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# **From trade diplomacy to economic warfare: the international economic policy of the Trump Administration**

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## Introduction<sup>1</sup>

This paper is an analysis of the discursive practices of the international economic policy of the Administration of President Donald Trump, writ large. Within this conceptual context it offers an empirical case study of the US-China relationship across the spectrum, from tariff conflict through to the growing struggle for control of the 21<sup>st</sup> century high-technology industries. The argument is that the Trump Administration utilises the discursive practices of what some scholars call ‘securitisation’ (Buzan *et al.*, 1998) through to what might more appropriately be described as a discourse of ‘economic warfare’.

The paper is in four parts. Part 1 provides a brief discussion of the changing historical and international context of the study. Part 2 provides a conceptual discussion of the discursive practices of securitisation, economic statecraft and economic warfare on the one hand and the theory of international trade captured in the idea of the rise and fall of mercantilism and its re-emergence in the international economic agenda of the Trump

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Administration on the other. Part 3 looks at these concepts as they pertain to current US international economic policy. Part 4 concentrates on US policy towards China particularly. The paper concludes with some reflections on the success or otherwise of contemporary US policy.

### **(1) The global context**

The cooperation that developed during the period of US 'self-binding' hegemonic control (Martin, 2004) over a liberal international order had been under strain in the US since the 1980s when the bilateral deficits with Japan became a major political issue. But it has been since the financial crisis of 2008 that the order has really begun to unravel. The Japan challenge was not sustained but great power competition from both China and Russia has grown. Always fragile, the popular consensus in support of a global liberal order –which was only ever partially liberal and partially global (see Acharya, 2017)– has further dissipated as strong ideological populist challenges have fuelled nationalist politics with attendant practical implications for economic globalisation and international relations in the post 2008 era (see Higgott & Proud, 2017).

This unravelling and great power competition pre-dates Donald Trump becoming President of the US. But it has been exacerbated by his economic nationalist counter-agenda to globalism; an agenda voiced not only by President Trump but also by subordinates in his close policy community –initially by Steve Bannon, but also others such as US Trade Representative Robert Lighthizer, Commerce Secretary Wilbur Ross, Treasury Secretary Steven Mnuchin and Special Economic Adviser Peter Navarro (see Navarro's documentary, *Death by China*, <https://www.imdb.com/title/tt2304583/>)–.

As this paper will argue, the challenges faced in a search for a new, post-liberal global equilibrium are reflected in both the conceptualisation and practice of economic securitisation and warfare as an instrument of US policy. The contours of any new order will be a highly contested with an increasing interdependence of the two key issues areas –economics and security– and increasing competition between the two principal combatants –the US and China. What might have started as a fairly traditional recourse to a protectionist trade agenda is steadily, and rapidly, morphing into a wider battle between the US and China across the whole spectrum of relations, and especially the battle for technological ascendancy in the 21<sup>st</sup> century. We are witnessing not simply a rhetorical securitisation of US economic policy discourse but a more intense economic and political response to economic globalism in general, and the ascendancy of China as a rival global economic power in particular.

For much of the post-World War II era, the relevant government agencies in the US (especially the US Treasury, abetted by the USTR) and the many interested trade and commerce lobbies and pressure groups had sought to treat international economic policy in general, and trade policy in particular, in a manner different to the normal rules of foreign and security policy. Trade policy was seen as a quasi-preserved domain with its own epistemic discourse. This has changed in the current era, where expert knowledge, when not directly rejected or increasingly belittled, is less valued (see Nicholls, 2017).

We are now in an era in which international trade policy, underpinned by a belief in the welfare-enhancing nature of trade openness is under challenge (see Irwin, 2017). This should not lead us into thinking that the globalisation of the international economy as a set of sinews, networks, activities and practices that developed over the last 40 years are somehow coming undone. This is clearly not the case (see Slaughter, 2018; and Baldwin, 2018). Rather, US policy has undergone a major change. An open liberal economic system has been characterised as a licence for others to cheat in their economic relationship with the US.

## **(2) Concepts and theories**

### **(2.1) Discursive practices: from securitisation to economic warfare**

Following 9/11 it became fashionable in some academic and policy quarters to talk about the 'securitisation' of US international economic policy. In academic language, securitisation (following the work of the Copenhagen School) was defined as a set of socially constructed and contextual speech acts and processes in which '... an issue is framed as a security problem' (Waever, 1995, p. 75; and Buzan *et al.*, 1998). Evidence of the securitisation of economic globalisation in US policy can be traced far back: from the time of the Raegan Administration and its introduction of the use of VRAs and VERs against the Japanese in iron and steel, machine tools and cars in the 1980s (Reich, 1989) through the to the Bush Administration. It was 9/11 that (perhaps unsurprisingly) firmed up the trend as the Administration proved unable to resist the siren calls to link the narratives of foreign economic and security policy.

For the Bush Administration, globalisation became not only an economic issue but also a 'security' problem. As a consequence, the discourse and practice of the securitisation of foreign economic policy developed accordingly. This trend was particularly acute in trade policy where, to illustrate, the granting of the bilateral Free Trade Agreements (FTAs) under negotiation at the time to those who supported the US Gulf War Two initiative (Australia and Singapore) contrasted with the explicit withholding of them from those who refused to join the Gulf War coalition (New Zealand and Chile) (see Higgott, 2004).

The earlier discourse of securitisation did not operationalise the concept of economic statecraft, let alone economic 'warfare' –concepts largely applied to non-liberal regimes, notably Russia and China. This study will demonstrate a step change between the Bush era and the contemporary era of the Trump Administration. It will demonstrate that contextual global change and the empirical narrative of international economic policy in general, and trade policy in particular, under the current Trump Administration requires a recognition of both the similarities and differences in the securitisation-economic warfare dialogue not required in the age of George W. Bush. Current US policy is taking us beyond both the securitisation problematic of the Copenhagen School and the traditional understanding of economic statecraft restated recently by Blackwill & Harris (2016). Rather, current US international economic policy should be interpreted through the discursive lenses of an aggressive and pro-active –as opposed to the earlier defensive and reactive– economic warfare.

Current US strategy in trade policy under the Trump Administration offers a counter-veiling argument to the notion that democracies will invariably prefer, à la Joseph Nye, (2004) a soft power diplomatic approach to more atavistic approaches. The preference is now to challenge longstanding commitments to multilateral collective action in the global trade regime with a preference for a strategy based as much on threat as on reward. A comparative analysis of the Bush and Trump Administrations suggests two major differences:

- (1) The securitisation strategy of the Bush Administration after 9/11 was underwritten by assumptions of 'existential threat' but still with a significant commitment to multilateral institutionalism. By contrast in the Trump Administration's strategy, without formally articulating it, it is clear that President Trump has a longstanding belief in a mercantilist view of trade with little or no commitment to multilateral institutionalism.
- (2) The impact of the communication and technological revolutions on how the dissemination of a securitised trade policy under the current US Administration is practiced, when compared to the tools at the disposal of the Bush Administration, is both more intense and more sophisticated. George Bush did not have the populist communicative skills of Donald Trump nor the weaponry of digital social media, especially Twitter. The message of economic warfare is much easier to disseminate today.

Current strategy and policy harness the discursive instruments, tools and practices short of war to secure the enhancement of national objectives over those of adversaries. If we use the language of security studies we are seeing what Mahnken *et al.* call '... the coercive use of non military instruments to alter adversary behaviour' (2018, p. 3). This allows us to demonstrate the degree to which our understanding of the discursive practices of trade war can be extended in two ways:

- (1) To include allies as well as adversaries as targets.
- (2) To extend our focus beyond Russia and China, to the discursive practices of econo-political warfare beyond the traditional understandings of US economic statecraft in recent years (see Blackwill & Harris, 2016).

This comparison of language and practice in US international economic policy is not of courses to suggest any wider similarity between the US on the one hand and China and Russia on the other. The US, for all its current problems, remains a robust democracy while Russia and China are both strongly authoritarian states. But comparative discursive narratives can be identified. In their case study on Russia, Mahnken *et al.* (2018, p. 10) identify what they see as key themes in the post revolution Bolshevik narrative. Four of the six they identify –(a) 'we are special'; (b) the 'country is threatened'; (c) there is a 'sacred mission'; and (d) 'victory is assured'– do warrant comparison and find resonance in the Trumpian international economic playbook that stresses:

- (1) The residual myth of American 'exceptionalism' ('we are special').
- (2) That the US is disadvantaged by the cheating and free riding behaviour of its major trading partners ('the country is threatened').

- (3) The presidential mission is to 'Make America Great Again' (MAGA as 'a sacred mission').
- (4) In the economic domain, this has meant a turn to aggressive and unilateral protectionist measures addressed to competitors and allies alike and based on the premise that, in Trump's own words, 'trade wars are easy' ('victory is assured').

The analogy permits two further discursive comparisons. First, Vladimir Putin believes Russia was betrayed by the West after the Cold War with its support for the 'colour' revolutions in regional neighbours and the eastward expansion of NATO. Similarly, this sense of betrayal is mirrored in the US President's belief that European allies have been free-riders on US largesse in both the security domain (NATO) and the economic domain (trade imbalances). If his resentments reflect core elements of Trump's world view, then they lend themselves to explaining his policy responses: bilateralism, transactionalism, aggressive competition, and punishment and retaliation rather than cooperation and multilateralism. In addition, the observation of Trump's attitudes towards the US's European allies (for example, his position on Brexit and suggestions to President Macron that France leave the EU) also suggests a willingness to sow division amongst allies where possible. Secondly, the MAGA discourse mirrors Xi Jinping's emphasis on enhancing respect for China globally after years of humiliation. This theme –that the US must be respected– is to be found in much presidential rhetoric about the lack of deference paid to the US by ungrateful allies.

## (2.2) Economic theory and international economic relations: the rise and fall and rise of economic statecraft and mercantilism

Few areas of economics have traditionally secured as much across-the-board agreement from the economics community as the international trade theory of comparative advantage developed by David Ricardo in his *Principles of Political Economy and Taxation* in 1817. Ricardo developed a positive-sum understanding of the gains from trade and overcame the initial mercantilist negative-sum orthodoxy that had underwritten the trade policy of the post-Westphalian states system in the 17<sup>th</sup> and 18<sup>th</sup> centuries. Put simply, while not all countries can have an absolute advantage, all countries by definition must have a comparative advantage (for an excellent review, see the essays in Evenett, 2017).

Despite a broad consensus to this day on the core principles of comparative advantage, the enhanced efforts from international organisations to halt protectionism and fight off economic nationalism have struggled as the backlash against globalisation has grown. This in turn has led to the emergence of a key question: to what degree do the principles of comparative advantage remain relevant for us to day when trade in services (at 70% of world trade) exceeds trade in goods and where ideas and data flow freely and most recently digital services are provided remotely? Its universal applicability in sectors built on digital platforms and reliant on cross-border networks for their success (for a discussion see Deardoff, 2017) is now constrained. Moreover, comparative advantage as a state-based theory of trade has suffered from the denationalisation of trade and the de-location ('off-shoring') of manufacturing from the G7 (from 2/3 to less than 50% of

global total) to the fastest-developing countries (notably China) and the development of global value chains (Baldwin, 2016).

These new components of international trade are not without political and strategic considerations as seen in Chinese attitudes towards Google and Facebook. They are also not without political considerations that become as important as an economist's traditional concerns with welfare benefits from trade. These changes and the little understood assumptions of international trade theory have played into the hands of populist politicians generally and Donald Trump and his colleagues in the US, such as Peter Navarro (Lowery, 2018).

Protectionist thinking towards international trade policy and its institutions comes from two main groups at opposite ends of the wealth and influence spectrum, At one end we find the blue-collar working communities of developed countries, most vocally in the US (and France), displaced by the widespread devastation of their industries. They blame globalisation and especially free trade for their plight. And, indeed, employment in manufacturing in the US has fallen by 25% since 2001 (see Kucik, 2019). The solution, it is argued in the new protectionist rhetoric, is increased tariffs –from washing machines and solar panels to steel and aluminium and eventually automobiles. But what is ignored by Trump, and his supporters are the consequences, that:

- (1) Tariffs usually raise prices for consumers since they are a tax on imports. Higher prices also drive down consumption. Protecting a few narrow industries, such as steel, can have massive negative consequences in which those on limited incomes are affected disproportionately, especially if the tariffs impact essentials such as food and clothing (see Rajan, 2019).
- (2) Tariffs can also put jobs at risks in cognate industries and sectors that often have more employees than those in the protected industry (steel, say).
- (3) Tariffs also make it harder to do business abroad. States targeted by tariffs, especially large ones such as China, invariably reciprocate, as with their soybean, corn and poultry purchasing strategies, that affect the US agriculture sector adversely by retaliation.
- (4) It is not low tariffs that explain dramatic industry closures in the manufacturing sectors of mature economies. Manufacturing jobs are on the decline globally as a result of automation and productivity growth. The global ability to produce is outpacing growth in demand.

But the costs of globalisation to local politically strategic labour markets were largely ignored in the heyday of globalisation between 1980 and 2008 by what Trump, and others, successfully branded as globalist 'cosmopolitan elites'. While free trade indeed generates massive global welfare gains, it invariably does so with uneven distributional effects: not everyone gains. This, as is now widely recognised, provided ammunition for advocates of the worst kinds of populist protectionism on both the political left and right.

The political systems of the major democracies are now paying for this neglect. Advocates of an open liberal trading system have played into the hands of the populists who have successfully weaponised anti-free trade rhetoric. The failure by its principal beneficiaries to be honest about the limits of free trade for other sections of the

community (especially the decline in compensation and receding welfare benefits from Thatcher and Reagan through to Clinton and Blair) has made it far too convenient for populist politicians to engage in the exogenous deflection of their own domestic policy failures to the international market and foreigners, frequently dressing up their protectionist and xenophobic urges as patriotism (see Higgott, 2018).

At the other end of the spectrum from dispossessed work forces are international manufacturers, financiers and global traders alarmed at the negative impact of the rise of protectionism and nationalism in the global economy. They too are beginning to exhibit a growing scepticism towards the continued utility of an open and rules-based market system challenged by a number of factors:

- (1) While the post 2008 surge in protectionism, especially disguised or 'murky protectionism' (Baldwin & Evenett, 2009) preceded President Trump his political rhetoric since 2016 has exacerbated it.
- (2) Chinese manufacturers have become more self-reliant.
- (3) The post 2008 international financial system has become less profitable for all but the '1%' of the modern corporate elite.
- (4) Supply chains are moving closer to home. But they are doing so more strongly in Asia and even Europe than in North America.
- (5) And, most importantly, geopolitical rivalry now appears to be a bigger driver of international commerce than the principles of trade theory, especially in AI and other high-tech industries.

As a consequence, economic and trade policy discourse has changed and is changing policy practice in the US. This has implications. Contrary to rhetoric, President Trump appears not to worry unduly if US international economic strategy has negative domestic economic repercussions on his political base, provided it does not erode their political support. The degree to which this support will deteriorate if the US economy, as anticipated, dips in the last year of his first Administration is yet to be determined.

### **(3) The securitisation and weaponisation of US economic policy: the Trump agenda**

Historically, the US is no stranger to protectionism. It has played fast and loose with regulations at times and has also had a history of the use of sanctions (not discussed in this paper), tariffs and bilateral FTAs (as an alternative to the WTO) when it suits it. The mega regional FTA projects, TTIP and TPP, were the defensive and reactive economic weapon of choice under the Obama Administration. The direction of travel of the US under the last five Presidents has shown a secular continuity towards greater nationalist-cum-protectionist international economic policy. The subsidy, the tariff, the quota and the bilateral voluntary-restriction agreement have all remained in the US repertoire. But Trump has made a major break with the past four Presidents in two ways: (a) with his change from the defensive and the reactive to the pro-active and aggressive style of economic diplomacy; and (2) unlike his predecessors who also supported the essential underpinnings of a multilateral liberal international order, President Trump does not. Moreover, since coming to office, advisors such as Gary Cohn, USTR Robert Lighthizer and Economic Adviser Navarro have crowded out the free-trade advisers that dominated



the GOP until recent years. We are entering an era of what Martin Hufner (2018) calls 'The New Global Mercantilism', the core elements of which are:

- (1) The strong use of tariffs and other protectionist instruments.
- (2) A growing state interventionism, with subsidies for inefficient industries and sectors.
- (3) The creation of an air of surprise and uncertainty as deliberate elements of national strategy towards competitors, and indeed partners, in the international economy.
- (4) Little concern to balance budgets (note the massive expansion of US debt).

The New Mercantilism carries with it both domestic and international considerations. But if the theoretical economic argument of the anti-free trade position is at times just plain wrong, President Trump understands something that many members of the cosmopolitan political elite do not: that there is a profound dissatisfaction among large swathes of the US population with the international economic order. Notwithstanding that open trade enhances aggregate economic wealth, only one in three Americans think that trade increases wages. Donald Trump is also correct in judging that international trade rules encapsulated in the WTO need updating from the time of their incorporation in 1995.

Reflective of dissatisfaction with the WTO as of 2017, there were 445 cumulative notifications of Preferential Trading Arrangements (PTAs) in force. This is a sevenfold increase on the number at the time of the ratification of the WTO in 1995. Not all of the growth reflects a dissatisfaction with the WTO rules-based system. The weakening of multilateralism in general and the WTO in particular again pre-dates President Trump and bears a strong correlation with the failure of evolving regional economic integrative imperatives and the Doha Development Round (Nagel, 2017). Since its inception in 1995, apart from a few small plurilateral deals, it has not produced a major multilateral trade deal.

The WTO Dispute Settlement Mechanism (DSM) was working well but the US has shown just how vulnerable it is to interference. The US has always felt concern over the role of the Appellate body but the Administration's vetoing of appointments has dramatically weakened it. Moreover, President Trump has threatened to pull the US out of the WTO (<https://www.ft.com/content/32e17984-aca2-11e8-89a1-e5de165fa619>). Most immediately and most significantly for the US, the WTO does not assist in containing Chinese domestic industrial policy and subsidies to State Owned Enterprises and forced technology transfer for foreign investors in China. There is thus a need for the reform of the WTO, especially with regards to strengthening its role in the prevention of IP theft. Noting, of course, that China is not the only state engaged in these activities and, in the last instance, firms and corporations always have a choice of whether to invest in China or not.

The US, along with the EU and Japan, launched an action against China at the WTO over technology transfer in 2017 but did not wait for the result. Essentially the US is engaged in an exercise in the unmaking of those institutional trade norms that it did so much to embed in the post-World War Two era. This process is a reflection of US power

to reshape the long-standing cultural norms of global trade. In part these changes are not purely a reflection of crude US power. The norms and institutions of the international order are undergoing a wider cultural change as they become much more decentralised, heterogenous and hybrid (Kentekelenis & Seabrooke, 2017).

While trade theory assumes that the US would be better placed if it addressed Chinese violations collectively with its allies through the WTO, President Trump is not without support in his nationalist trade policy. USTR Robert Lighthizer has put intellectual flesh on the three pillars of US trade strategy:

- (1) A stress on fair, as distinct from free, trade. The new trade deals, such as those with Canada and Mexico in USMCA, have termination provisions if deemed to be unfair (to the US).
- (2) A shift of focus from mere trade imbalances to a focus on the now bigger issues of securing and maintaining supremacy in the domains of digital trade, artificial intelligence and intellectual property, although Trump's rhetoric still privileges the trade imbalance.
- (3) Prioritising the unfair practice by China, especially attitudes towards technology transfer.

In theory and rhetoric, Lighthizer (and Navarro) purport to want open markets but they are prepared to weaponise protectionist trade policy practice when it suits them. Unilateral action, executive orders and intense diplomatic pressure to disrupt existing arrangements have become the tools of the Trump Administration. In practice, Lighthizer and Navarro want and expect the US to become much more statist in order to combat China and protect 'US interests' as the following section will demonstrate.

#### **(4) The US-China relationship: towards economic warfare?**

Why is President Trump so convinced the US can live and prosper in a global trade regime world without rules? His answer came via Twitter:

'... trade wars are good, and easy to win. Example, when we are down US\$100 billion with a certain country and they get cute, don't trade anymore – **we win big. It's easy!**' (@Donald Trump 2 March, /2018).

The US trade deficit with China exists because China exports four times more to the US than *vice versa* while the US deficit on goods trade with China turns into a surplus when services (70% of US GDP) are taken into account (see Tyson & Lund, 2019). And, as economists have pointed out *ad nauseum*, the US deficit is largely homegrown on the back of tax cuts, low savings and high spending (see Irwin, 2019). To be fair to Trump, strategies of engagement pursued by previous Administrations (Bush, Clinton, Bush and Obama) have not seen China become the open political economy that such strategies were expected to lead to after China had been welcomed into the WTO. Previous Administrations, as Campbell & Ratner (2018) note, had always overestimated a US ability to steer China in the direction it wanted. Indeed, it was always a brave assumption that China would converge on a western model.

The real question is whether the strategy adopted since President Trump came to office is the right one: that is, to what extent is an aggressive nationalist and transactionalist bilateral strategy securing adjustment as opposed to simply fuelling a growing ill-will and competitiveness between the two powers with all the attendant negative consequences for the wider geo-strategic relationship? As John Mearsheimer (2006) has argued, China will rise but is unlikely to rise peacefully.

US strategy is thus one of trying to disrupt China's rise across the major policy domains –especially security, economy and technology– rather than simply secure a deal that lowers the temperature in the trade domain. This strategy can now be documented in a number of official and semi-official venues. In the broadest geo-strategic context, the US National Defense Strategy released in January 2018 (<http://nssarchive.us/wp-content/uploads/2018/01/2018-National-Defense-Strategy-Summary.pdf>) treats China as a 'revisionist power' actively competing against the interests of the US. The Strategy sees an unambiguous 'threat... to US security and prosperity... [with]... the potential for these threats to increase in the future'. The document argues that the US could lose a future war against Russia or China as the US loses its competitive edge and its military advantage erodes while rivals innovate and blend conventional, cyber and non-military capabilities in key strategic regions of the world. As one Brookings analyst's reading of this document suggests: '... US military superiority is no longer assured and the implications for American interests and American security are severe' (Karlin, 2018).

Similarly, the US Institute of Peace argued that the US was in the grip of a 'full-blown national security crisis... [because]... the number and geographic diversity of security challenges, the technical sophistication of US rivals and adversaries, and other factors, mean that America's military capabilities are insufficient to address the growing dangers the country faces'. In particular, USIP identified hybrid warfare and 'grey-zone aggression –intimidation and coercion in the space between war and peace– [which] has become the tool of choice for many'. In this regard, a major factor argued to be enhancing China's rise has been its successful use of 'predatory economic statecraft' to which the US should retaliate in kind (USIP, 2018).

It is in the context of an assumption (accurate or not) that the US no longer enjoys unprecedented superiority that an upgrading of its economic statecraft and the weaponisation of its international economic policy should be understood in its own right but also as part of a wider strategy. Combating long-term competition with China and Russia across the policy spectrum and by means short of war is identified as a strategic priority (<http://nssarchive.us/wp-content/uploads/2018/01/2018-National-Defense-Strategy-Summary.pdf>).

This agenda was captured in late 2018 in Vice President Mike Pence's 'Churchillian Iron Curtain speech' which revealed a US intention to reset its relationship with a rising China and halt its growing influence in both the international economic and geo-politico-security regimes (<https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018>).

The rhetoric and practice of trade war is now but one element of a wider US international economic practice –in effect the initial stage in a process in which the US would like to

see a progressive de-coupling of China from the global economic order. As it has emerged over 2018, the real US targets are China's unique model of capitalism and its extensive and deep global supply chains. China, because of its infrastructural and industrial base and the sheer size of its educated work force, is central to most of the world's major global manufacturing chains. No other country can match it. Nor indeed can other states match its international economic ambition reflected quintessentially in the Belt and Road Initiative (BRI) that the US has been keen, albeit unsuccessfully, to thwart, either by pressuring would-be participants or confronting Chinese economic diplomacy in bodies such as APEC, the IMF and the G20 (see Hornby & Polliti, 2018) and persuading allies to boycott the Asian Infrastructural Investment Bank (<https://thediplomat.com/2015/07/why-us-allies-are-happy-to-join-chinas-aiib/>). For all its problems and criticism (see Dorsey, 2018) the BRI is a grand vision of economic diplomacy aimed at shifting the focus from the Asia Pacific to Eurasia, a process that could readjust the geo-political balance.

The discriminatory practices identified by the US as central to China's economic model are not without foundation and include *inter alia*: (a) unfair foreign ownership restrictions; (b) non transparent and discriminatory licensing systems and review processes; (c) theft of IPR; and (d) restrictions on joint venture partners' abilities to protect their intellectual property (USTR, 2018). In addition, China, as part of its strategy for technology transfer, gives targeted government support for its outward investment regime in key 'encouraged' industries (especially IT and AI) and investment acquisitions (manufacturing capacity, power generation and high-speed rail). Chinese activity has been particularly aggressive in the US in critical technology sectors such as high-tech start-ups in Silicon Valley.

Taken together these activities have three negative effects for the US: (a) they threaten the competitiveness of US industries in strategic sectors; (b) they undermine US abilities to lead and sustain innovation; and (c) China also gains from cyber intrusions and theft. As the USTR report says '... Chinese state-sponsored cyber operators continue to support Beijing's strategic development goals, including its S&T advancement, military modernization, and economic development' (p. xi) ([ustr.gov/sites/default/files/enforcement/301Investigations/301%20Draft%20Exec%20Summary%203.22.ustrfinal.pdf](http://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Draft%20Exec%20Summary%203.22.ustrfinal.pdf)).

China, of course can, not implausibly, argue that US complaints are exaggerated. It argues it is in compliance with both the norms and practices of the WTO, especially with regards to intellectual property. With regards to technology transfer it argues that this is a logical part of a development strategy with a strong pedigree in the history of the industrial policies of other now developed countries. Further the Chinese government argues its involvement is diminishing overtime as it becomes more market focused.

But the battle for control of the new technologies, especially AI and robotisation is said to be leading to a 'new Cold War'. This may not be the appropriate metaphor, yet the clash between the world's two major powers could be even more damaging than the original Cold War. If the end of the Cold War kick-started a surge in global economic integration, the beginning of any new cold war between the world's two largest economies could have the reverse effect. It could produce division and fragmentation in, and disrupt the operation of, the global economy. Both the global trade and financial

system could unravel. Any ensuing geopolitical tensions would also damage technological innovation as technology transfers and cooperation –hidden beneath the oft-exaggerated justifications of ‘national security concerns’– decline. Moreover, as Martin Wolf notes (2018), the US is not so sufficiently insulated that it can damage China without damaging itself”.

This a battle to curb China’s dominance of global supply chains, a strategy geared not only to bringing manufacturing back to the US but weakening China as a competitive global economic actor. This attempt at de-coupling represents a reversal of 40 years of US policy of trying to incorporate China into the global order as a good citizen. But it is a battle that will probably fail given the width, depth and level of integration of the global supply chain economy and China’s centrality to it.

To-date President Trump seems to be largely getting his way –at least in theory if not always in practice–. China has not resorted to a massive reaction to his trade policy and while there is much ongoing talk about a deal being done, other signs (notably the banning of Huawei’s engagement with the US domestic economic economy) suggest the economic war between the US and China is just getting started. The White House gearing up to report on China’s hostile activity –including cyberattacks, election interference and continuing intellectual property theft. In the absence of a deal in the May 2019 negotiations, the US can continue to use executive orders to threaten China and demonstrate resolve without formal Congressional approval that, it should be noted, would be required for an actual trade deal.

So, trade war, using the traditional instrument of economic warfare –the tariff– is not the most important issue. The game has changed. The US now wants more than simply a balanced trade relationship that Trump was demanding at the beginning of his Administration. The major game would now appear to be technology. The US wants to stanch Chinese acquisition of US technology as well as major changes in Chinese domestic policy, notably an end to domestic subsidies and other protective activities such as patent and technology acquisition from foreign partners in return for contracts. In short, the US wants an end to China’s Made in China 2025 strategy.

This ‘beyond tariff war’ strategy reflects a shift of thinking in the US. Protectionism has become intellectually respectable and is securing bi-partisan support in Congress. The hawks in Washington are in the ascendancy. The desire to block China’s rise is now real. This is more than an opposition to China’s perceived cheating in the economic domain, it is also an objection to the very idea of China as a rival superpower in the wider geo-strategic domain. The signal from Washington is that an extended confrontation and contest for ascendancy in a range of key global strategic areas (G5 technology and wider technological supremacy and regional supremacy in Asia Pacific) is likely.

In this context, the US wants particularly to rein in Chinese cyber technology. According to the FBI, Chinese corporate espionage is a critical threat as Beijing exploits American technology (<https://www.wsj.com/articles/senate-sifts-evidence-of-chinese-cyberespionage-11544635251>). US policy here is no longer ambiguous and a consensus around an adversarial approach towards China is gaining support amongst the wider US populace. Indeed, aggressive approaches towards containing Chinese

technological advance is one of the few policy areas that has secured a strong bi-partisan consensus in Washington (<http://www.pewglobal.org/2018/08/28/as-trade-tensions-rise-fewer-americans-see-china-favorably/>). Even one of Trump's most high-profile and trenchant critics worries that the President is not focused hard enough on China. In his 2019 Davos speech, George Soros made the following comment:

'... The combination of repressive regimes with IT monopolies endows those regimes with a built-in advantage over open societies. The instruments of control are useful tools in the hands of authoritarian regimes, but they pose a mortal threat to open societies... China is not the only authoritarian regime in the world but it is the wealthiest, strongest and technologically most advanced... Instead of letting ZTE and Huawei off lightly, it [the US] needs to crack down on them. If these companies came to dominate the 5G market they would present an unacceptable security risk for the rest of the world... Regrettably, President Trump seems to be following a different course: make concessions to China and declare victory while renewing his attacks on US allies. This is liable to undermine the US policy objective of curbing China's abuses and excesses' (<https://www.georgesoros.com/2019/01/24/remarks-delivered-at-the-world-economic-forum-2/>).

In similar vein, the US Chamber of Commerce and the American Chamber of Commerce in China in a joint *Priority Recommendations for US China Trade Negotiations*, (2019) see the major concern as not trade imbalances but the systematic violation of intellectual property rights, forced technology transfer and direct state intervention into the economy. Particularly egregious, say the Chambers, are the identified caps on foreign equity, administrative licensing procedures, procurement policies, data localisation and coerced technology transfer. The difference between the Chamber of Commerce and the Administration is that the Chamber is keen to multilateralise any outcomes from bilateral negotiations (2019, p. 5).

Other salient institutional actors are even more alarmed than the Chamber of Commerce. The head of the FBI's counter intelligence division has argued that the 'Chinese government's economic aggression is positioning China to supplant the United States as the world's superpower' (cited in Ali Wyne, <https://www.rand.org/blog/2019/01/questioning-the-presumption-of-a-us-china-power-transition.html>).

Prudential analysis should perhaps treat such alarmist judgments with a note of caution. Notwithstanding closing gaps, Washington's advantages over China remain substantial. They range from structural advantages of geography and demography through to current material superiority in the economic and security domains, growing energy self-sufficiency, a set of global alliances and, even still, a technology lead. And while scholars such as Brooks & Wohlforth (2016) in fact argue that the US's unipolar advantage remains intact, the days are over when both sides could insist that trade and investment was territory that could be kept separate from strategic rivalry and political contest.

The contest is becoming increasingly politically overt. By way of illustration, the Cold War Committee for the Present Danger has been re-launched in 2019 as the *Committee for the Present Danger: China* (CPDC). In its opening statement the CPDC said that '... as

with the Soviet Union in the past, communist China represents an existential and ideological threat to the United States – one that requires a new American consensus regarding the policies and priorities required to defeat this threat' (<https://www.politico.com/story/2019/03/26/steve-bannon-china-1238039>).

The CPDC aspires to set the stage for a 'serious national debate' about the threat that China poses to the US. Its mission is to help defend America through public education and advocacy against the full array of conventional and non-conventional dangers posed by the People's Republic of China. The US, it argues, is losing the ideas battle with China. It must create its 'own informational war' (see <https://presentdangerchina.org/about-us/>) if it is not to lose the ideas battle with China.

Gideon Rachman (2019b) argues that the US's ideas battle with China is being progressively lost, due in no small part to President Trump's penchant for authoritarian leaders and the turning of a blind eye to the growing abuse of traditionally-understood universal western values of freedom and democracy. As Daniel Drezner bleakly notes in *Foreign Affairs*:

'... the Trump administration has unilaterally surrendered the set of ideals that guided US policymakers for decades... Although a future president might sound better on these issues, both allies and rivals will remember the current moment. The seeds of doubt have been planted' (Drezner, 2019).

US practice has moved from engagement, accommodation and hedging to identifying China as a 'strategic competitor' in the 2017 National Defense Strategy (<https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>). But as Brands & Cooper (2019) argue, this does not represent a strategy. If the previous 20 years were underwritten by assumptions of US hegemony, economic, military and technological and soft power superiority, and engagement with a progressively accommodating China, then the current approach lacks clear strategic definition beyond its tough punitive discourse of competition and rivalry and an assumption of a non-benign accommodation on the part of China.

The current posture is not aimed at a renewed accommodation between the US and China in the short to medium term future. Indeed, the US rhetoric of economic warfare from Trump and his spokesmen suggests the opposite: a new and ongoing struggle. In this context, the range of policy options currently lies somewhere along a spectrum from the application of pressure in core issues areas in order to maintain some kind of supremacy or at least a power balance, in part influenced by 2000-year-old thinking about the potential for, and how to resist, a Thucydides Trap (see Allison, 2017).

What we have yet to see is a Chinese response that goes beyond trying to resolve the current dispute by trade concessions. Wider reforms and concessions beyond trade will be required. But even if the Chinese buy more from the US, open more sectors of their economy to US investment and improve their laws on intellectual property, it is unlikely that it will improve the US trade balance. Nor will it impede the drive by China for dominance in the technology industries. China does not need to be an innovator in technology. Indeed, Martin Wolf argues this may not matter: '... the big intellectual

breakthroughs have already occurred. What matters most is implementation, not innovation'. Here China has the most advantages (Wolf, 2019).

China, of course, is not the only country, or group of countries in the sights of the Trump Administration as it weaponises its international economic policy. Trump's nationalism, anti-globalist and anti-institutionalist sentiments are also extended to allies. Indeed, some of President Trump's choicest critique of trade policy has been saved for Europe and notably Germany, even to the extent of describing Europe as '... almost as bad as China' (<https://www.ft.com/content/32e17984-aca2-11e8-89a1-e5de165fa619>). Foreign car imports have been argued by Trump and his Commerce Secretary Wilbur Ross to represent a threat to American national security, thus offering the opportunity to respond with tariffs. Notwithstanding the size and depth of the economic and politico-security partnership (Hamilton & Quinlan, 2019) and people-to-people links, the impact of Trump's rhetoric and practice on trans-Atlantic relations should not be underestimated (see Bond, 2018). Positive European views of the US are dipping dramatically as the EU finds itself caught in the middle of the US-China standoff.

Indeed at the 2019 Munich Security Conference (notable for its open hostility to US policy notwithstanding the presence of Vice President Pence) Angela Merkel noted: 'If we're serious about the transatlantic partnership, it's not very easy for me as German chancellor to read... that the American Department of Commerce apparently considers German and European cars to be a threat to the national security of the United States of America'.

The effect of the anti-European rhetoric has been different to that of the anti-China campaign. The latter has generated a growing bi-partisanship on China competition. The former has undermined traditional US bipartisanship on Europe. As of 2018 only 47% of Republicans as opposed to 78% of Democrats still favour the NATO alliance (see [https://www.pewresearch.org/fact-tank/2018/07/09/nato-is-seen-favorably-in-many-member-countries-but-almost-half-of-americans-say-it-does-too-little/ft\\_18-07-09\\_nato\\_largemajority/](https://www.pewresearch.org/fact-tank/2018/07/09/nato-is-seen-favorably-in-many-member-countries-but-almost-half-of-americans-say-it-does-too-little/ft_18-07-09_nato_largemajority/)).

But there is, or should be, scope for cooperation with Europe (and Japan) to challenge China's policies and especially its forced technology transfer. The difficulty in securing joined-up cooperation stems not from the unwillingness of the allies to cooperate with the US but from the US insistence on pursuing its own approach minus cooperation with partners. Europe and Japan have effectively been given a take it or leave approach to cooperation rather than the opportunity to develop a collective strategy. For example, the EU-Japan-US initiative developed by Japan in 2017 to coordinate legal action against China at the WTO on things like technology transfer has taken second place to the US's direct bilateral action against China.

Europe and Japan have worked hard to coordinate their trade strategy but they are both concerned not to get caught in the crossfire of an exacerbating, long, wide and deep US-China conflict that is about more than just trade imbalances (see Simon, 2019). In what amounts to a sign of the times, both appear as concerned not to alienate China –who the EU nevertheless sees as a 'systemic rival'– as the US. The EU Trade Commissioner, Cecilia Malmström, has made it clear that were the US to introduce tariffs on European



automobile exports it could lead to a full-blown transatlantic trade war (<https://www.politico.eu/article/the-great-transatlantic-trade-charade-european-union-us-donald-trump-tariffs-cars/>).

Europe has little time for the 'threat to national security' arguments used by Trump and Wilbur Ross to introduce tariffs. As Angela Merkel has tartly noted: 'The biggest BMW factory is in South Carolina, not in Bavaria'. She fails to see why BMWs from Bavaria are a greater security risk than those from South Carolina! Europe also rejects Trumpian attitudes to multilateralism more generally and, indeed, France and Germany have recently launched *The Alliance to Support Multilateralism*. In contrast to the old Cold War, few states want to pick sides between the US and China.

## **Conclusion: assessing a Trumpian strategy of political (economic) warfare**

### **The record**

2018 saw the US trade deficit rise by 12.5% and by early 2019 it had soared to a 10-year high of US\$621 billion (US\$419 billion of which was with China). This is a figure not exceeded since 2008. This is hardly a ringing empirical endorsement of Trump's trade strategy to-date and the omens for the future as trade talks stall are not good. The talks breakdown in late May and the signalled tariff hikes rising to 25% on all Chinese imports into the US (not just intermediary ones) accompanied by the May 2018 attack on Huawei have added strain to, and raised the stakes in, the relationship.

The implications of the restrictions placed on Huawei are profound, for the US as much as the Chinese technology communities. It is the biggest salvo in the new Cold War to date. In the short term the chips may fall for the US as its much sought-after de-coupling from the Chinese economy grows. But in the longer-term China's self-reliance will be secured and its ability for future disruptive strategies enhanced. Trump, hi-tech industry figures argue, has underestimated just how intertwined the US and Chinese industries are. Conversely, for China, as the *Financial Times* notes, the episode reinforces an important lesson: '... tech security can only come from self-reliance. The White House may just have taken a fateful step towards a tech cold war that lasts for years' (<https://www.ft.com/content/78ffbf36-7e0a-11e9-81d2-f785092ab560>).

The breakdown has also highlighted the importance of the China trade conflict in US domestic politics, especially given the run-in to a 2020 presidential election. President Trump can ill-afford a weak deal, especially since the tariffs are estimated to be costing US consumers US\$1.4 billion a month (see Amiti, Redding & Weinstein, 2019). But neither too can the Democrats afford to be seen as soft on China in the run-in to the election, especially as the corporate sector in the US, although publicly unhappy with the rise of protectionism, is privately happy at the stronger stance towards China. Many in the corporate sector now express growing outrage at what they see as Chinese cheating and they appear to relish the popularised version of Allison's *Thucydides Trap* (see Tett, 2019). In the absence of a Chinese commitment to the roll back of cyber theft, domestic subsidy support to national champions and a commitment to protect intellectual property, a weak deal would be seen across the board of US political and corporate life as a cave-in to China. The politics of US international economic policy is more important for both domestic and international politics than the theory or practice of international trade and

trade balancing alone. International economic policy is now a core component of wider geo-political strategy for the US, especially in its relationship with China. And a securitised discursive economic strategy is key to its *modus operandi*. This approach may lead us back to a style of international politics reflective of the great power rivalry the 19<sup>th</sup> century and with a potential to create a bifurcated and mega regionalised global order built on the equally longstanding concept of spheres of influence (see Heath, 2018).

In short, Trump's trade war is not an end in and of itself. It is the beginning of a new age of wide strategic competition, much of it hidden in the cyber domain. It will not be resolved simply by the Chinese purchase of increased amounts of US soybeans. Attitudes on both sides of the Pacific are hardening and Trump's China policy is one of the few things that secures him some bilateral approval across the US.

Aggressive bilateralism might not be lowering the US trade deficit, but it seems to have had some symbolic payoffs for President Trump, who has made it clear that he does not want the US to anchor the multilateral trade regime. The abandonment of TPP on day one of his Administration was a first and significant sign of that, as was his withdrawal of the US from the Paris Climate Agreement and subsequent acts such as the withdrawal from UNESCO, the denunciation of the ICC and the slow strangulation of the WTO appellate arrangements in dispute settlement. In addition, since coming to office he has picked off, one by one, trading partners with surpluses, doing so with aggressive bilateral strategies underwritten by the threat of tariffs, although all instances of aggressive bilateralism have shown mixed outcomes.

Indeed, Alan Beattie, the veteran *Financial Times* trade correspondent (2018) has shown how Trump's divide and conquer strategy has had some success, even with the EU, traditionally thought of as the strongest of all multilateral traders. But the actual material benefits gained by the US are more apparent than real. Indeed, it can be argued that Trump has squandered his best chips, even minus the bluster and atavistic rhetoric. The US as the world's largest economy is always, or should be, at an initial advantage in any bilateral negotiation. Yet to listen to Trump you could be forgiven for thinking that smaller countries do not exhibit dependence in their economic relationship with the US and that US leverage depends on threatening to burn the house down. As James Lake (2018) has detailed, for all the tough and insulting talk to its partners in the NAFTA renegotiations the US received only modest gains. We have seen:

- (1) A rebranding of NAFTA as the USMCA. Even though the changes are minimal they ensured Canada and Mexico negotiated bilaterally. While the US secured a 16-year sunset clause it lost in its bid to get rid of the Chapter 19 dispute resolution clause. While USMCA has been a symbolic victory it could yet fail to secure Congressional ratification, or indeed Canadian ratification.
- (2) South Korea agreed in October to renegotiate KORUS.
- (3) Europe has agreed to re-enter negotiations, contrary to its initial position that there would be no negotiation before the US lifted tariffs on steel and aluminium. But the EU has refused pressure to negotiate on agriculture.

- (4) Japan, too, initially tried to keep its multilateral position on TPP only to subsequently agree to bilateral talks with the US. But it has worked strongly with others to ensure the survival of the renamed CPTPP.

The limits of an aggressive bilateral transactionalist strategy have been spelled out again and again (especially the strategy's assumptions that retaliation from the always economically smaller counterparty is unlikely and anyway with little or no consequence for the US). This is not always so. As we saw with the carefully structured Chinese retaliation to the initial US tariff hike, the Chinese were able to hit directly at Trump's own supporters more than indiscriminately at other sectors of the US economy. While this retaliation adversely affects his supporters, it does not appear to bother him given the strength of the support of his base. But a trade deal with China or a wider economic *modus vivendi* with the global trade regime have not been secured. While the threat of escalation continues, a backdown on some key structural issue (notably cyber theft, see <https://www.ft.com/content/3cb5bfda-6b0e-11e9-80c7-60ee53e6681d?emailId=5cc8afa132c082000458dbf2>) in return for the quick high-profile political win may still remain a possible, although increasingly unlikely, outcome given Trump's quixotic negotiating style. The containment of China, to use the lexicon of the Cold War, is unlikely (see Grunstein, 2019) although a more moderate policy of cooperative competition in the economic and technology domains will remain illusive while China resists other than minimal domestic economic reform and Donald Trump remains President of the US.

### Donald Trump and the changing nature of geopolitics

Donald Trump was not the architect of the geo-political shifts that are leading to a redesign of the globalised economic order. This trend runs longer and deeper than his Administration; similarly, the seeds of the contest with China pre-date Trumpian international economic strategy. The struggle between the ideology and practice of competing economic models goes back to the 19<sup>th</sup> century and traditional geo-political sites of contest have been joined by new sites –especially competition for technological leadership and control over digital connectivity–.

But for Donald Trump the securitisation and weaponisation of international economic policy is a logical outcome of a world-view in which any weapon is legitimate when it comes to securing a deal. In this context he offers an important wake-up call to both analysts and practitioners. He has exposed the frailty and limits of the international institutional (economic) architecture that the US built after World War Two.

Is his new mercantilism contributing to the decline, or collapse even, of the post-World War Two liberal rules-based system? The answer is in the balance. But as Henry Kissinger recently noted, 'Trump may be one of those figures in history who appears from time to time to mark the end of an era and to force it to give up its old pretences' (quoted in Luce, 2018). As Kissinger went on to say, this might not be intentional. It could just be an accident. Whichever it is, it is a reflection of the international economic strategy that has been pursued by the US under his Administration. It is a process with consequences the significance of which for the equilibrium of the contemporary world

order are unfolding more rapidly than might have been anticipated at the commencement of the Trump Presidency.

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