

The rising danger of US-China trade war

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The overwhelming vote on Wednesday in the US House of Representatives for a bill opening the door for punitive tariffs against China over its currency marks a dangerous step toward trade war. The legislation, directed against any country whose currency is assessed as “fundamentally undervalued,” dovetails with increasingly strident demands from within the American political establishment, particularly its so-called liberal wing, for tough trade measures against China.

In a comment entitled “Taking on China” in Thursday’s *New York Times*, economist Paul Krugman dismissed “dire warnings of trade war and global economic disruption” and advocated even tougher measures. “Diplomacy on China’s currency has gone nowhere, and will continue going nowhere unless backed by the threat of retaliation,” he wrote. “The hype about trade war is unjustified—and, anyway, there are worse things than trade conflict. In a time of unemployment, made worse by China’s predatory currency policy, the possibility of a few new tariffs should be way down on our list of worries.”

The message was reinforced by an editorial in the same edition calling on the Obama administration to ramp up the pressure on China by making “a broad challenge against China’s illegal trade practices” through the World Trade Organisation (WTO) and encouraging other countries to do the same. “This strategy also carries the risk of retaliation,” the *New York Times* opined. “But the United States can’t be paralysed, and moving with others should lessen that threat.”

These arguments are premised on the assumption that US pressure will compel China to back down. But despite high economic growth, the Chinese regime is

deeply concerned about economic and social instability. Responding to the US legislation, Chinese foreign ministry spokeswoman Jiang Yu warned: “Promoting protectionism against China on the basis of the exchange rate will severely damage China-US trade and economic ties and will have a negative impact on the two economies and the world economy.”

Pointing to Beijing’s underlying fears, Chinese Premier Wen Jiabao told US business leaders last week: “If the renminbi [yuan] appreciates by 20 percent to 40 percent according to the requests of the US government, we do not know how many Chinese companies will go bankrupt and how many Chinese workers will be laid off and how many rural workers will go back to their homes. There will be major turbulence in the Chinese society.” Confronting social upheavals, China is likely to retaliate.

The consequences of escalating global trade conflict are well known. Writing in the *Washington Post* on Monday, Robert Samuelson openly advocated trade war as the means of ensuring continued US economic supremacy. “No one familiar with the Smoot-Hawley tariff of 1930 should relish the prospect of a trade war with China, but that seems to be where America is headed and is probably where it should be headed,” he wrote.

“Although the Smoot-Hawley tariff did not cause the Great Depression, it contributed to its severity by provoking widespread retaliation. Confronting China’s export subsidies risks a similar tit-for-tat cycle at a time when the global economic recovery is weak. This is a risk, unfortunately, America needs to take.”

Samuelson criticised China for “never having genuinely accepted the basic rules governing the world

economy” and for wanting “a trading system subordinated to its needs”. But the US, of course, is seeking to retain its own dominant position and to fashion the trading system to suit its economic needs. As Beijing has pointed out, the latest US legislation threatening to penalise China over its currency is inconsistent with WTO rules.

Samuelson’s article overturns a basic economic tenet of post-war American liberalism: that there should never be a return to the beggar-thy-neighbour policies ushered in by the Smoot-Hawley Act. However, the post-war institutions designed to prevent a reoccurrence, in particular the 1944 Bretton Woods monetary system, rested on America’s overwhelming economic pre-eminence and have long since collapsed. Amid the worst economic crisis since the 1930s, the push for trade penalties returns.

In concluding, Samuelson argued that trade war represented a lesser evil compared to accepting Chinese ascendancy. “The collision is between two concepts of the world order,” he declared. “As the old order’s main architect and guardian, the United States faces a dreadful choice: resist Chinese ambitions and risk a trade war in which everyone loses, or do nothing and let China remake the trading system. The first would be dangerous; the second, potentially disastrous.”

Samuelson should perhaps have entitled his article, “A modest proposal for world war”. The passage of the Smoot-Hawley Act led to a barrage of retaliatory trade tariffs by other countries, a catastrophic slump in world trade, which fell by 40 percent between 1929 and 1933, and the emergence of antagonistic currency blocs. The corollary of trade war was rearmament, and escalating rivalry and conflicts in Asia and Europe that culminated in the eruption of World War II in 1939.

Washington’s demands over the Chinese yuan already find their parallels in the Obama administration’s recent aggressive moves to undermine Chinese influence by consolidating US military alliances with South Korea and Japan in North East Asia, and backing South East Asian nations in their territorial disputes with China in the South China Sea. As a declining economic power, American imperialism

is recklessly exploiting its residual military might to counter its rivals. The US is already waging two wars—in Iraq and Afghanistan—to secure dominance in the vital resource-rich regions of Central Asia and the Middle East.

The international working class is the only social force that can prevent the plunge toward a catastrophic war. American and Chinese workers must reject the political poison of nationalism and protectionism that subordinates them to the ruling class in each country. They share a common class interest, along with workers internationally, in overturning the exploitative and oppressive profit system, and refashioning the world economy along socialist lines to meet the needs of humanity as a whole, not the profits of a wealthy few. That is the perspective fought for by the international Trotskyist movement—the International Committee of the Fourth International and its sections around the world.

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