The growing danger of trade war

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Demands for trade war measures against China are mounting in Washington as the April 15 deadline approaches for the US Treasury Department to submit its semi-annual report to Congress on currency matters. The key issue is whether to declare China a "currency manipulator" and thus open the way for retaliatory US penalties.

At a US House Ways and Means Committee hearing last week, economist Fred Bergsten claimed that the Chinese yuan was undervalued by 40 percent against the US dollar, causing large job losses in the US and a burgeoning trade deficit. He called on the Obama administration to brand China a currency manipulator as the first step toward enlisting the support of other powers to strong-arm Beijing, via the International Monetary Fund and the World Trade Organisation, into revaluing its currency.

Bergsten's heated language is itself a symptom of rising trade war tensions. Just as countries invariably go to war in the name of "peace," so Bergsten justified US trade penalties US against China as "anti-protectionist"—a response to China's "blatant form of protectionism" in undervaluing the yuan. Bergsten's "multilateral" approach, appealing for European support in particular, seeks to ensure "maximum impact" and minimise Beijing's ability to retaliate against Washington.

Europe, however, is mired in its own currency crisis. Conflict between European governments over an aid package to heavily indebted Greece have exposed fissures and called into question the future of the unified currency. The resulting fall in the value of the euro has assisted exporters, making European backing for any US push against China less likely. EU trade commissioner Karel De Gucht told the *Financial Times*: "At this moment, it is less of a political issue in Europe."

A US call for measures against China would place countries such as Japan and Australia in an invidious position. Many Asian-Pacific countries with longstanding strategic ties to the US depend heavily on exports to China to keep their economies afloat. Joining Washington in demanding the revaluation of the yuan risks economic retaliation by Beijing. Not doing so risks a breach with the US.

Nevertheless, the protectionist clamour in Washington continues unabated. Facing unemployment levels approaching 10 percent, Democrats and the trade unions are eager to find a scapegoat to deflect attention from their own responsibility for decades of systematic job destruction. Last week, the union-backed Economic Policy Institute released a report claiming that 2.4 million US jobs had been lost to China since 2001. Its author Robert Scott called on Congress to impose an across-the board tariffs of at least 25 percent on Chinese goods if Beijing fails to alter its currency policy.

China yielded to US threats in 2005 and allowed the yuan to float against the dollar, but re-pegged its currency in 2008 when the global financial crisis erupted. Confronting its own economic and social problems, Beijing has repeatedly declared that it will not revalue the yuan. Visiting Washington last week, China's vice commerce minister Zhong Shan said it was wrong for the US to conclude that China was a currency manipulator because of its trade surplus and warned: "The Chinese government will not succumb to foreign pressure."

Chinese exports were hit hard by the global breakdown, resulting in the loss of at least 20 million jobs and sharpening social tensions. Any revaluation of the yuan is likely to trigger a new wave of bankruptcies and job losses in China. In an article in the *Sydney Morning Herald*, Beijing University professor Fan Gang lashed out at the latest round of "China-bashing" in Washington, pointing out that a revalued yuan would only lead to higher prices and interest rates in the US. Nor would more jobs be created in the US; rather production would shift to countries with cheaper labour like India and Vietnam.

Currency exchange rates are part of broader tensions between the US and China. Since the beginning of the year, the Obama administration has taken a markedly more aggressive stance, signalled by a new US arms sale to Taiwan and Obama's meeting last month with the Dalai Lama. US tariffs have already been imposed on Chinese tyres and steel pipes. Washington is pressuring Beijing to support tough new UN sanctions against Iran—a major energy supplier to China—and criticising China over Internet censorship, with US conglomerate Google winding back its Chinese operations.

Some commentators now claim that China is becoming more assertive. Writing in the *Financial Times* last weekend, Eurasia Group analyst Ian Bremmer warned that as a result of the economic interlinking of China and the US, "a new conflict is unfolding that could be more dangerous even than the Cold War." He declared that Chinese "ambitions to extend its influence in Asia and its plan to do business in far-flung places have given new momentum to its military plans… A broader shift in the balance of power is also likely to empower Chinese hawks to call for greater resistance to US pressure in places such as North Korea, Burma and Sudan."

However, Morgan Stanley Asia director Stephen Roach, commenting on the *Financial Times* on Monday, declared that China was not responsible for America's economic problems. He warned: "Washington's scapegoating of China could take the world to the brink of a very slippery slope. It would not be the first time that political denial was premised on bad economics. But the consequences of such a blunder—trade frictions and protectionism—would make the crisis of 2008-09 look like child's play."

The worsening global economic crisis has only underscored America's waning dominance and China's economic rise. Beijing's search for raw materials and markets is bringing it into conflict with the older established powers. The parallels with the 1930s and the rising danger of war are unmistakable.

Testifying to the House Ways and Means Committee last week, historian Niall Ferguson supported the declaration of China as a "currency manipulator" but cautioned against drastic unilateral retaliation. "One of the important lessons of the Great Depression was that protectionist measures, including competitive devaluations, tended to worsen the situation of the global economy in the early 1930s. A second historical lesson is that conflicts over currencies and trade are often the prelude to conflicts of another sort," he warned.

This slide toward trade and currency wars, militarism, neo-colonial wars and broader global conflagration is the inevitable product of the fundamental, irresolvable contradiction of the outmoded capitalist system—that between global economy and the division of the world into nation states. The only alternative is the socialist reorganisation of the world by the international working class so that its vast resources can be mobilised to meet the pressing social needs of humanity, rather than the private profits of a wealthy few.

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