Slowing global economy intensifying economic war against China

Nick Beams
3 April 2024

The drums of economic war, what used to be called trade war, are beating louder than ever.

Organisations, governments and the corporate media—which once maintained that free trade was the road to a peaceful global economic order and trade war had to be averted lest it lead to the kind of devastating consequences seen in the 1930s—are now gearing up for battle.

The economic war is being framed in terms of the need to counter Chinese state subsidies to industries that produce electric vehicles and other high-tech products, including lithium-ion batteries and solar panels, at lower cost and in higher quantities than anywhere else in the world.

It will be at the centre of talks which US Treasury Secretary Janet Yellen holds with members of the Chinese government during her visit to Beijing this week.

On the eve of her departure Yellen would not be drawn on the question of whether the US would introduce more tariffs against China but indicated that was by no means ruled out.

"We don't want to be overly dependent and they want to dominate the market. We're not going to let that happen," she said in an interview.

In an indication of the shift in US political circles, Yellen, who was a supporter of China's entry to the World Trade Organisation in the 1990s and regarded its exports of cheaper goods as beneficial to the US, made clear that was no longer the case.

"People like me grew up with the view: If people send you cheaper goods, you send a thank-you note. That's what standard economics basically says. I would never ever again say, 'Send a thank-you note,'" she said.

Another sign of the accelerating shift was a recent article by Rana Foroohar, a leading editorial figure at the *Financial Times*. It was significant not only for its denunciation of China—that is par for the course—but went further in calling for the scrapping of the WTO (World Trade Organization), the global body which supposedly sets trade rules and adjudicates on disputes.

She denounced the "hypocrisy" of China for challenging tax credits which support US clean energy producers under the Inflation Reduction Act for breaking WTO rules when its own economy is "built on plans that lay out decades-long subsidies and protectionist ringfencing of the most strategic industries, including but not limited to clean energy, telecommunications and artificial intelligence."

The denunciations of China conveniently ignore historical experience. One could well ask where the US computer industry would be today if it were not for the continuous state-funded high-tech development going back to the military-industrial complex of the 1950s. And the giant US pharmaceutical companies, which dominate key areas of the world market, have been the beneficiaries of decades of research carried out by publicly funded institutions.

China's political economy, Foroohar maintained, "goes against the free trade assumptions of the WTO," which held that emerging nations would simply fall seamlessly in line with "free market rules written by Western powers" which had not happened.

But now there was "progress" because "policymakers (mostly in the US but some in Europe, too) [are] beginning to take their blinkers off and look at the world as it really is."

She cited comments made to her by US Trade Representative Katherine Tai that "Europe's existential concerns about the effects of China's EV dumping have reached a fever pitch."

Europeans and many American chief executives had for long been "willfully blind to the fact that the global trade model and the institutions that support it are not built to deal with today's reality," but now we "may be at a turning point."

What exactly will emerge is not yet clear, but the trend is. It will see the development of international economic relations in which each country, or various groups of countries, seek to protect their own position at the expense of their rivals.

That is a return at a much higher level to the kind of conflict which tore apart the world market in the 1930s and which the institutions set up in the postwar period, starting with the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO, were intended to prevent.

This trend is being accelerated by the general slowdown of the world economy, recession in some areas, in which Chinese economic growth, having slowed markedly and showing no signs of a reversal, can no longer function as the shock absorber it was after the global financial crisis of 2008.

More than that, lower Chinese growth is set to become the trigger for deepening economic conflict, according to an article by Daniel Rosen and Logan Wright published in the *Foreign Affairs* journal last week with the title "China's Economic Collision Course."

The authors began by noting that China's economy had barely grown in the past two years and that today basic policy reforms needed to achieve even 3 or 4 percent growth "are proving difficult for Beijing to achieve."

China has run a trade surplus for the past two decades, but in 2022 and 2023 the slowdown in Chinese domestic demand "pushed the country's exports to exceed its imports by a shocking $1.7 trillion."

Like many others, the authors called for measures to increase consumption-led growth. "Yet over the past two years, the opposite has happened. Unable to sell goods to domestic buyers, Chinese companies are exporting their excess production abroad."

"And as Chinese overcapacity drives foreign governments toward ever-harsher counter measures, the resulting confrontation is something neither the Chinese economy nor the global trade system can afford."

Of course, an article in one of the leading journals of the US political establishment could not point to the absurdity and irrationality of capitalism, rooted in its profit-driven and market-based system, where "overproduction" of commodities, which could fuel growth and economic expansion and help deal with climate change, produces a crisis and confrontation.

Moreover, it passed over the fact that hostility towards China in trade, led by the US, is not recent but has been long developing.

Back in the 1990s, the Clinton administration led the drive to have China included as a member of the WTO. It considered this would open new areas for American investment and enable the US to maintain its pre-eminent position in the world economy in the era of globalised production.

It was also hoped that a turn to the "free market" in China would lead to changes in the regime, bringing forward sections of the rising Chinese capitalist ruling class more amenable to US domination and adherence to its so-called "rules-based" order.

But by the time of the Obama administration, it was recognised this had not taken place. Closer integration of China had facilitated its economic expansion and led to the development of a regime which chafed at subordination to the US and was determined to move China further up the economic ladder—a threat to US supremacy.

Obama's trade representative Michael Froman called for a new international trade architecture, noting that the US faced constraints because it no longer held as dominant a position as it did after World War II.

Reflecting this changed balance of forces, the Obama administration carried out the "pivot to Asia" in 2011, the start of the military encirclement of China which has proceed in leaps and bounds in the years since.

The Trump administration launched trade war measures in 2018 with a series of tariffs on Chinese goods, citing the massive imbalance between the two countries.

But the real thrust, as outlined in a series of documents at the time, was against Chinese development of new technologies, seen as an existential threat to the position of the US.

Under Biden not only have the Trump tariffs been largely retained but the war against Chinese development of high-tech has been extended with an ever-widening series of bans on the export of vital computer chips.

However, while these bans have caused significant problems, they have not been entirely successful with the result that China is now the leading producer of EVs and a range of other commodities, such as solar panels and batteries.

The worsening economic outlook for the world economy is furthering this economic warfare and increases the prospect that it will lead to a military conflict.