Trump’s US-China Trade War and America’s International Place

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Despite its resonance with his supporters, President Trump’s Make America Great Again (or MAGA) is an ambiguous slogan indicating a yearning for post-World War II years when, with other industrial powers yet to rise from the ashes of the conflict, America’s global political and military supremacy was matched by a powerful manufacturing-based economy. In those years, GDP rose from below $200bn in 1940 to $300bn in 1950 and over $500bn in 1960 while the manufacturing sector, including auto industry, dominated domestic and foreign markets (University of Groningen 1994-2012). For continued growth of the economy, however, American industry needed expanding domestic and foreign markets. Since subsistence and primary exporting economies of less developed countries could not independently increase labor productivity and household earning to buy more American goods, labor productivity had to grow in other industrial countries which necessitated access to expanding export markets. Corporate America responded through the multinational corporation to contribute to, and profit from growth of rival economies. In the process, however, America’s share in international trade declined from over 16% in 1960 to 11% in 1985 and only 8% in 2018, accompanied by falling balance of trade from a surplus of $3.5bn in 1960 to deficits of $112bn in 1985 and $622bn in 2018 (US Census, 2019). To President Trump this trade deficit represents an assault on America’s greatness and must be reversed with a trade war waged on several fronts. China is singled out as the main adversary due to the size of US deficit with the country which in 2018 alone amounted to $378bn (Office of the United States Trade Representative, ND). The deficit has also persisted for over three decades during which China has moved from the fringes of the global economy to rank second in the world.

Sino-American economic and cultural relations which began to flourish from the middle of the Nineteenth Century fell to a bare minimum with the 1949 communist takeover of China and were almost cut off with American sanctions at the outbreak of the Korean War. Only after President Richard Nixon’s visit to China in 1972 and commencement of rapprochement did bilateral trade resume, although in a trickle (Chen, 2006). With its ideological predisposition to political paranoia and an autarkic, agrarian economy, the Maoist regime in Beijing saw economic interaction even with friendly socialist countries as a necessary evil. Economic contact with America represented the Trojan Horse bent on infiltrating the state and loosening the ideological grip of the regime. Nixon’s visit readmitted China to the international political stage but scarcely entailed substantial bilateral economic exchanges. In 1975, a year before the end of Mao’s rule, China’s foreign trade, having doubled over the previous five years, was still $13bn and trade with America had grown from $5m in 1971 to a mere $500m (Mei and Chen, ND). Moreover, with almost no room for private enterprise in China’s centrally controlled economy, Western investment was unlikely.

With Mao’s death in 1976 and Maoist zealots sidelined, his political successors seemed less keen on perpetual seclusion of an agrarian economy in pursuit of the unlikely dream of global dominance. Chairman Deng Xiaoping’s reforms of late 1970s meant to raise China above the breadline by fostering economic development initially through limited liberalization. Having survived Mao’s the ruthless and economically ruinous machinery of the Cultural Revolution, the new leadership was ready for some ideological compromise provided it did not loosen their hold on power. Just as Mao had remolded Marxism-Leninism into a pre-capitalist, agrarian communist ideology, his successors revised his doctrine and invented Socialism with Chinese Characteristics to justify their revisionism. With this new doctrine, limited liberalization of the economy and strictly controlled foreign investment gradually accelerated, showing that the communist leaders no longer feared a capitalist conspiracy to undermine the regime. By the early 1990s, foreign investors were even being treated to even social and political incentives such as immunity from interference by the Communist Party and state affiliated trade unions.

Once out of its isolationist shell, China and its inexhaustible supply of cheap labor offered the ideal environment for Western capital in search of higher return on old, labor-intensive, technology. Presumably convinced that capitalism cared little about the political "superstructure" as long as profit could be made from the economic "base", Chinese rulers showed little compunction in letting foreign capital "exploit" their workers and breed social inequality, environmental degradation and, soon, widespread corruption. In the process, they created a modern-age and socialist "workshop of the world" selling a growing range and volume of manufactured goods on international markets. With the state empowered to set wages, subsidize selected industries and enforce trade and, allegedly, exchange control to curb domestic consumption, "the workshop" enjoyed an edge in export markets for three decades and amassed vast reserves. With exceptional potential, backed by a state policy of rapid industrialization, China achieved an impressive record of economic growth and success in export markets. Nonetheless, this could not be realized without foreign, including American, capital. China gave American capitalism fresh vistas to follow its instinct of moving capital, enterprise and old technology to earn higher return in a virgin economy rather than stay at home and keep rust-city factories alive.

China's ideological makeover was a precursor to fundamental changes in the world political and economic order. By the late 1980s, most communist regimes were on the verge of collapse and were opening their consumption-starved, capital-hungry economies to Western trade and investment. Western economies, themselves, were in transition to the post-industrial phase of capitalism characterized by, among other things, the need for global economic integration. In America, between 1950 and 1985, GDP increased by almost 240 percent (FRED, 2019) and labor productivity by about 300 percent, raising median nominal and real household incomes by 500 percent and 150 percent respectively (Bureau of Labor Statistics, 2014). This growth of labor productivity resulted from huge investment in more, and more efficient capital goods and production processes, including automation, and in education and training of highly skilled manpower. Western workers typically produced greater value per head which allowed employers to pay higher wages and enable households to buy what the economy produced – either directly or in exchange with imports.

With rising standards of living, American workers expected continuously higher wages. Like other post-industrial countries, the American workforce increasingly had to be allocated to high productivity, tertiary and increasingly quaternary sectors of the economy, the latter engaged for "production" of new technology and *productization* of the output as technologically advanced consumption and investment goods and production blue-prints for domestic and export markets. America's post-industrial transition was already gathering momentum in the 1980s, leaving behind derelict, low-technology factories whose functions were being outsourced to capital-deficient countries that offered investors cheaper labor and often less stringent business environments. The aim of the investor was not simply to produce for markets of the host or other less developed countries, but to cater for customers in advanced countries themselves. Unlike foreign investment in earlier phases, post-industrial capitalism invested to surrender parts of its domestic market to imports from less developed countries.

For President Trump, the loss of American jobs resulting from outsourcing production and increasingly, labor, has gone far enough and warrants a campaign to encourage American investment to remain or return home. The problem is that for an economy like America's, the long-term benefit of creating jobs depends more on the quality than the quantity of jobs. The accustomed standard of living of post-industrial American workers and their wage expectation make them too costly for employment in conveyor belt production of a-dozen-a-dime wares and still expect a profit margin to justify private investment. For that, the state has to subsidize private production and/or enforce wage control to make the American jobless as inexpensive as their Chinese (and other developing world) counterparts. These are options which are hardly acceptable to the American government and electorate.

More debatable in Trump's MAGA offensive is his blame game over America's long running trade imbalance, especially with China. From an economic point of view, a trade surplus nation has consumed less than it has produced and turned the difference into currency reserves that impart no consumption benefit until spent on imports. The opposite is true of the deficit nation, until it has to repay its debt by working more and consuming less. Moreover, in any economy, wages and profits received by the population represent the monetary value of their contributions to the aggregate output and are spent on the same output either directly, or in exchange with imports. A trade deficit persists only if people's purchasing power exceeds their real earnings. In America, this additional purchasing power has come from government budget deficits that have put more dollars in people's pockets to spend on extra imports. On the opposite side, an exporting nation like China has willingly swapped its output of real goods for America's "strong money" to hoard as reserves rather than spend on imports from America (which incidentally helped dampen usual inflationary pressures of budget deficit by filling the resulting aggregate demand-supply gap). Clearly, as with the proverbial tango, it has taken two to run a persistent trade deficit of this size. While American governments have made the electorate better off by running budget deficits, Chinese authorities, in control of the economy and not requiring the good will of the electorate to stay in power, have suppressed consumption by wage control and trade, and allegedly exchange rate manipulation, to force people into involuntary saving in the form of currency reserves. What both American and Chinese people have had in common has been the inequitable distribution of costs and benefits of the trade imbalance as the plight of America's rust-city jobless and China's overnight millionaires show.

America's debt to China is estimated at about 8% of the GDP, or over one quarter of the nation's total foreign debts, slightly higher than US debt to Japan. The difference is that unlike Japan, China has an underdeveloped political system under and an authoritarian regime in full control of its growing economy. In normal circumstances, China is unlikely to suddenly demand repayment of its dollar debts which would wreak havoc with dollar parity rate and devalue China's own reserves. But authoritarian regimes are prone to unpredictable swings and political instability. As the home to almost one fifth of humanity with a colossal economy, political upheavals in China not only would plunge American in a debt crisis, it would have devastating implications for the global economy.

In September 2019, President Trump devoted his UN annual General Assembly address to his grievances about what he described as unfair treatment of Americans in trade with China, pointing to continued WTO concessions and the Chinese government's alleged exchange rate manipulation and dumping (White House, 2019). Joining the WTO in 2001 as a developing country, China received certain concessions. Today, with per capita income of less than one sixth of America's, China is still technically a developing nation, but multiplied by a population of almost one and a half billion, that income gives considerable competitive clout in international trade and renders trade concessions superfluous. China's colossal currency reserves, too, can be the telltale of infringing free trade norms. Nonetheless, even if Trump's attempted trade restrictions succeed in substituting cheap Chinese imports with American goods, that would hardly serve America's long-term interests and could harm global, and inevitably, the American economy. More constructive would be to convince China to abide by free trade principles of comparative advantage and open its growing market to high-tech imports from the West.

America is still the world leader in scientific advancement and technological innovation, much of it by private enterprise. Rather than resorting to trade restriction to revive "rust-city" factories, new American jobs should come from investing in R&D and state-of-the-art production lines and in educating and training highly skilled, creative manpower to fill them. Since such investments, particularly when approaching the frontiers of scientific and technological advancement, are notoriously risky, closer collaboration and better coordination between the state and industry is needed to allow American workers realize their highest productivity potential – and be paid well for it. If successful, this will eliminate many of the external causes of America's trade deficit, but without fiscal and monetary discipline at home, there is always the risk of a relapse. With the dollar valued as the preferred global reserve currency, America's foreign debts can accumulate for much longer than other countries before creditors call the country to account.

President Trump also made use of his 2019 UN address to blame globalism for much of America's woes and to advocate patriotism as the road to salvation. While one may sympathize with some of his trade grievances, his anti-globalism argument can only cause alarm about a possible tendency to political introversion to the detriment of America and the rest of the world. Globalism, as the roadmap for the post-Cold War world order, embodies fundamental American values of trade, economic and political liberalization and, contrary to the President's contention, does not defy, but symbolizes the global reach of American patriotism. Today, with America still in a leading international role, those values are already under attack by emergent autocracies (Rose, 2019) and as ramifications of Trump's abrupt Middle East policy change showed, any hint of American introversion can provoke greater conflict and confusion. Relinquishing the global stage to upstart challengers may result in small short-term financial savings, but in a generation or two, it will have created a world so estranged from American values that a poorer, divided family of nations may no longer be willing to readmit America as a main player and share in its values. With its moral authority and political influence depleted, America would no longer be in a positon to apply Trump’s MAGA slogan, but will find itself a nation with a great future behind it.

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