

# Trade war issues come into sharper focus

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Chinese President Xi Jinping offered virtually no concessions to US trade demands in a major speech delivered to the Bo'ao Forum for Asia on Tuesday. Xi pledged a “new phase of opening up” and said China would “broaden market access” for foreign financial companies, reduce limits on foreign investment in the auto, shipbuilding and aviation industries, and lower tariffs on cars.

But most of the measures announced in the speech had been flagged earlier and there was no commitment as to how or when they would be implemented. He also said China would expand protection of intellectual property, but again without specific details.

With his administration under escalating attack in the US and besieged on all sides, Trump was eager to claim progress in his trade measures against China.

“Very thankful for President Xi of China’s kind words on tariffs and automobile barriers... also, his enlightenment on intellectual property and technology transfers. We will make great progress together!” he tweeted.

Xi did not mention Trump by name or comment on the moves by the US to impose tariffs on \$150 billion worth of goods in support of demands that China reduce its trade surplus with the US and cease its alleged appropriation of US intellectual property through technology transfers, the buying up of US companies and outright theft.

Insofar as he referred to the US measures it was in very broad terms, seeking to present China as the champion of an open trading system.

“Human society is facing a major choice to open or to close, to go forward or backward,” he told the gathering on the resort island of Hainan, mainly comprised of investors. “In today’s world, the trend is peace and cooperation and the Cold War mentality and zero-sum-game thinking are outdated.”

Without directly citing Trump’s “America First” program, he said, “Paying attention to one’s own community can only lead into a wall. And we can achieve win-win results only by insisting on peaceful development and working together.”

Xi’s remarks were not directed so much to the US as to Europe, with the aim of convincing the European Union not to join the US against China, but rather to stand with it against Trump’s measures, which threaten to wreck the global trading order.

Since the US administration initiated its trade war measures

last month, the essential driving forces behind its aggression have come into ever sharper focus. The central issue is not primarily the Chinese trade surplus against which Trump rails, but China’s plan under its “Made in China 2025” policy to become a major source of high-tech development in robotics, artificial intelligence, communications, medical equipment and pharmaceuticals.

As the comment piece by White House National Trade Council Director Peter Navarro published in the *Financial Times* on Monday made clear, this is regarded as an existential threat to both US economic and military supremacy. Navarro directly linked the tariff measures directed against China to the US National Security Strategy, issued last December, which declared that the US had entered a new era of “great power competition” with “revisionist states,” singling out Russia and China.

However, China has made clear that US demands that it pull back from its high-tech drive are not going to be accommodated.

Bloomberg has reported that Liu He, a vice premier overseeing economics and a key figure in developing the Chinese response to the US measures, told a group of officials last Thursday that Beijing had rejected a US demand that it stop subsidizing industries connected to the “Made in China 2025” project. The discussion took place before Trump’s announcement that he had asked US Trade Representative Robert Lighthizer to consider the imposition of tariffs on a further \$100 billion worth of Chinese exports. That followed China’s threats to impose tariffs on US agricultural products after the earlier threat by the US against \$50 billion worth of exports.

The issue of technology is gaining more attention in commentary on the developing trade war.

Speaking to Bloomberg television, the president of the Federal Reserve Bank of Dallas, Robert Kaplan, warned that the trade issues between the US and China would not get resolved soon. While it was too early to judge how the conflict would affect the US economy, “the rhetoric, if it goes on for too long at this level, could have a chilling effect,” he said.

Kaplan called for direct private conversations at the top level, saying that intellectual property and technology issues could take years to resolve.

While financial markets have responded with an upswing to

the positive rhetoric of the administration and the assertions that so far nothing has been done and a full-blown conflict will be averted, the underlying issues are irresolvable through negotiations.

In an article published on April 9, *Financial Times* journalist Shawn Donnan noted that it was very easy to see how a trade war could get started, saying “it is hard to see how one can be averted now that the threats and counter-threats have been made.”

“For Donald Trump not to proceed with his threatened tariffs if China does not offer meaningful change to its intellectual property regime and economic model,” he continued, “would be an act of geopolitical weakness. Likewise, for Xi Jinping to bow to the threat of tariffs and now carry out the substantive reforms the Trump administration is demanding would be an act of political self-harm. There is no way out that does not involve conflict or some sort of capitulation.”

He made the significant point that action against China did not begin with Trump. The Obama administration had sought to build alliances against China outside the framework of the World Trade Organisation in order to use those alliances to “embed new rules for the global economy that Beijing would be forced to follow.”

On his first day in office, Trump had scrapped the Trans-Pacific Partnership, one of the key alliance-building initiatives of the Obama administration, in favour of “sharp confrontations to fight existential battles.” But both administrations had “the same strategic innovation war with China in mind” and this conflict is “yet another reason a trade war appears more likely than not.”

*Financial Times* economics columnist Martin Wolf turned to the longer-term historical and geo-political implications of the conflict in a comment published yesterday. If China and the US failed to maintain “reasonably cooperative relationships,” he wrote, “they have the capacity to wreak havoc not only upon each other, but upon the entire world.”

Pointing to the military implications, he wrote that China and the US were rivals on two dimensions, power and ideology, and this combination “might remind one of the clash with the Axis powers during the Second World War or the Cold War against the Soviet Union.” China was “very different,” but it was “also potentially more potent.”

While he did not elaborate, Wolf pointed to the economic decline and consequent erosion of political leadership of the US that are key factors in the trade war drive.

It was right to insist that China abide by commitments it had made, he said, but then so must the US and the rest of the world.

“China is not going to feel compelled to abide by agreed rules when pressed by any country that treats those rules with contempt,” he wrote. This was a reference to the fact that it is the US that is declaring it can no longer work under the rules of the World Trade Organisation and the system of international

trading relationships it played the major role in developing. China was not the threat.

“The threat is the decadence of the west, very much including the US—the prevalence of rent extraction as a way of economic life [a reference to the parasitism that characterises much of the US economy], the indifference to the fate of much of its citizenry, the indifference to the truth, and the sacrifice of long-term investment to private and public consumption.”

And in a jibe against US policy over the past decade, he wrote that it was a “tragedy that the best way we could find to escape from a financial crisis was via monetary policies that risked promoting new bubbles.”

On the issue of technology, he wrote that every nation had the right to develop. “The US can huff and puff about Chinese theft of intellectual property. But every catch-up nation, very much the US in the 19th century, seized the ideas of others and built upon them.”

The idea that intellectual property was sacrosanct was wrong, and while the US could protect its intellectual property, “any idea that it is entitled (or indeed able) to prevent China from innovating its way to prosperity is mad.”

Economic madness it certainly is.

But contrary to the underlying assumption of Wolf—derived in the main from John Maynard Keynes, who held that economic crises arose from “muddled thinking” rather than from the objective contradictions of capitalism itself—conflicts cannot be resolved if only reason and logic prevail, because the profit system does not operate on this basis.

The madness of trade war—and the implicit and ever growing threat of military conflict, to which Wolf himself has pointed—does not arise from Trump’s head or from that of Obama before him.

It is an expression of the objective contradiction between modern-day globalised production and the division of the world by the archaic and reactionary system of nation-states and great powers, each of which seeks to enhance its position by striving for profits and markets at the expense of its rivals, threatening to plunge the world into economic catastrophe and world war in the process.

This contradiction cannot be resolved by the application of reason and logic within the framework of the capitalist system. That is impossible. Reason and rationality demand the ending of the capitalist profit and nation-state system and the establishment of international socialism, which alone can assure the harmonious development of the productive forces, including vast scientific and technological advances.



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