

US-China tensions threaten to ignite trade war

Barry Grey
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The past week has seen a marked intensification of the steady drumbeat of threats and provocations against China that has characterized the policy of the Obama administration since last September. That month, the White House signed an order imposing punitive tariffs on Chinese tire imports. This was followed in December by tariffs against Chinese steel pipe products.

In early February, the US announced a \$6.4 billion arms sale to Taiwan, including Patriot-3 surface-to-air missiles. China, which had responded to the earlier tariffs by imposing its own duties on US chicken exports and threatening to impose tariffs on US auto parts, announced it was considering sanctions against US firms involved in the arms sale, including Boeing Corporation.

The same month, Obama met with Tibet's Dalai Lama in Washington, spurning Beijing's warnings that it would consider such a meeting a provocation.

Behind these actions are a series of conflicts, including Chinese opposition to new sanctions against Iran, increasing Chinese alarm over Washington's military escalation in Afghanistan and Pakistan, and Beijing's refusal to bow to US demands that it revalue its currency, the renminbi (also known as the yuan).

The latter issue has become the focus of a campaign in the US for trade war measures against China. This drive is being led by the liberal Democratic Party establishment, most notably, the *New York Times*.

On Monday, one day after Chinese Premier Wen Jiabao rejected US ultimatums that China revalue its currency and denounced such demands as a form of protectionism, liberal economist and *Times* columnist Paul Krugman published an incendiary piece entitled "Taking On China." Krugman wrote: "Tensions are rising over Chinese economic policy, and rightly so.

China's policy of keeping its currency, the renminbi, undervalued has become a significant drag on global economic recovery. Something must be done."

What must be done, according to Krugman, is a declaration by the Treasury Department when it submits its semi-annual report to Congress on currency matters on April 15 that China is a currency manipulator, followed by a 25 percent surcharge on all Chinese exports to the US.

Also on Monday, 130 members of the House of Representatives sent a letter to Treasury Secretary Timothy Geithner and Commerce Secretary Gary Locke calling on them to formally charge China with currency manipulation and impose countervailing duties to protect US manufacturers. Said Ohio Democrat Tim Ryan, "It's putting a lot of Americans out of work."

The next day, five senators, led by Democrats Charles Schumer of New York, Debbie Stabenow of Michigan and Sherrod Brown of Ohio, introduced a bill that would require the US to impose tariffs and other penalties on China.

On Wednesday, the *New York Times* published an editorial accusing China of currency manipulation and deploring the "deafening silence" of the world, outside of the US, in response to Beijing's policy. The *Times* called on the International Monetary Fund, the European Union, India and South Korea to join the US in publicly pressing China to revalue its currency.

"Retaliation," the newspaper wrote, "or even the threat of retaliation would carry more legitimacy if it were part of a multilateral agreement and done on the world stage."

It is the height of hypocrisy for the US to single out China when no other country over the past 40 years has so ruthlessly used its currency to pursue its national

interests. Thirty nine years ago, the Nixon administration unilaterally, without any consultation with its European and Asian allies, removed the gold backing from the dollar, ending the international monetary framework that had been established at the Bretton Woods conference at the end of World War II.

At the same time, the US imposed a 10 percent surcharge on all exports to the US. By such means, Washington forced Germany, Japan and other nations to revalue their currencies so as to make US exports cheaper.

The US treasury secretary at the time, John Connally, famously told a delegation of Europeans that the dollar “is our currency, but your problem.”

Notwithstanding the arrogant and aggressive posture of the United States, the mounting trade tensions between the US and China reflect deep-going objective and structural fault lines within the world economy. In a column published Wednesday, *Financial Times* commentator Martin Wolf points to the massive imbalances in the global economy epitomized by the piling up of trade and current account surpluses by the two leading exporting nations, China and Germany, at a time of soaring deficits in the rest of the world.

“I am beginning to wonder,” Wolf writes, “whether the open global economy is going to survive this crisis.” He continues: “Behind all this is a fundamental divide. Surplus countries insist on continuing just as before. But they refuse to accept that their reliance on export surpluses must rebound upon themselves, once their customers go broke. Indeed, that is just what is happening.”

For their part, the deficit countries, led by the United States, can reduce their huge fiscal deficits only through a “big surge in their net exports.”

Wolf warns that the world is in danger of being “caught in a ‘beggar-thy-neighbor’ battle: everybody seeks desperately to foist excess supplies onto their trading partners.” He adds, “That was a big part of the catastrophe of the 1930s, too.”

All of the malignant and incurable contradictions that produced the global collapse of the 1930s and led to the rise of virulent nationalism, culminating in World War II, are reasserting themselves once again. The far greater global integration of economic life since then has only compounded these contradictions and raised them to a higher and potentially more explosive and

destructive level.

Trade war, competitive currency devaluations, the breakup of the world market into rival trading and currency blocs, the growth of militarism and war, and the turn by the ruling elites in every country to savage attacks on their working classes and preparations for dictatorial forms of rule—all of these hallmarks of what Trotsky called “the death agony of capitalism” are making their return.

At their root is the fundamental contradiction between global economy and the capitalist nation-state system. There is no way out for mankind within the framework of the historically outmoded and diseased capitalist system.

It is no less objectively determined that the working class will resist and enter into new revolutionary struggles. The urgent task is the development of a new revolutionary leadership which will impart to these struggles the socialist consciousness, program and strategy necessary to lead them to victory.

On April 17 and 18, the Socialist Equality Party, its student movement, the International Students for Social Equality, and the *World Socialist Web Site* are holding an Emergency Conference on the Social Crisis and War in Ann Arbor, Michigan. This conference will discuss a socialist perspective to unite the working class against war and the attack on jobs, living standards, social programs and democratic rights.

We urge all workers and young people looking for a way to fight back to attend the conference. For more information and to register, click here.

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