

The implications of US-China trade war

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In the aftermath of the global financial crisis ten years ago, the leaders of the world's major powers pledged that never again would they go down the road of protectionism which had such disastrous consequences in the 1930s—deepening the Great Depression and contributing to the outbreak of world war in 1939.

Yesterday US President Donald Trump announced tariffs on \$200 billion worth of Chinese goods in what the *Washington Post* described as “one of the most severe economic restrictions ever imposed by a US president.”

A levy of 10 percent will be imposed starting from September 24 and will be escalated to 25 percent in 2019 if the US does not receive what it considers to be a satisfactory agreement. The new tariffs, which will cover more than 1,000 goods, come on top of the 25 percent tariff already imposed on \$50 billion worth of industrial products. Trump has threatened further measures on the remaining Chinese exports to the US totalling more than \$250 billion.

China has threatened retaliatory action including tariffs and other, as yet unspecified measures, against the US, meaning that the world's number one and number two economies are locked into a rapidly escalating trade war that will have global consequences.

Announcing the decision, Trump called on China to take “swift action” to end what he called its “unfair trade practices” and expressed the hope that the trade conflict would be resolved.

But there is little prospect of such an outcome because, while the US is demanding that the trade deficit with China be reduced, the conflict does not merely centre on that issue. China has made offers to increase its imports from the US, all of which have been rejected. The key US demand is that the Chinese government completely abandon its program of economic development and remain subservient to the US in high-tech economic sectors.

As the position paper issued by Washington in May put it: “China will cease providing market-distorting subsidies and other types of government support that can

contribute to the creation or maintenance of excess capacity in industries targeted by the Made in China 2025 industrial plan.”

In other words, China must completely scrap the foundational structures of its economy so that it presents no threat to the economic dominance of US capitalism, a dominance which the US intends to maintain, if it considers necessary, by military means. This was made clear earlier this year when Washington designated China as a “strategic competitor,” that is, a potential military enemy. This is the inherent, objective, logic of the latest trade war measures.

Their full significance can only be grasped when viewed with the framework of the historical development of the global capitalist economy.

After the disastrous decade of the 1930s, and as the world plunged into war, leading figures within the Roosevelt administration recognised that this situation was due in no small measure to the division of the world into rival trade and economic blocs which tariff and other trade restrictions had played a major role in creating.

Post-war planning centred on trying to overcome this contradiction between the global economy and its division into rival great powers and blocs through the development of a mechanism that ensured the expansion of world trade. This was the basis of the series of measures set in place in the immediate aftermath of the war: the Bretton Woods monetary system which tied major currencies to the dollar in fixed exchange rates, the General Agreement on Tariffs and Trade that sought to bring down tariff barriers and the establishment of the International Monetary Fund and the World Bank to ensure international economic collaboration.

These measures, however, did not overcome the inherent contradictions of capitalism, above all between the global economy and the nation-state system. Rather, they sought to contain and mitigate them within a system based on the overwhelming economic dominance of the US.

But the growth of the world capitalist economy and the

strengthening of the other major powers undermined the very foundations on which they were based—the absolute dominance of the US. Within the space of a generation, the weakening of the US position was revealed in August 1971 when it scrapped the Bretton Woods monetary system declaring that the dollar would no longer be redeemable for gold.

The period since then has seen the ongoing weakening of the position of the US, which was graphically revealed in the financial meltdown ten years ago when the US financial system was shown to be a house of cards based on rampant speculation and outright criminal activity. This situation has continued in the subsequent decade, threatening, another, even more disastrous, financial crisis.

The US is now not only confronted with the economic power of its European rivals but a major new one in the form of China. It is striving to reverse this situation. As Leon Trotsky explained some eighty years ago, the hegemony of the US would assert itself most powerfully not in conditions of boom but above all in a crisis when it would use every means—economic and military—against all rivals to maintain its position.

The trade war measures against China are only one expression of this process. The US has already carried out protectionist measures against Europe and Japan through the imposition of tariffs on steel and aluminium and has threatened tariffs on cars and auto parts, which will be invoked unless they join its push on China.

And as the China tariffs are imposed, top officials of the European Union are meeting to discuss how they might overcome the financial sanctions the US will impose against European companies if they maintain economic ties with Iran after November 4 following the unilateral abrogation of the Iran nuclear deal.

The deal was not overturned because Iran had breached the agreement—international agencies found that it had fully complied. Rather, the United States unilaterally abrogated the treaty in order to strengthen the strategic position of the US in the Middle East by countering the influence of Iran, and because European corporations stood to benefit from the opening up of new economic opportunities in that country at the expense of their US rivals.

Now the State Department has warned that European companies are “on the railroad tracks” if they defy US sanctions and firms that deal with the “enemy” will be barred from access to the US financial system.

Writing in the 1930s, Leon Trotsky explained that the

interdependence of every country in the global economy meant that the program of economic nationalism, of the kind now being practised by the Trump administration, was a reactionary “utopia” insofar as it set itself the task of harmonious national economic development on the basis of private property.

“But it is 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,” he wrote five years before the outbreak of World War II.

This “menacing reality” is now once again expressed in the fact that the trade war measures against China, as well as those against Europe and Japan, have all been invoked on “national security” grounds. Just as the US prepares for war, so too do all the other major powers. This drive does not arise from the heads of the capitalist politicians—their actions are only the translation into politics of the objective logic and irresolvable contradictions of the capitalist system over which they preside.

But there is another more powerful logic at work. The very development of globalised production, which has raised the contradiction of the outmoded nation-state system with its rival great powers to a new peak of intensity, has laid the foundations for a planned world socialist economy. And it has created in the international working class, unified at an unprecedented level, the social force to carry it out.

The latest Trump trade war measures underscore the urgency for the political and theoretical arming of the working class with the program of world socialist revolution, fought for by the International Committee of the Fourth International, if civilisation is to go forward and the plunge into barbarism averted.



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