade Agreement (NAFTA) are also reportedly making progress. By contrast, the US–China conflict is far more intractable. While ceasefires and truces are possible and perhaps even likely, a settlement that would be acceptable to both sides appears to be out of reach.

This new stage of global disarray contrasts ominously with previous post-World War II international economic crises. The sharp economic conflicts of the 1970s and 1980s that resulted in the United States' unilateral exit from the dollar/ gold standard gave rise to the G7 (and, for a time, the G8), followed by multilateral accord on the revaluation of the DM and the yen. Contrary to the highly romanticized narrative of pre-Trumpian pristine liberal internationalism, US policy at that time was unilateral and coercive, but it did not subvert the principle of multilateral cooperation as an end goal.

The global financial crisis that started in 2007 also produced significant multilateral cooperation, including the formation of the G20, the collective renunciation of protectionism, and US and Chinese fiscal stimulus as the United States 'made itself into a lender of last resort for the rest of the world'.[1] However, the contemporary disarray is qualitatively different. For the first time since World War II, the United States is confronting an economic challenge not only within its own imperium but also with a geopolitical competitor. The US–China conflict is more dangerous than the Cold War. Soviet foreign policy was not driven by a relentless, expansionary economic logic, as is the case with both China and the United States (but not Russia) today.

[1] *Tooze, A, 2018, 'Crashed: How a Decade of Financial Crises Changed the World', New York: Viking.*

Trump and the Capitalist State

Is there an underlying coherence in the foreign economic policies of the Trump administration over the past 18 months? The preoccupation with Trump's personality and rhetoric has assumed either explicitly or implicitly that there is not: the unprecedented dysfunctions and conflicts swirling around Trump and his administration preclude the making of policies that correspond in any meaningful sense to a putative 'national interest'. One senior White House official has characterized the Trump Doctrine as 'We're America, Bitch,' while neoconservative Robert Kagan now describes the United States as a 'rogue superpower'.[2] To be sure, the idiosyncratic – if not surrealistic – aspects of the Trump presidency do account for the rhetorical excesses and erratic implementation of US foreign policy over the past 18 months. Trump's policies and statements frequently contradict – and are sometimes undermined by – his own Executive Branch and key advisors. Intelligence officials publicly rebuke him with impunity. Congress has also become increasingly active in legislating foreign policy, as exemplified by its ceaseless sanctions on Russia and growing involvement in trade policy. The opaque business interests of Trump and members of his administration may be influencing foreign policy. Facing the threat of impeachment or even indictment, it is imperative that Trump retain the loyalty of his electoral base through anti-globalist rhetoric and policies.

Moreover, possessing no consistent ideological worldview other than self-aggrandizement, racism, and xenophobia, and with limited understanding of international affairs, Trump's actions and words are, to be charitable, contradictory and impulsive. Thus, following the July NATO summit, 2018, the European heads of state concluded that 'there is little method to the American president's rhetorical madness, and simply no way to anticipate what he might do next.' China's leaders are 'absolutely confused' by Trump's 'capricious' demands. Republican Senator and chairman of the Foreign Affairs Committee Bob Corker has observed with respect to trade policy that, 'to my knowledge, not a single person is able to articulate where this is headed, not what the plans are, nor what the strategy is.'

[2] *Goldberg, J, 2018, 'A Senior White House Official Defines the Trump Doctrine', The Atlantic, June 11; Kagan, R, 2018, 'Trump's America Does Not Care', Washington Post, June 14.*

Yet, the preoccupation with personality or 'agency' greatly underestimates the primacy of social forces and class interests in the making of US foreign policy. Rhetoric aside, there are striking continuities in the substance, although certainly not the style, of American foreign policy under Trump. With respect to the most important issues, it continues to enjoy significant bipartisan support, including on policy related to the Middle East, Russia, the global military posture (including expanding the defense budget) and, in important respects, trade policy. This continuity should hardly be surprising. Presidents come and go, but the determinant social and class forces and interests remain, and these greatly limit state autonomy, especially with respect to foreign policy.[3] American 'civil society' remains strong, albeit dominated by the corporate elite, who indisputably dictate the basic contours of public policy.[4]

Globalization in Crisis

Foreign direct investment has played an important role in the activities of US banks and multinational corporations since World War II, and it has been the centerpiece of their strategy since the 1980s. It has allowed US corporations to maintain profitability as they confront increasing foreign competition, but also contributed to significant domestic deindustrialization. Whereas in 1953 nearly 1/3 (32%) of US employment was in manufacturing, that figure has fallen to 8.5% in 2018. Between 1979 and 2010, the United States lost 8 million manufacturing jobs.[5] Mobile sections of capital resorted to outsourcing, while less mobile sections increased their reliance on cheap and docile imported migrant labor.[6]

The North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) consolidated this strategy. Implemented in 1994, the NAFTA further opened Mexican labor markets to US and other Western multinationals and also created vast new export markets in Mexico for

[3] *See especially Graaff, ND & Apeldoorn, BV, 2018, 'US–China Relations and the Liberal World Order: Contending Elites, Colliding Visions?', International Affairs, 94, no. 1, pp. 113-131.*

[4] *See especially Page, B & Gilens, M, 2017, 'Democracy in America: What Has Gone Wrong and What Can be Done About It', Chicago, IL: University of Chicago Press; Domhoff, W, 2017, 'The Power Elite and the State', London: Routledge.*

[5] *Smith, J, 2016, 'Imperialism in the Twenty-First Century', New York: Monthly Review Press.*

[6] *Ibid, especially Chapters 4 and 5.*

the highly mechanized and subsidized American agricultural sector, even as it drove dispossessed small farmers across the border into the United States. Automobile production was emblematic of the general trend towards utilizing production chains in the Global South, and especially in Mexico. The US auto industry (including German and Japanese firms) imports more than 25% of its inputs. The opening up of China produced an 'epochal shift in patterns of world trade',[7] consolidated by its entry into the WTO in 2001. US FDI in China soared from $47 billion in 2001 to $124 billion in 2011. In the eight years prior to becoming US Treasury Secretary in 2006, Goldman Sachs CEO Hank Paulson made 70 trips to Beijing.[8] This resulted in massive growth for China, but the loss of millions of manufacturing jobs in the United States, with attendant distributional consequences.

Although globalization – including the WTO and NAFTA – provoked massive popular resistance, it enjoyed bipartisan support in Congress. The most significant policies – the signing of the NAFTA and negotiations for the WTO alongside the dismantling of financial regulations enacted during the New Deal in response to the Great Depression – were implemented during the Clinton administration. President Clinton's rhapsody on the eve of China's impending accession to the WTO conveys the hubris and *naiveté* of corporate America and its neoliberal politicians concerning China and the realities of international relations:

> They have to lower tariffs. They open up telecommunications for investment. They allow us to sell cars made in America in China at much lower tariffs. They allow us to put our own distributorships over there. They allow us to put our own parts over there. We don't have to transfer technology or do joint manufacturing in China anymore. This is a hundred to nothing deal for America when it comes to the economic consequences.[9]

By throwing U.S. workers in competition with those in the Global South, outsourcing led to wage stagnation as the labor share of GDP in the United States declined, and levels of inequality soared. From 1980

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[7] *Autor, D, Dorn, D & Hanson, G, 2016, 'The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade', National Bureau of Economic Research, International Trade and Investment, Labor Studies, Working Paper No. 21906, January.*

[8] *Landler, M, 2008, 'Chinese Savings Helped Inflate American Bubble', New York Times, December 25.*

[9] *Quoted in Lighthizer, RE, 2010, 'Evaluating China's Role in the WTO over the Past Decade', Testimony Before the US–China Economic and Security Review Commission, United States Congress, Washington, D. C., June 9.*

to 2016, labor's share of the national income declined from 68% to 61%, while the share of corporate profits rose from 8% to 15%. In 1965, the average US CEO earned 20 times more than the average employee; that ratio had reached 270 by 2016. Cheaper imports displaced manufacturing jobs but allowed for a net gain in total worker compensation. China alone accounted for 80% of the reduction of inflation, thus partially offsetting the effects of rising inequality but not the longer-range costs of deindustrialization for the American economy, society, and political culture.

The reduction of the US factory workforce – from 15.4% of the US total in 1992 to 8.5% in 2018 – triggered an exodus of workers from big cities that were once union citadels into suburbs in which the labor force was atomized, disorganized, and often downwardly mobile. Representing more than one-third of the private sector workforce in 1955, unions now account for less than 7%. As a result of the decline of unions and its complicity in the neoliberal policies of the last three decades, the Democratic Party lost its base in the US labor movement. After the 1992 election, 15 of the 20 most manufacturing-intensive Congressional districts in the US were represented by Democrats. Today, all 20 are held by Republicans.[10]

The 2016 presidential campaign signified a point of no return. All of the problems afflicting the American working class were exacerbated by the global financial crisis that started in 2007. Coming on the heels of two decades of deindustrialization, the ensuing 'great recession' led to further job losses, growing indebtedness, and the loss of homes for millions due to the collapse of the housing bubble. Taking office at the height of the global financial crisis, Barack Obama was able to implement a (deeply flawed) national health care plan that is now being dismantled by the Trump administration, along with a modest fiscal stimulus. In most other ways, Obama governed from the perspective of Wall Street, confronted by an increasingly hostile Congress dominated by Tea Party Republicans from 2010 on and unwilling or unable to take steps to reverse the decline of union membership. In December 1999, 37% of Republicans agreed that free trade deals helped the US, with only 31% of Republicans disagreeing. By February 2017, the results were vastly different: by 53% to 27%, Republicans said free trade hurt the United States, and two-thirds of Republicans now support Trump's tariff strategy.[11]

[10] *Davis, B & Chinni, D, 2018, 'America's Factory Towns, Once Solidly Blue, Are Now a GOP Haven', Wall Street Journal, July 19.*

[11] *Eichengreen, B, 2018, 'Can a Trade War Be Averted', Project Syndicate, April 10.*

Neoliberal Consolidation Under Trump

Globalization was 'made in (corporate) America', but Trump prevailed in the 2016 elections by framing it in terms of xenophobia, anti-immigrant sentiments, and victimization. In the face of the Democratic Party's abandonment of the working class, Trump promised to restore jobs and dignity to (white) working class Americans. His performance in Midwestern battleground states illustrates the success of this electoral strategy. However, notwithstanding his populist rhetoric, Trump assembled the 'wealthiest cabinet in modern history'[12] and governed exclusively on behalf of the key power centers of American capitalism: Wall Street, Silicon Valley, oil and gas, and the military industrial complex. The new administration did not initially seek to implement protectionist policies or directly challenge China or the EU on trade. In 2017, the overall US trade deficit increased substantially, from $505 billion to $568 billion.

The centerpiece of the new administration's strategy was the Tax Cuts and Jobs Act, passed in December 2017. By greatly reducing corporate taxes and adding $1.5 trillion to the $20 trillion federal deficit over the next decade, the bill represented a significant advance in the decades-long neoliberal restructuring of American society. The transition to a territorial tax system embodied in the Act allows the United States unilaterally to increase the wealth and profitability of American corporations on a global scale at the expense of its competitors. It leverages the nation's vast market and financial power even as it provides greater incentives for these corporations to invest and produce outside the United States.

A second area of support for big business has been deregulation. With respect to finance, the Dodd–Frank rules enacted in response to the global financial crisis have been significantly relaxed. With respect to environmental policy, the fossil fuel industry has registered massive gains. The Trump administration has also directly targeted labor. Through appointments to the Supreme Court and as a result of Department of Labor decisions as well as actions by Republican state houses, trade unions have endured a succession of setbacks. The oil and gas sector has also benefited greatly from deregulation, resulting in increased

[12] *Gee, T, 2018, 'The Gold-Plated Cabinet', Politico, March–April.*

drilling and decreased occupational and environmental safety. Notably, the bid for global energy dominance that has been strongly supported by the Trump administration was started under President Obama, who lifted the 40-year ban on crude oil exports.[13]

The Trump administration has given unprecedented support to the military industrial complex not only in terms of the military budget but also through assisting weapons exports. In May 2017, Trump requested a study of the Defense Industrial Base under the supervision of Peter Navarro, the nationalist White House trade advisor (Assistant to the President, Director of Trade and Industrial Policy, and the Director of the White House National Trade Council). Undertaken by a dozen working groups across the government and including the Pentagon, the study focuses heavily on the global supply chain and US dependency on Chinese technologies.[14] The administration has also sought to 'mobilize the full resources of the US government behind arms transfers that are in the US national and economic security interest.'[15] The 'Buy American' initiative launched in May 2018 has relaxed restrictions on weapons exports. Trump has expanded Obama's $1.2 trillion upgrade of the American nuclear arsenal. In July, the US Congress, with the support of 139 Democrats, passed a $716 billion military budget for 2018. The projected $6 trillion in military spending over the next decade vastly overshadows the $200 billion proposed by Trump for infrastructure; indeed, 'military Keynesianism' will provide the core of very limited infrastructural development.

From Neoliberal Consolidation to Trade War

In the 2016 presidential campaign, all of the key power centers of American capitalism supported Hillary Clinton as the most reliable steward of neoliberal globalization. However, following her defeat,

[13] *Cohan, S, 2018, 'Trump's Energy Dominance and the Future of Fossil Fuels', Earth Institute, Columbia University, Feburary 9, New York, N.Y.*

[14] *Mehta, A, 2018, 'Trump's Industrial Base Review Coming in May', DefenseNews, April 25.*

[15] *Spetalnick, M & Stone, M, 2018, 'Arming the World: Inside Trump's 'Buy American' Drive to Expand Weapons Exports', Reuters, April 17.*

the aforementioned economic policies of the Trump administration and a compliant Republican congressional majority unsurprisingly drew overwhelming support from these same centers. Throughout 2017 and the first two quarters of 2018, corporate profits increased dramatically, while equities and business investment surged, driven by tax cuts and deregulation. In the second quarter of 2018, the economy grew at 4.1%. Although the official unemployment rate has declined, the share of profits going to labor has continued to decrease. Despite the second longest recovery in US history, real wages in the United States have fallen by 9.3% since 2006, and by 1.8% between the first and second quarters of 2018 after the tax cuts were enacted.

However, while the domestic economic agenda of the new administration united the corporate elite and the Republican Party behind Trump, the threat of trade wars has opened up divisions that were largely submerged during their 2017 bacchanal, even as the administration has proposed new tax cuts on investment income that will benefit the wealthiest Americans. To be sure, anti-China sentiment has increased throughout corporate America and across the political spectrum. Ron Wyden, ranking Democrat on the Senate Finance Committee, has asserted that 'China has stolen our intellectual property, held American companies hostage until they disclose their trade secrets, and manipulated their markets in a strategic manner to rip off American jobs and industries.' However, there are significant disagreements concerning strategy. Seeking to protect their investments in China, 'globalists' have sought to exert restraint with respect to tariffs towards Europe, to engage Mexico and Canada, and to limit demands on China primarily to obtaining greater access for US banks and financial corporations. The US Chamber of Commerce, the largest business lobby in America, has launched a campaign against tariffs. The Koch network, the political arm of Koch Industries and one of the largest and most influential Republican donors, has also turned against the Trump administration. It now supports Democrats in the Senate and House of Representatives who oppose tariffs, and it seeks to attack the social safety net as the logical next step in domestic economic policy and as a means of reducing the growing deficit resulting from the decrease in corporate taxes. Congress has also begun to assert itself more forcefully against tariffs, proposing bipartisan legislation that would limit the president's authority to impose tariffs on national security grounds.

Trump's confrontational trade strategy reflects his own nationalist views and those of his electoral base, but in practice he has mediated between the 'globalists', represented in his administration by Treasury Secretary Steven Mnuchin, a former Goldman Sachs investment banker and hedge fund manager, and the nationalists, represented by US Trade Representative Robert Lighthizer and Peter Navarro, Director of the White House Office of Trade and Manufacturing Policy. As Deputy US Trade Representative in the Reagan administration, Lighthizer was a forceful advocate of the confrontation with the then-rising Japan through 'voluntary export restraints' and revaluation of the yen. Lighthizer also strongly opposed the admission of China to the WTO, warning that it would become a 'dominant' trading nation and that 'virtually no manufacturing job in [the United States] will be safe.'

Like the 'globalists', the nationalists do not advocate isolationism or a retreat from the global economy. Rather, they believe that multilateral institutions do not allow the United States to fully mobilize its structural economic and political power either to maximize corporate profitability or to restrict China's development of cutting-edge technologies. Closely aligned with the Pentagon, they are also concerned about the military implications of a loss of preeminence in advanced technologies such as artificial intelligence, electric cars, and cyber capabilities. As a result of its Belt and Road Initiative (BRI) and its 'Made in China 2025' project, which identifies ten industries including IT and aerospace for global leadership, China is said to represent a mortal threat to US preeminence in the coming years. Since joining the WTO in 2001, its trade surplus with the United States has exploded from $50 billion to $375 billion.

As China has advanced up the technology scale, concerns about compulsory technology transfers, industrial policies that provide subsidies and financing to domestic firms, and the unfair advantages of state-owned firms have been emphasized by nationalists, but they are also recognized throughout corporate America. Approximately 90% of the world's IT hardware, including three-quarters of all smartphones, is manufactured in China. China has also made substantial investments in US tech firms, with a focus on artificial intelligence. Navarro has warned, 'China's investment in strategic technologies may ultimately pose the gravest danger to America's manufacturing and defense industrial base.'[16] Even leading officials from the Obama administration have stated that 'it might be too late to take decisive actions to prevent Chinese inroads into the tech sector.'[17] There can be little doubt that access to the Chinese market for foreign corporations is predicated on the transfer of technology and intellectual property. However, it is important to emphasize that with these policies China is simply reprising standard, state-led capitalist developmental policies, following a strategy first set out systematically by Alexander Hamilton.[18] In contrast to most developing countries, by virtue of the size of its market and its strong, centralized political system, China has been able to negotiate with multinational corporations on its own terms, an advantage that has not been available to most developing countries.

The nationalists are routinely dismissed by neoliberals as hotheads and ideologues who fail to understand that the loss of manufacturing jobs is a natural process resulting from technological innovation, and that these jobs are being replaced in the service sector. Neoliberals also contend that trade deficits are primarily the result of budget deficits and a lack of household savings, and not of an overvalued dollar or globalization. There is some truth in these claims and, to be sure, many factors are responsible for trade deficits. However, during the 1990s, the budget deficit was eliminated even as the trade deficit increased dramatically and continued to rise in the early 2000s when the economy suffered demand shortages. The trade deficit itself serves as a 'major channel of deindustrialization',[19] as investment is reduced and productivity growth is diminished. Deindustrialization also causes severe socio-political dysfunctions that do not show up in raw unemployment data. Neoliberals point out that tariffs against China might only achieve a redistribution – and not a reduction – of the overall US trade deficit. However, the nationalists counter that tariffs are designed to compel further concessions with respect to the Chinese developmental model as a whole, and that they will encourage American multinationals to disinvest in China.

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[16] *Navarro, P, 2018, 'Trump's Tariffs Are a Defense Against China's Aggression', Wall Street Journal, June 20.*

[17] *Donnan, S, 2018, 'The AI Arms Race: The Tech Fear Behind Donald Trump's Trade War with China', Financial Times, July 5.*

[18] *Dodwell, D, 2018, 'The Real Target of Trump's Trade War is 'Made in China 2025', South China Morning Post, June 25.*

[19] *Palley, T, 2018, 'Globalization Checkmated? Political and Geopolitical Contradictions Coming Home to Roost', Political Economy Research Institute, Working Paper Series No. 466, University of Massachusetts Amherst, July.*

Transatlantic Divide?

Although Trump has adopted an aggressive rhetorical posture towards the EU, there is a fundamental distinction between US interests with respect to Europe and North America and those with respect to China. Conflicts within the transatlantic space are far more susceptible to resolution on US terms than those with China for two principal reasons. First, in quantitative terms, the transatlantic relationship remains more important to US and European banks and multinational corporations than their relationships with China. Transatlantic economic interdependence is qualitatively deeper than that between the West and China. The transatlantic space is also characterized by a high level of European economic and geopolitical dependence on the United States. The United States is Germany's largest export market. BMW's largest global manufacturing facility is in South Carolina, where it produces 500,000 cars annually, half of which are exported, and it is making vast new investments in the US and Mexico.

Second, although the EU, by virtue of its overall GDP, is capable in principle of negotiating with the United States as an equal, in practice US–European relations are organized on a hub-and-spoke basis. The advent of the euro has divided the EU, accelerating uneven development and subordinating much of the continent to a punitive austerity regime under German supervision.[20] Moreover, the internal conflicts in the EU are more serious than those between its individual member states and the United States. Nor, despite modest nominal steps towards security cooperation, can the EU be considered a military power in its own right. Thus, tariffs would gravely damage the entire European economy that now appears to be slowing and would strike at the heart of the German economy. By contrast, the volume of France's exports to the United States is less than one-third that of Germany, and its trade balance with the US is roughly equal. France has less to lose from trade conflict, but the EU Commission's policy is made in Berlin and not in Brussels.

A similar logic of structural power applies to the re-negotiation of the NAFTA, which will almost certainly culminate in a resolution based on modest concessions from Mexico and Canada. The North American regional

[20] *Cafruny, A, 2015, 'Europe's Twin Crises: The Logic and Tragedy of Contemporary German Power', Valdai Paper 10; Ryner, M & Cafruny, A, 2017, 'The EU and Global Capitalism: Origins, Development, Crisis', London: Palgrave MacMillan.*

economy is bound together by production chains that also include European and Japanese corporations based in Mexico (especially) and exporting to the United States. Rhetoric aside, Canada and Mexico have no future outside the NAFTA. 75% of Canada's exports are to the US, 8% to the EU, and 5% to China. The United States accounts for 82% of Mexico's exports, followed by the EU with 6% and China with 1%.

These considerations informed the tentative agreement made by EU Commission President Jean-Claude Juncker and Trump in Washington on July 25, 2018. The agreement appears to resemble a modest version of the frozen Transatlantic Trade and Investment Partnership, aspiring to 'zero tariffs' with respect to industrial exports and automobiles, but retaining protections on French agriculture and US public procurement while committing the EU to import more liquefied natural gas (LNG). The United States will refrain from imposing tariffs on automobile exports pending the outcome of negotiations. Notably, the agreement called for the EU to support the United States in trade negotiations with China, including using the WTO to combat intellectual property theft and the operation of state-owned companies. Not surprisingly, France's response to commitments that appear to benefit Berlin over Paris has been lukewarm. The proposal to eliminate all tariffs would, because of WTO rules, require all automobile imports to be duty free, which would be very harmful to French industry. The agreement remains aspirational and could still be repudiated amid the chaos of the Trump administration. In the longer run, however, a full-blown trade war within the transatlantic space seems unlikely.

China and the United States: Unity and Rivalry

The contradictory actions and rhetoric of the Trump administration with respect to China reflect divisions within the US elite. Along with the nationalists, the Pentagon has pushed hard for a forward strategy of military and industrial containment. The National Security Strategy of December 2017 identified China as a revisionist power and strategic rival seeking to push the United States out of the Pacific region. The 2018 annual defense bill focuses on China and contains a strong economic component, enhancing national security reviews of Chinese acquisitions and tightening controls on the export of US technology. It also expands strategic cooperation with Taiwan and India in the Indo-Pacific. The Pentagon has banned China (and included Vietnam) from the 26-nation Rim of the Pacific summer naval exercises.

Trade policy towards China has been more inconsistent than the military posture because it reflects the aforementioned divisions within the corporate sector and administration. At the outset of his presidency, Trump abandoned Barack Obama's attempt to engage China through multilateral channels in the Trans-Pacific Partnership (TPP) as well as relying on the dispute mechanisms of the WTO. While Obama's 'pivot to Asia' and proposed TPP made a start at addressing corporate America's grievances with respect to China – most notably in the area of intellectual property – it did not address a number of key issues, including China's incursions into the US tech sector, as recognized even by Obama administration officials. In March 2018, the United States announced the completion of two investigations of Chinese trade practices. On the basis of these reports, Trump condemned China's 'economic aggression' and levied the tariffs on steel and aluminum in violation of WTO rules. In May, China agreed to a number of concessions during high-level talks in Beijing, including measures to decrease the US trade deficit such as increased imports of agricultural goods and LNG and the reduction of tariffs on automobiles and pharmaceuticals. Beijing also accelerated the opening of the financial sector to foreign banks and accepted a punitive decision that fined the Chinese telecoms giant ZTE $1 billion for violating sanctions against North Korea and Iran.

These concessions appeared to satisfy the 'globalists' while temporarily marginalizing the nationalists. Leading the US team in Beijing, Treasury Secretary Steven Mnuchin ejected Navarro from the delegation after a public shouting match. However, the nationalists counterattacked with the Pentagon's decision to exclude China from the Pacific joint naval exercises and through congressional resistance to the settlement with ZTE, although this was eventually overcome. In late May 2018, however, Trump abandoned Mnuchin and escalated the trade war with new measures and threats. In addition to tariffs, through the Committee on Foreign Investment in the United States (CFIUS), the US has imposed increasingly stringent restrictions on Chinese investments; EU member states notably have followed the US lead individually and collectively. China's investments in the United States have declined in 2017 and 2018, although representing less than 1% of the $4 trillion of FDI. By most accounts, China underestimated the strength of nationalist sentiments in the United States, but it has also responded aggressively. Notwithstanding last-minute appeals from Mnuchin, Beijing vetoed the US semiconductor company Qualcomm's bid to take over the Dutch firm NXP Semiconductors, an action that, in Eswar Prasad's words, takes the United States and China beyond a 'mere trade war' to 'open economic conflict between the two countries'.[21]

Trade War?

The existing level of tariffs does not yet constitute a trade war, and protectionism has not spilled over into the monetary realm. The US and Chinese economies combined account for $30 trillion, or 40% of global GDP. The trade flows thus far affected by tariffs are less than 1% of this total. Even so, fears of protectionism are already taking their toll on Asian and European markets, although apparently not (yet) on US equities. The prospects for avoiding further escalation are uncertain, reflecting the dialectics of structural power and vulnerability on each side. Resolution ultimately depends on the sacrifices that each side can endure and the outcome of internal battles within Washington, and corporate America, and, perhaps, also in Beijing.

Although China's GDP by some measures already surpasses that of the United States, national accounts data do not accurately indicate underlying power relations.[22] The US and other foreign firms maintain a massive presence in China, and their supply chains account for a large amount of its exports as well as sales within China. The status of the dollar as international reserve currency remains unchallenged. In 2018, the renminbi's share of global payments, 1.6%, declined to fifth place, while its share of China's trade fell to 11.5%.[23] The US economy is far less dependent on trade than the economies of its major trading partners. Indeed, Beijing's capacity to levy retaliatory tariffs is limited by the fact that China exports $505 billion to the United States but imports only $130 billion from it.

[21] *Barfield, C, 2018, 'China Knifed Qualcomm. Now the U.S. Should Pull the Plug on ZTE', American Enterprise Institute, Washington, DC, July 26.*

[22] *Starrs, S, 2014, 'America's Economic Power Has Not Declined – It Globalized: Summoning the Data and Taking Globalization Seriously', International Studies Quarterly 57, no. 4; Hung, HF, 2015, 'The China Boom: Why China Will Not Rule the World', New York: Columbia University Press.*

[23] *'Renminbi Internationalisation and the BRI: Rebuilding Momentum?', 2018, Economist Intelligence Unit, April 10.*

The Trump administration also appears to have calculated that low unemployment and steady growth along with the tentative accord with the EU provide 'strategic depth' for a trade war, especially as the economies of major trading partners are slowing. In the second quarter of 2018, Mexico's economy contracted, and the EU economy grew at just 1.4%, its slowest rate in three years. China's economy has also slowed, and the renminbi has declined by 6% in 2018. Notably, EU officials have reportedly rejected proposals from senior Chinese officials for a 'Grand Alliance' against the United States, under which China would grant the EU preferential access and they would both launch a joint offensive in the WTO.[24] By contrast, agreements within the transatlantic space and the NAFTA – far more likely – would allow for a united front against China, already visible in agreements to block market economy status for China in the WTO and Germany's increasingly tough stance against China's investments.[25] Agreements might also serve to close the gap between nationalists and 'globalists' in the United States.

China derives enormous advantages from the size of its market, demonstrated most recently by Google's intent to launch a censored search engine in China to connect with 753 million internet users. However, the country also faces many problems including massive surplus capacity, mounting debt now at 260% of (officially declared) GDP as a result of excessive financialization, and problems in the BRI project designed in part to export surplus capacity. China has experienced a declining growth rate for many years. Unable to transition to a more domestic, consumption-based growth model, its upward redistribution of wealth mirrors that of the United States. China also remains acutely dependent on western technology,[26] especially foreign-made microchips, which accounted for nearly half of its imports by value in 2016. Trump's initial decision effectively to shut down the Chinese telecoms giant ZTE, although later rescinded, would have been devastating to the Chinese economy (and to many US firms), depriving ZTE of access to American companies that supply one-third of its crucial components. That initial decision has greatly increased the determination of the Chinese leadership to increase its technological self-reliance.

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[24] *Emmot, R & Barkin, N, 2018, 'Exclusive: China Presses Europe for Anti-US Alliance in Trade', Reuters Business News, July 3.*

[25] *Chazan, G, 2018, 'Germany Plans Further Foreign Investment Curbs', Financial Times, August 7.*

[26] *Leng, S, 2018, 'China Must Stop Fooling Itself it is a World Leader in Science and Technology', South China Morning Post, June 27.*

Conflict or Cooperation?

Notwithstanding these advantages, it is highly unlikely that the United States could prevail in a trade war with China. Not only Wall Street 'globalists' but also farmers, manufacturing workers, and consumers are protesting even against the modest protectionist steps that have been taken thus far. Beyond tariffs, moreover, China can retaliate with informal boycotts, as it has done against South Korea and Japan, as well as take blocking administrative measures, as with Beijing's decision against Qualcomm. The state-run *People's Daily* has warned that:

> The Chinese market is vital for many top U.S. brands… If Apple wants to continue raking in enormous profits from the Chinese markets amid trade tensions, the company needs to do more to share the economic cake with local Chinese people.[27]

It is also doubtful that the U.S. economy – now in its 10th year of recovery – can sustain its present growth trajectory in the context of rising interest rates and a soaring budget deficit. If China were to begin dumping its $1.2 billion supply of US Treasuries, bond prices would spike; higher Treasury yields would increase borrowing costs, pushing the country into recession and increasing opposition to tariffs.[28] At the same time, the window of advantage for Washington may be brief as China takes steps to stimulate the economy and the renminbi depreciates.

US technological leadership is offset by the interconnection of the American and Chinese high-tech sectors in production chains throughout Asia. Trump's tariffs harm US firms in China. 25% of Apple's net income and 75% of Qualcomm's derives from the Chinese market. The seven leading US IT and intercom providers receive the majority of their components from China. For all of these reasons, the nationalist/'globalist' alliance that characterized the first year of the Trump presidency and maintained Republican discipline is weakening. Expressing Wall Street's opposition to protectionism, Roger Altman, former

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[27] *Weijia, H, 2018, 'Strong Sales of U.S. Brands Including Apple Give China Bargaining Chips in Trade Row', People's Daily, 7 August.*

[28] *After Washington imposed sanctions on aluminum exports, Russia sold off 84% of its US debt, pushing Treasury yields up. China has a much greater financial deterrent. See Brown, D, 2018, 'Should China Play Hardball in the Trade War with Trump and Start Targeting U.S. Treasuries?', South China Morning Post, August 7.*

Deputy Treasury Secretary, has served warning that global financial markets are 'the most powerful force on earth, more so even than nuclear weapons. When financial markets get spooked, they can cause governments to change policy almost overnight.'[29]

Offering no tangible benefits to his white working class supporters, Trump cannot lightly abandon a confrontational trade posture – especially against China – that serves as compensation for neoliberal policies. Yet, the nationalist strategy is in many respects unconvincing and incoherent. There is virtually universal agreement that the conflict with China is primarily about high technology and only secondarily about the trade deficit, but even if its high-tech ambitions could be contained, this would not necessarily lead to significant de-globalization or benefit most Americans. Connected to a project of neoliberal consolidation, the strategy does not allow for a genuine (re)industrialization; redistribution of wealth and income; or adequate funding for infrastructure, research and development, and general education. The social forces within American society that could bring about these policies – the basis of a long-range, multilateral settlement that could bring mutual benefits to the Chinese and American people – are very weak and disorganized. A confrontational strategy of maximum containment on the part of the United States, even with the EU on its side, is certain to provoke global chaos, but unlikely to derail China's rise over the long term.

[29] *Altman, R, 2018, 'The Markets Will Stop a Trade War', Wall Street Journal, July 26.*

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