

US-China Trade War: From Cooperation to Containment

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Abstract

The escalation of tariffs by the United States (US) on imports from China has launched what has been called a “trade war”. While economists generally do not approve of such actions and view them as zero sum games, the US-China tiff should be viewed as part of a political response, externally to China’s growing assertiveness and internally to domestic criticism of China, by an increasingly depressed US working class that supports President Donald Trump. While President Trump initiated the action, there is bipartisan support in the US to actions that would limit China’s rising power. The US action should be viewed as part of a “geo-economic containment” of China’s economic growth. The US hopes a growth slowdown would hurt China economically and its present leadership politically.

Introduction

United States President Donald Trump was voted to office by an increasingly disgruntled American middle and working class, mostly white Anglo-Saxons, worried about jobs and their economic and social marginalisation. Arguing that the United States had been cheated by its opponents, mainly China, and taken for granted by its allies, like the European Union, Japan and South Korea, President Trump promised to replace the regime of “free trade” that the US had advocated for close to half a century and replace it with a regime of “fair trade” wherein the US would get its due. This grievance-based politics won Mr Trump the presidency.

He then took two steps: first, he demanded of US allies that they share the fiscal burden of defending the free world; and, second, he served notice on China that it adopt measures aimed at reducing the trade surplus it had long enjoyed vis-à-vis the US. President Trump also warned Mexico and Canada that he would renegotiate the North American Free Trade Agreement so that it addresses US concerns and he alerted 'friendly' countries like India to the possibility that the campaign for 'fair trade' would also touch them.

The Trade War

President Trump has moved on all fronts but the most important move has been the launching of the so-called "trade war" against China. In September 2018, President Trump widened the ambit of US tariffs, imposing a 10 per cent tariff on US\$ 200 billion worth of goods. This compared close to US\$ 50 billion of Chinese imports that attracted tariffs till that time. Since then, President Trump has been blowing hot and cold, sending out mixed signals on how far he is willing to go.

Even as President Trump has said that he is unlikely to meet China's President Xi Jinping anytime soon to arrive at an understanding on their on-going 'trade war', senior officials from both sides continue to meet to see if differences between the two countries can be resolved without a further escalation of tensions. A failure to secure a new understanding would mean that the US could increase the tariffs it imposed in September 2018 from 10 per cent to 25 per cent.

While Chinese officials continue to say that a compromise deal is possible, US officials remain adamant that a final resolution of differences is unlikely any time soon. President Trump would perhaps like to keep the 'free trade vs fair trade' rhetoric alive and kicking right through the coming election campaign for a second term. Any deal struck too soon could invite Democratic party criticism that Mr Trump has sold out to US business interests.

While many economists in both countries, and around the world, focus on the economic downside of tariff escalation by the US, the fact is that the so-called trade war is as much about economics as it is about politics and, indeed, geo-politics. An

assertive President Trump not only appeals to voters back home but is also enabling President Xi to become assertive at home as his dominance over party, government and the armed forces have come in for some criticism at home. However, China runs the risk that an ensuing growth slowdown could create domestic unrest. To insulate himself against this possibility, President Xi has turned to communism and the communist party, ratcheting up ideological rhetoric and acting against elite corruption.

If China is at the receiving end of President Trump's trade war, it has no one else but itself to blame. Growing global, especially Asian, concern about Chinese geopolitical 'assertiveness' offered the US the opportunity to hit at China through geo-economic action. Ending the phase of 'peaceful rise', President Xi launched a new phase of not just pursuing a "China Dream", but doing so with "All Under Heaven" (*Tianxia*) – that is as a Great Power with global responsibilities and reach. Not only did this new assertiveness, evidenced in many actions and decisions including the Chinese stance on maritime freedoms in South China Sea and the funding of the Belt and Road Initiative (BRI), worry China's Asian neighbours but finally woke US leadership to the challenge of economic and geopolitical competition across the globe from China.

Even before President Trump assumed office, the US had taken several steps to respond to China's growing global influence and interests. As the strategic policy analyst Ashley Tellis observed, "Sustained economic growth rates have made China the most likely competitor capable of dominating at least the Asian segment of the Eurasian space. As China's growing power spawns expanded interests, these are likely to scrape against existing security order, whose guarantees are founded upon American primacy".¹

It is fairly clear that even while Chinese diplomats talk about the need for cooperation between US and China, President Trump is seeking the geo-economic containment of China. How far he is willing to go to get China to address a range of US concerns will depend both on domestic politics and China's response. The fact is that both countries no longer view the present stand-off as merely a 'trade war'. It is an economic engagement in a larger

battle for global primacy. Indeed, this US view is not just a partisan view of President Trump and his supporters but enjoys bipartisan support. In viewing trade as an arena of geopolitics and seeking China's geo-economic containment, US policymakers across party lines are echoing fairly entrenched views within the US strategic community. Moreover, global isolationism and what economists have dubbed "reciprocitarianism" – a policy of give and take – have deep roots in American political psyche, predating the post-War globalism of American elite.

It may be recalled that from the era of mercantilism onwards, international trade has always been an arena of geopolitics. In his prescient deposition before the United States Congressional Commission on "National Security Considerations Affecting Trade Policy", made way back in 1971, Nobel prize economist Thomas C Schelling said, "Trade policy can be civilized or disorderly, US trade policies can antagonize governments, generate resentment in populations, hurt economies, influence the tenure of governments, even provoke hostilities.... Aside from war and preparations for war, and occasionally aside from migration, trade is the most important relationship that most countries have with each other. Broadly defined to include investment, shipping, tourism, and the management of enterprises trade is what most of international relations are about. For that reason trade policy is national security policy".²

In a thoughtful monograph entitled *The Rise of China vs The Logic of Strategy*, Edward Luttwak observed that the only way the US could deal with a rising China would be through its geo-economic containment, applying "the logic of strategy in the grammar of commerce", by restricting Chinese exports into (US) markets, denying raw materials to China insofar as possible, and stopping whatever technology transfers China would still need for the future".³ Luttwak suggested that US policy goal ought to be to slow down China's economic growth so as to ensure adverse domestic economic and political consequences that would exert pressure on China's leadership to act more in accordance with western interests.

While China's economic growth rate has indeed come down, from the highs of double digit and 8 per cent plus rates to anywhere between 4 per cent and 6 per cent per annum, it is unlikely that the Chinese communist party under its present leadership will change course. China sees itself as an emergent superpower. It also believes the West's influence globally is on the decline. Hence, whatever the medium to short term understanding that the US and Chinese trade officials may arrive at in dealing with US tariff escalation, the rivalry between the two 'superpowers' is likely to persist.

Implications for India

President Trump has not taken his eye off India in his campaign for 'fair trade'. The threat of withdrawing the Generalised System of Preferences (GSP) is being held against India. US has already withdrawn up to US\$ 70 billion worth of GSP benefits to India. It has threatened to widen the ambit. The US is also demanding fair trade provisions in a range of areas including medical devices, e-commerce and intellectual property rights protection. If enforced, these would hurt Indian business interests.

However, the US-China spat has opened up some new opportunities for India in its trade relations with China. India's exports to China have reportedly increased by about 25 per cent during the period June-November 2018, and were estimated to be US\$ 8.46 billion, compared to US\$ 6.37 billion in June-November 2017. According to the Federation of Indian Export Organisations, the commodities that have exhibited high growth during this period include petroleum products, chemicals, cotton yarn, plastic raw material and marine products. On the other hand, China's growth slowdown would hurt Indian exports in the medium term.

India has a strategic stake in the revival of multilateralism in trade and global adherence to trading rules monitored by the World Trade Organisation (WTO). This is not going to be easy with the US adopting an anti-WTO stance and China pushing for regional free trade in Asia. The recent thaw in China-Japan relations could hurt India with Japanese investors returning to a more friendly China and Japan and China jointly putting in place

the Regional Comprehensive Economic Partnership (RCEP) agreement with which India still has some reservations.

In short, the global trading environment is not going to be helpful for India even if the geopolitics of US-China competition may offer India some additional space for policy manoeuvre.

Endnotes

¹ Ashley Tellis, "The Geopolitics of the TTIP& TTP" in Sanjaya Baru & Suvi Dogra (Edited), *Power Shifts and New Blocs in the Global Trading System*, IISS London, 2015.

² Cited in Sanjaya Baru, *Strategic Consequences of India's Economic Performance*, Academic Foundation, New Delhi, 2006. Chapter 38, Page 341.

³ Edward N Luttwak, *The Rise of China vs The Logic of Strategy*, Harvard University Press, 2012. Page 166.

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