The looming threat of global trade war

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US financial markets are experiencing significant turbulence as the implications of the Trump administration's trade war measures are assessed and re-assessed. So far, the guiding maxim seems to be the old saying, "sell on the news, buy on the rumour."

When the decision to launch action against China under Section 301 of the 1974 Trade Act, threatening tariffs on up to $60 billion worth of Chinese goods, was announced last Thursday, Wall Street's Dow Jones index dropped 700 points. A 400-point fall followed the next day.

Last Monday, however, the Dow rose by 600 points—the biggest one-day jump since 2015—on the basis of comments by Treasury Secretary Steven Mnuchin that negotiations were being conducted with China. The conclusion was apparently drawn that economic sanity would prevail and perhaps warnings of a global trade war were exaggerated.

However the market fell again on Tuesday—the Dow went down by 350 points, with hi-tech stocks leading the way—on the news that the administration was looking at ways to block Chinese investment in technologies considered by the US to be sensitive.

On Wednesday, the Dow fluctuated from a low of 234 points down, to 129 points up.

The volatility reflects both the highly speculative character of the market's rise, particularly over the past year, and fears that a global trade war could puncture this bubble.

It is impossible to predict the exact course of events amid moves and counter-moves, proposals for negotiations, and possible concessions by China to reduce its $375 billion trade deficit with the US and offer openings to the Chinese economy. The basic tendency of development is clear, however.

The Trump administration regards China's development of hi-tech industries under its "Made in China 2025" plan for communications technology, robotics and pharmaceuticals as a threat to the economic position of the US and is determined to use all measures to prevent it.

US Trade Representative Robert Lighthizer, a leading "America First" advocate in the Trump administration, told a US Senate committee hearing last Thursday: "Our view is that we have a very serious problem of losing our intellectual property, which is really the biggest single advantage of the American economy."

Besides the introduction of tariffs on Chinese goods, the treasury department is reported to be considering ways to use "national emergency" laws to block Chinese corporations from acquiring firms that have advanced technology.

According to the *Wall Street Journal*, the administration is examining the 1977 International Emergency Economic Powers Act, which gives the president power to act on the case of an "unusual and extraordinary threat."

The administration's direction was indicated earlier this month when Trump banned the takeover of the hi-tech firm Qualcomm by Broadcom. On the basis of an investigation by the Committee for Foreign Investment in the US (CFIUS), he claimed that the takeover would benefit the Chinese firm Huawei in developing 5G communications technology.

Broadcom is not a Chinese company. It was moving to re-domicile to the US after transferring its base to Singapore for tax reasons. But CFIUS claimed that Qualcomm's financing of the takeover deal would rundown its spending on research and development, opening the way for Huawei to set international standards for 5G.

The Trump administration's moves have provoked expressions of concern by financial pundits and economic commentators around the world, recalling the disastrous consequences of the protectionism of the 1930s, which deepened the Great Depression and played no small role of creating the conditions for World War II.

In his column on Wednesday, *Financial Times* economics commentator Martin Wolf wrote: "The optimistic view is that these are opening moves in a negotiation that will end in a deal. A more pessimistic perspective is that this is a stage in an endless process of fraught negotiations between the two superpowers far into the future. A still more pessimistic view is that trade discussions will break down in a cycle of retaliation, perhaps as part of broader hostilities."

Wolf pointed out that the hostility toward China began well before Trump. A decade ago, the complaints were about its current account surpluses and undervalued exchange rate and accumulation of reserves. But the surplus has fallen to just 1.4 percent of gross domestic product and the complaints have shifted to bilateral imbalances with the US, forced transfers of technology, excess capacity and China's foreign direct investment.

Noting that the world was in a "new era of strategic competition," Wolf offered no way forward. He merely expressed the hope that China would take the longer view and offer concessions "for its own sake and the sake of the world."

But the conception that the economic conflicts could be overcome if only politicians search for a "golden mean" or the Trump measures are merely a negotiating ploy ignores the underlying objective economic driving forces of the present conflict.

The Trump administration is not going to be deterred by the fact that its actions threaten to bring down the entire post-war system of economic and trading relations, which the US put in place, first under the General Agreement on Tariffs and Trade and then via the World Trade Organisation. Washington regards that very system as being responsible for the weakening of the economic position of the US vis-à-vis its old rivals, such as Germany and Japan, and emerging new ones, above all China.

This assessment has not sprung from the fevered brains of Trump and his "America First" acolytes in the White House. It was already being made by the Obama administration.

Its two key global economic initiatives—the Trans Pacific Partnership, directed toward Asia, to the exclusion of China, and the Transatlantic Trade and Investment Partnership, directed toward Europe—were aimed at countering the relative decline of the US.

In the words of Obama's US Trade Representative Michael Froman, writing in the influential journal *Foreign Affairs*, in 2014, Obama's policy sought to "make the United States even more attractive to investors by positioning the country at the centre of a web of agreements that will provide unfettered access to two-thirds of the global economy."

The countries that signed the proposed deals would gain privileged access to the US market in return for concessions, especially in the regulation of intellectual property rights. This was already a repudiation of the basic principles of the post-war trading order, which maintained that concessions offered to one country should be offered to all, in order to prevent the formation of trading blocs that produced such disastrous consequences in the past.

Obama's policy was not labelled "America First" but that was its essential content—the creation of a vast bloc centring on the US.

Outlining the reasons for the change in the US position, Froman wrote: "Washington faces unprecedented constraints in crafting trade policy. The United States no longer holds the dominant position as it did at the end of World War II, and it must build trade coalitions willing to work towards consensus positions."

The Trump administration has scrapped both the Obama administration proposals but the orientation Obama initiated, flowing from the recognition that global economic tides were moving against the US and undermining its supremacy, has been continued and deepened.

In 1934, as war clouds were gathering, Leon Trotsky explained that the policies of the right-wing nationalist, fascist and authoritarian regimes of that time were a "utopia" and a "lie" insofar as they set the "official task of a harmonious national economy on the basis of private property." But, he continued, they were a "menacing reality insofar as it is a question of concentrating all the economic forces of the nation for the preparation of a new war" which was "knocking at the gates."

Whatever the twists and turns of events, Trotsky's remarks point directly to the meaning and historical significance of the Trump regime's measures.