Free trade giving way to hi-tech war

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17 July 2023

During the decade of the 1930s, the Great Depression ushered in by the 1929 Wall Street crash was characterised by the formation of trade and currency blocs as all the major capitalist countries carried out a nationalist economic agenda.

The struggle of each against all, everyone for himself and the devil take the hindmost, led to a collapse of global trade—the world market all but disappeared—and played a not insignificant role in creating the conditions for World War II.

As a result of this experience, one of the key components of the global economic framework designed by the US, as it emerged from the war as the dominant imperialist power, was the insistence that the restrictive measures of the disastrous 1930s could not be allowed to return and free market principles had to be developed and extended.

This agenda is now being reversed by the US through the increase in tariffs and other restrictions in the crucial area of high-tech development. The latter is vital for the development of green industrial processes and more advanced computer chips necessary for the advancement of communications and artificial intelligence.

The Biden administration is providing major subsidies to high-tech firms which base all or part of their operations in the US. Its actions are bringing counteractions by other major powers leading to what has been described as a global subsidies race.

As an article in the *Financial Times* (FT) last week put it: "Billion-dollar packages including subsidies and investment incentives such as the US's Inflation Reduction Act and Chips Act are already shaping business decisions and threatening a global subsides race."

Referring to the rise of protectionist measures, it continued, "this wave of national industrial policies contrasts with decades of globalisation underpinned by free trade." According to a survey of economists by the World Economic Forum (the organisers of the annual Davos gathering), "most experts think this paradigm shift will become the de facto approach to economic policy over the coming years."

The level of tensions generated by the US measures is indicated by the remarks of Germany's vice-chancellor and economics minister Robert Habeck to a business conference last month.

"It's like a declaration of war," he said. "The [Americans] want to have the semiconductors, they want the solar industry, they want the hydrogen industry, they want the electrolysers."

In response, the FT reported, the European Union, Japan and South Korea have introduced subsidies for their high-tech and clean energy industries.

As Habeck remarked: "If we don't keep up, they'll have them [the key industries] and we won't. That's the brutal reality."

The latest US measures are the acceleration of a trend going back to the aftermath of the global financial crisis of 2008, which was the focus of a one-day conference on geo-economic fragmentation convened by the International Monetary Fund in May.

In her opening remarks to the gathering, IMF deputy managing director Gita Gopinath said the present situation did not develop overnight.

"As momentum for traditional trade reforms stalled, trade restrictions and other distortive measures began to spread, especially in the aftermath of the global financial crisis," she said.

The process accelerated because of the pandemic and the war in Ukraine which had "heightened concerns about national security and supply chain resilience."

"These changes have ushered in the beginning of a new paradigm in the global economic order—one that shifts away from decades of global economic integration and in which inward- and alliance-oriented policies are gaining traction. Let me be clear, this is not just rhetoric. The early signs of fragmentation are taking root," Gopinath said. She pointed to a "surge" in the number of trade and investment restrictions particularly in the high-tech sector.

The paradigm shift in the functioning of the global economy has attracted the attention of a number of economists concerned about where it is heading. Adam Posen, the president of the Peterson Institute for International Economics, has been one of the most vocal critics of what he calls "zero-sum economics."

In an article in the Spring edition of the *Foreign Policy* magazine this year, he noted that the US was attacking the very basis of the international trade and investment order which it had designed.

"Along with members of Congress from both parties, the Biden administration has sought to take away production from others in a zero-sum way—explicitly from China and a bit more courteously from others," Posen wrote.

Drawing out the implications of US attempts to impose "arbitrary export and import restrictions on China that extend to other countries," he continued: "In order for such restrictions to succeed the United States would have to become a commercial police state on an unprecedented scale."

He opposed the claim that the Inflation Reduction Act and the Chips Act would accelerate US growth beyond an initial spending bump, stating: "They will not revolutionise US competitiveness, and their implementation will most likely enrich small pockets of protected businesses rather than making a dent in reducing inequality. … What these programs will not do is accelerate the adoption of technology."

He expanded on the central themes of the article in an interview with the FT last week.

Posen explained that what made the present version of industrial policy worse "isn't just that they are large-scale and wasteful. The first big problem is viewing industrial competition as zero sum; the idea that you can create lasting competitive advantage so that your locally headquartered companies dominate an industry. The reason that's bad is because a) it doesn't usually work, and b) it just invites retaliation."

In a caustic comment, he noted: "Russia and North Korea have worked very hard to be self-sufficient, with limited supply chains, and it has not worked out well for them."

The real damage from decoupling and the conflict between the US, China and other economic blocs would be reduced productivity growth.

"So, if we continue down this path, we're looking at a meaningfully bleaker outlook for average growth in the world," he said.

Posen also referenced the experiences of the pandemic when hoarding by the major economics, including the US, resulted in the slow dissemination of vaccines and quality medical equipment to the developing world.

"There is no reason to think, barring significant changes in policy … that it will be any different with green technology."

The analysis from the IMF and economists amid warnings that the policies initiated by the US can only bring about lower growth in an already fragile world economy raise the question: why are they being implemented?

The analysis by Leon Trotsky of the deepening trade wars of the 1930s points to the essential driving forces.

The idea of a planned or corporative state capitalism remained a lie, he wrote, insofar as it set itself the task of constructing a harmonious national economy 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. This work is proceeding now with full steam. A new great war is knocking at the gates."

The same can be said today. Much has changed since Trotsky wrote these lines in 1934. But the fundamental contradictions of capitalism, arising from private property and that between global economy and the system of rival nation state not only remain but have intensified and are threatening to plunge humanity into another global conflict.