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TRUMP'S DEJA VU CHINA TRADE WAR

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Abstract: The Trump administration is pursuing a "dual track" trade offensive. Track One, announced with US steel–aluminum tariffs, seeks token adjustments to preexisting trade terms with allies in NAFTA (North American Free Trade Agreement), Europe, South Korea, and other US bilateral free trade agreements. The recent South Korea–US negotiations represent the *soft* template. In Track Two, Trump is pursuing a *hard* line with China. US objectives are threefold: limit technology transfer to China, obtain more access to China markets for US business, and reduce the US current account deficit with China. US elites are internally split, however, on which objective should be given priority: the US defense establishment prioritizes the first, US multinational corporations and trade groups the second, while Trump seeks the third as means to mobilize his domestic political base with evidence that his "economic nationalist" policies are producing results. China's counter to Trump is a "carrot & stick" response offering concessions to the second and third US objectives, while holding firm on the first. The US–China trade dispute should be viewed as a weak US attempt to reproduce Reagan's 1985 Plaza Accord targeting Japan, and Nixon's 1971 abandonment of the Bretton Woods dollar-gold peg standard, targeting Europe. Trump's offense will prove less successful, however. The author predicts a US–China full blown trade war will be averted, as Trump and US capitalists settle for gains in objectives two and three, while denying China acquisitions of US corporations.

Key words: China; United States; technology transfer; Plaza Accord; Bretton Woods; economic nationalism

Trade War! Trade War! When Trump preannounced on March 2 his plan to impose tariffs on steel and aluminum imports, the mainstream press immediately began hyping the line that trade war was looming on the horizon. Panicking, investors ran

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like lemmings over the stock market cliff after the steel tariff announcement; US allies huffed and puffed, promising tit-for-tat tariff responses on US agricultural goods or commercial aircraft; Trump's traditional elite advisors, like Gary Cohn, former CEO of Goldman Sachs investment bank and head of Trump's economic council, resigned later that week—no doubt in part due to frustration and disagreement over Trump's unilaterally announced tariff.

The "Stalking Horse": Steel–Aluminum Tariffs

At week's end, on March 8, 2018, Trump proposed to implement steel and aluminum tariffs universally, across the board, affecting all importers to the United States: 25% tariffs on steel imports and 10% on aluminum. The big five US steel importers are Canada, Mexico, South Korea, Brazil, and Germany—collectively responsible for US$15 billion a year in steel imports (Irwin 2018, 1). Canada, Russia, and the United Arab Emirates are the major aluminum importers. (Worth noting, for 2017 steel imports China is well down the pack, 10th or 11th on the list, contributing only 2.2% of US steel, importing in the millions of dollars annually—not billion—and mostly semifinished steel goods used by US manufacturers for fabricating final goods produced in the United States.) When announced on March 8, Trump argued there would be no countries exempted from the 25% tariffs on steel and 10% on aluminum (2018, 1). That quickly changed.

By mid-March, Canada and Mexico were temporarily exempted from the tariffs, even though they were among the top four largest steel importers to the United States, with Canada largest and Mexico fourth largest. Thereafter, Brazil (second largest steel importer), Germany, and other steel importers were exempted. And Canada, by far the largest aluminum importer to the United States, accounting for 43% of US aluminum imports, was exempted as well (Donnan 2018, 1).

South Korea, the third largest steel importer last year, was exempted from steel tariffs permanently, as it quickly renegotiated its 2012 free trade deal with the United States. Moreover, no other significant tariffs were imposed on South Korea as part of the bilateral treaty revisions. What the United States got in the quickly renegotiated US–South Korea free trade deal was more access for US auto makers into Korea's auto markets. And quotas on Korean truck imports into the United States. Korean auto companies, Kia and Hyundai, had already made significant inroads to the US auto market. US auto makers have become dependent on US truck sales to stay afloat; they did not want Korean trucks to challenge them in the truck market as well. Except for these auto agreements, there were no major tariffs or other obstructions to South Korean imports to the United States. Not surprising, the South Koreans were ecstatic they got off so easily in the negotiations (Rapaport and Rao 2018, 7). Clearly, the US–South Korea deal had

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nothing to do with steel or aluminum. If anything, it was a token adjustment of US–Korea auto trade and little more.

So if the Korean deal was a "big nothing" trade renegotiation, and if virtually all the US major steel and aluminum importers have been exempted worldwide, what's Trump's new trade policy aggression all about? US steel and aluminum imports combined make up only US$47 billion—a fraction of total US imports of US$2.36 trillion in 2017 (Rapaport and Rao 2018, 7).

Was the steel–aluminum tariffs announcement just another example of Trump bombast, launched via tweets from the second story of the White House at 3 a.m., to be followed by a quick retreat? Was the South Korean agreement a template and a big "softball" for later negotiations with US trade allies—Mexico, Canada, Europe? Was it Trump shooting off his mouth and then retreating following pressure from his advisors and US business interests? Was the tariff announcement a "stalking horse" for something bigger? Perhaps the tariffs were a cover for domestic political objectives—aimed either at agitating and mobilizing Trump's political base in "red state" America in preparation for midterm US elections in November 2018 or even a Trump decision to fire special investigator counsel Mueller in coming weeks? Playing the "economic nationalist" card and mobilizing his base, by initiating new tariffs and talking of a "trade war," would serve both Trump domestic political objectives.

For polls show Trump's steel–aluminum tariffs announcement played well in the Midwest, the great plains states, and the South; and especially in those steel and mining towns of Michigan, Ohio, West Virginia, Pennsylvania, and Minnesota—that is, those key swing states that gave him the narrow margin of victory in the 2016 elections! Even if he quickly shelved the tariffs, the media hype sent the message Trump wanted to his base: he was doing something about the decades-long loss of steel and mining jobs in those regions since the 1980s. In short, how much of the steel–aluminum tariffs were for domestic political consumption and how much not?

That question applies as well to the subsequent trade actions by the Trump administration. By the end of March, given all the exemptions, it became clear the real target of Trump's trade offensive was China and not the rest of US allies.

A closer look at Trump administration statements since March reveals that Trump's anti-China trade offensive has had less to do with China general imports to the United States and more about US next generation technology transfer by US corporations to China. Next gen technologies like Artificial Intelligence (AI), G5 wireless networks, and similar cybersecurity and militarily strategic tech now in development.

As Trump's new chair of his Economic Council, Larry Kudlow, put it in March, "There's no trade war. All we're trying to do is protect US technology." Kudlow added a month later, in early April, "Sometimes you have to use tariffs to bring countries to their senses" (Nicholas 2018, 2). Tariffs are the tactic, not the strategic

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policy objective. And if trade deficits are not the primary issue, and tariffs are only the tactic, then what is the strategic objective? It is technology transfer and domestic politics. Perhaps the US defense sector, in particular, the National Security Agency (NSA) and Trump's military generals–heavy administration, are playing a greater role in the US–China trade war in the background than is thus far noted by the media. And not enough attention is being given to the role of domestic political events as well.

Put another way, at the level of appearance, the US trade deficit and China imports to the United States may be the target for purposes of public opinion. But behind the appearance, it is more likely that US domestic politics plus US long-term military planning are the two more important drivers behind Trump's emerging trade war. All of Trump's tariffs and subsequent trade measures are being invoked based on an obscure "national security" clause in US trade legislation. And China is increasingly the target, as tariffs and other measures are suspended and reduced for US trading partners—with the exception of China—as the United States pursues a soft trade "offensive" against all its other trading partners. As Trump himself tweeted when the initial steel and aluminum tariffs were announced on March 8, "I have a feeling we're going to make a deal on NAFTA. If we do, there won't be any tariffs on Canada and there won't be any on Mexico" (Irwin 2018, 1).

Even with China, it is not China imports that the United States is most concerned about. It is China's challenge to US technology development and leadership and the implications of that challenge for US security, defense armament, and US's continued dominance in war-making capabilities that is behind even the US–China trade dispute. That technology objective, plus the convenient use of trade in general, and China trade in particular for Trump's domestic political purposes are together the real objectives of US trade policy.

The US Plan to Target China

The US focus on China and technology transfer issues as the primary objective was revealed months ago. The US anti-China trade offensive was initiated in 2017 and has been in development for at least a year. The opening of a trade war with China did not begin with some impulsive Trump tweet in March 2018. It has been in the works since at least last August 2017.

In August 2017, Trump formally gave the Office of the United States Trade Representative (OUST) the task of identifying how China was transferring US technology, "undermining US companies' control over their technology in China," as well as seeking to do so by acquiring US companies in the United States (White House 2017). On August 18, 2017, the OUST laid out in writing four charges in a

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formal investigation it was undertaking, accusing China of actions designed to "obtain cutting edge in IP (intellectual property) and generate technology transfer." All four charges were intensely technology transfer related.

That August 2017 scope of investigation document was then reproduced verbatim on March 22, 2018, with the expected findings and recommendations, in the 58-page 2nd OUST report of March 22, 2018, that publicly launched Trump's trade offensive against China (OUST 2018). China was found "guilty" of aggressively seeking technology transfer at the expense of US corporations, both in China and the United States. All four charges of August 2017 were found to have been violated by China.

Based on the OUST report of March 22, 2018, and the report's recommendations (and its list of 1,300 target products), Trump announced plans to impose US$50 billion in tariffs on 1,300 China general imports, ranging from chemicals to jet parts, industrial equipment, machinery, communication satellites, aircraft parts, medical equipment, trucks, and even helicopters, nuclear equipment, rifles, guns, and artillery (OUST 2018). Trump may have appeared in March 2018 to have shifted gears in his trade policy—from a general steel–aluminum tariffs focus to a focus targeting China trade—but China has been the planned primary target.

In other words, China and the specific 1,300 tariffs were the target at least from August 2017, and likely in internal planning when Trump first took office in January 2017. Trump just set it all in motion on March 23, 2018. The China trade war was planned more than a year ago. The prime objective for the United States has always been stopping China technology transfer. The OUST list of 1,300 tariffs was, and remains, a "bargaining chip" to exchange for what Trump and the United States really wants from China: reducing US technology transfer.

A somewhat curious event in the preparation for targeting China occurred only days before the March 23, 2018, OUST report release, when Trump himself tweeted he would like to see US$1 billion in tariffs on China. How then did the official policy become US$50 billion after March 23, 2018? Was Trump initially out of the loop of US elite China trade policy in development? Did the China–US trade war really originate with Trump? Or was it being planned by others, with Trump brought on board after seeing the domestic political possibilities for himself? One can only speculate. Nevertheless, on March 23, 2018, the targeting of China–US trade became now official Trump policy.

The Phony US Trade War

The Trump administration has been pursuing a kind of a "dual track" trade offensive. The soft track targets US allies in Europe, Americas, and select Asian economies;

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the China hard track is rooted in US military-defense planning. Both serve Trump's domestic political objectives. The China trade war is real; the trade war with allies is phony, used by Trump to hype for domestic political consumption.

That China and technology are the primary objective in Trump's true trade war does not mean that Trump will not continue to try to renegotiate bilaterally with other US allies to reduce the US growing trade deficits worldwide. China–US trade amounts to hundreds of billions of dollars a year, with the United States running a US$375 billion deficit in goods trade with China (with a significant US trade surplus in services trade of US$244 billion). Total China–US trade may exceed US$630 billion a year, but US–NAFTA (North American Free Trade Agreement) trade amounts to US$1.2 trillion a year.[1]

Nonetheless NAFTA trade negotiations, as well as trade renegotiations with Europe and Japan, will result in minor adjustments and little reduction in the US overall trade deficit. The South Korea–US deal is the template. As in the recent South Korean deal, Trump achieved only token concessions from NAFTA partners—in autos and in agriculture—that he then exaggerated and hyped to his domestic political base as some significant big achievement. The NAFTA agreement, like the South Korea deal, was not significant. But Trump has tried to make it sound like it is.

This "dual" track strategy seems to be working for Trump. Since announcements of tariffs and trade measures beginning in early March, his public opinion approval ratings have risen, according to a consensus of pollsters. And polls taken in his "red state" heartland base show support for his tariff actions, and even if it has meant an initial loss of jobs and business revenues.

Trump's Deja Vu Trade War in Historical Perspective

Periodically, US corporate interests and policy makers launch a major restructuring of US trade relations. This is usually when they deem it necessary to rearrange the rules of the game with trade when US interests are being challenged or when the global economy is weakening and they consider it necessary to protect the US share of a slowing global trade pie.

In 1971 such a restructuring was undertaken by then-President Richard Nixon. The US economy had been experiencing a rising rate of inflation in the late 1960s as a result of US excess spending on the Vietnam War, the cold war arms race with the USSR, the race to the moon, and expanding social programs associated with the so-called Great Society. Nixon introduced what he called his "New Economic Program" (NEP) in August 1971.[2]

At the center of Nixon's NEP was the US abandonment of the 1944 global "Bretton Woods" international monetary system that the United States itself had

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set up at war's end to ensure its dominance of the new world order in currency, trade flows, and US foreign direct investment worldwide. Under that system the US dollar was pegged to gold at US$35 an ounce. Other countries could sell their accumulated dollars in exchange for US gold. Because US inflation was accelerating in the 1960s, it was in effect devaluing the dollar. European economies did not want to hold devaluating dollars and were exchanging them for gold. Nixon decided he did not want to sell US gold any longer, even though required under the Bretton Woods systems to do so. So he simply abandoned the 1944 system the United States had established. He unilaterally and arbitrarily changed the rules of the game to suit US interests. Immediately the dollar began to devalue, making US businesses more competitive with their European rivals. European currencies rose higher, making them less competitive. To supplement the move, Nixon also imposed tariffs on European imports to the United States, while introducing subsidies and tax cuts for US businesses exporting US products. By 1973, the consequences were institutionalized in the so-called Smithsonian Agreement. The United States would no longer sell gold. Currency exchange rates would henceforth be stabilized (poorly) by the United States and other central banks in Europe buying and selling currencies to keep them within a range of the dollar. But the 15% to 20% dollar devaluation from 1971 to 1973 would remain in place.[3]

The problem of declining US trade competitiveness was the result of US policies. But Nixon's solution was not to correct US policy errors. Rather it was to make the Europeans correct the problem at their expense by reducing their share of global trade. The end of Bretton Woods also meant that central banks would (theoretically) regulate currency exchange rates between countries. In effect this meant that the US central bank, the Federal Reserve, would function as the dominant central bank and the others would have to respond to its initiatives on global interest rate determination. In short, the global trading system was restructured by the US.

A similar development occurred in 1985 under Ronald Reagan. The United States experienced double digit inflation in the early 1980s. It then raised domestic interest rates to 18% and began in addition to run US$300 billion a year federal budget deficits (Rasmus 2006). This resulted in US businesses raising prices to cover the extraordinary rise in rates and costs of borrowing. US products lost their competitiveness to the Japanese businesses, who began to import goods to the United States at a growing rate. US policies did not bring down rates or inflation significantly by 1985. So the United States instead forced Japan to the negotiating table to revise the terms of trade. Japan was forced to inflate its own economy to generate more inflation, to raise the price of their goods and erase their export competitiveness. Once again, a problem caused in the United States by US policy was "resolved" by requiring the burden of the resolution to be carried by the trade partner, Japan. The agreement between the United States and Japan on trade in

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1985 was called the "Plaza Accord." A similar, though less intense, renegotiation with Europe reached in Paris (Louvre agreements) followed. Once again, when it suited US interests, when challenged by a significant capitalist competitor, the United States simply changed the rules of the game.

It is worth also noting that both these trade offensives—Nixon's and Reagan's—were launched in the wake of significant expansionary tax cutting and government war spending fiscal policies that produced growing US budget deficits for the United States. The subsequent trade offensives were thus designed to expand US exports to supplement domestic US fiscal over-stimulus policies at the time. Nixon's initiative followed the recession of 1970–1971 and his obsession to stimulate the US economy by every means to ensure his re-election in 1972. It did, but it simultaneously wrecked the US economy for the remainder of the decade, resulting in domestic stagflation, collapse of real investment, downward pressure on corporate profits, and a call from business interests for a fundamental reorientation of US economic policy that would eventually be known as "neoliberalism" and would last until the crisis of 2008–2009.

Reagan's trade offensive followed the recession of 1981–1982 and the failure of US policy to address the US ballooning budget deficits after 1981 (from tax cuts and spending hikes) and US growing trade deficits as the US dollar rose steadily in the first half of the decade.

The Nixon policy resulted in financial instability in 1973 and failure of several large banks, followed by the worse recession to date in 1973–1975 and stagnation for the rest of the decade. Reagan's policy resulted in even more financial instability in the crash of stock and junk bond markets and housing markets in the latter half of the 1980s, followed by the recession of 1990–1991. Europe and Japan fared no better after 1985, with general banking crises in northern Europe and Japan in the early 1990s that were at least in part due to the Plaza and Louvre trade agreements.

A similar pattern is once again emerging under Trump's trade offensive targeting China. Trump's current trade offensive follows massive multi-trillion dollar US business-investor tax cutting, which amounted to US$5 trillion as result of legislation signed January 2018 (Rasmus 2018). Trump's US$5 trillion in tax cuts[4] was quickly followed in March 2018 by a US$300 billion two-year, 2018–2020, increase in net additional US government spending, mostly defense oriented.[5] By most estimates, trillion dollar a year annual US budget deficits are now on the horizon for another decade.[6]

To pay for the deficits, the US central bank, the Federal Reserve, is now having to raise interest rates rapidly and sell record more US Treasury bonds and securities to raise funds to cover the US trillion-dollar deficits ahead. However, that central bank policy will soon have a dampening effect on US economic growth and lead to a possible financial market contraction as well that could destabilize growth even

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further. The Trump administration is hoping that the fiscal stimulus, supplemented with the benefits of more exports as result of its trade renegotiations, will be able to offset the economic slowdown generated by rising US central bank interest rates.

But this rearranging of fiscal, monetary, and trade policies will almost certainly not prove successful—just as similar policy trade-offs under Reagan and Nixon ultimately failed as well. The Trump massive business-investor tax cuts have barely "trickled" into the real economy. Most of the tax cuts have been diverted by companies to buying back their stock, paying out dividends to shareholders, used for acquiring competitors (mergers and acquisitions), or paying down corporate debt—just as were US corporate profits diverted from 2009 to 2016 in the United States.[7] Defense spending will also have less economic stimulus effect—compared to the 1980s and 1970s—since defense spending has become high cost/low job creation in content. Finally, the trade offensive against China will prove far more difficult for Trump to pull off than Reagan's trade policies targeting Japan or Nixon's targeting Europe.[8] The same relationship of forces and relative power simply does not exist for the United States today, as it once did in the 1970s and 1980s.

The basis for Trump's China trade offensive is the 1974 US Trade Act, section 301. Invoking it worked against Japan. It forced Japan to reduce its auto exports and build auto plants in the United States. It also encouraged Japan to shift from real goods production to financial asset speculation, which led to its crash in 1990–1991. But it will prove less effective against China. Some of China's likely countermeasures and responses already appeared over the summer 2018, including politically targeted tariffs on US exports, devaluing its currency, slowing its purchases of US Treasury bonds, delaying the opening of its financial markets to US banks and investors, holding up its approval on global agreements on corporate mergers, and so on.

The Real Trade War: China and Technology Transfer

The Trump plan is to pressure China on technology transfer and, as a second objective, opening its markets to US financial interests. China has already indicated it will do the latter, and Trump may lay claim to have achieved that even though China's decision to do so has had nothing to do with Trump. Agreeing to reduce technology transfer is another story. Reducing China imports to the United States only the 3rd priority on the US list. US defense companies, the US military, and US banks are the major players. US trade policy is mostly concerned with their interests.

But who's really driving US policy? US trade policy and leadership at the moment is best described as schizophrenic. Is it Trump? His advisors—Lighthizer, Navarro, Kudlow? What about the generals like Defense Secretary Mattis? Is John Bolton, perennial war-hawk, recently appointed to the post of National Security

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Advisor to Trump, also now playing a role? Or perhaps it is some chaotic combination of all the above?

Pre-negotiations with China started in early March with Trump's announcement of the steel–aluminum tariffs. After the tariff announcement, Trump began tweeting the idea that China should reduce its imports to the United States by US$100 billion. A day after the OUST report, Trump announced the report's recommendation for tariffs of US$60 billion on China imports (*Thomson Reuters* 2018). However, a window of at least 60 days was to occur before any further definition of the US$60 billion or actual implementation by the United States might occur, giving ample time for unofficial pre-negotiations to occur between the countries' trade missions. Technically, the United States could even wait for another 6 months before actually implementing any tariffs.

China immediately sent its main trade negotiator, Liu, to Washington and assumed a cautious, almost conciliatory approach at first. China responded initially with a modest US$3 billion in tariffs on US exports. It also made it clear the US$3 billion was in response to US steel and aluminum tariffs, and not Trump's US$60 billion. More action could follow, as it forewarned it was considering additional tariffs of 15% to 25% on US products, especially agricultural, in response to Trump's US$60 billion announcement a few days earlier (Shane 2018). China was waiting to see the details. At the same time it signaled it was willing to open China brokerages and insurance companies to Western–US 51% ownership (and 100% within 3 years; *Week in China* 2017), and that it would buy more semiconductor chips from the United States instead of Korea or Taiwan (China). It was all a token public response. Behind the scenes China and US trade representatives continued to negotiate. By the end of March, all that had actually occurred was Trump's announcement of US$60 billion, without details, and China's US$3 billion token response to prior US steel–aluminum tariffs. From there, however, events began to deteriorate.

On April 3, 2018, Trump defined US$50 billion of tariffs—25% on a wide range of 1,300 of China's consumer and industrial imports to the United States (Lawder 2018). It was the OUST Report (2018) "list." Influential business groups in the United States, like the Business Roundtable, US Chamber of Commerce, and National Association of Manufacturers immediately criticized the move, calling for the United States instead to work with its allies to pressure China to reform—not to use tariffs as the trade reform weapon.

China now responded more aggressively, promising an equal tariff response, declaring it was not afraid of a trade war with the United States. That was a welcoming invitation for a Trump tweet, which followed as Trump declared he believed the United States could not "lose a trade war" with China and maybe it was not such a bad thing to have one. He implied further that maybe another US$100 billion in US tariffs might get China's attention.

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China's initial US$3 billion tariffs, and China's suggestion of more $billions of potential 15% to 25% tariffs (Shane 2018), targeted US companies and agricultural production in Trump's Midwest political base. This may have especially aggravated Trump, disrupting his plans to mobilize that base for domestic political purposes before the November 2018 US elections. Trump's typically reckless approach to negotiating is to never let his adversary "one up him," as they say. He will always keep raising the stakes until the other side stops doing so first. Then, he negotiates back to original positions, maintaining the upper hand in the process.

China responded to Trump's US$50 billion of tariffs announcement with its own US$50 billion tariffs on 128 US imports to China (Yang and Feng 2018, 1). This time targeting US agricultural products and especially US soybeans, but also cars, oil and chemicals, aircraft, and industrial productions—the production of which is also heavily concentrated in the Midwest United States. China noted further it was prepared to announce another US$100 billion in tariffs as well if Trump followed through with his threat of imposing more tariffs (Wildau, Donnan, and White 2018).

The US stock markets plummeted during the first week of April. Trump advisors, Larry Kudlow and Steve Mnuchin, tried to clean up Trump's remarks. Kudlow assured the markets, "These are just first proposals . . . I doubt that there will be any concrete actions for several months" (Crooks 2018, 3). The stock markets recovered again. Who were investors supposed to believe—Trump or his advisors? They seemed to be talking in different directions. And how long would investors continue to believe the Kudlows and others that matters (and Trump) were under control, and there would be no trade war? China representatives further noted that, contrary to Kudlow's assurances to US markets and investors, there were no ongoing discussions about trade between the two countries.

By the end of the first week of April, US trade objectives and strategy was becoming increasingly murky: US multinational businesses wanted more access to China markets. The US defense establishment, NSA and the Pentagon, and the Trump administration "hawks"—Lighthizer, John Bolton, and Peter Navarro—wanted an end on strategic technology transfer to China. Trump wanted anything he can exaggerate and brag about to his domestic political base emphasizing nationalist themes—that is, to keep his popular ratings growing, to ensure Republican retention of seats in Congress in the November elections, and to whip up his base. So what is the real US priority? Whose trade war is it? And who would have the upper hand in the event of a trade war actually happening (and not just announced)? So far it was all still talk on both sides, with tariffs and actions on paper, and not yet implemented. But by defining the tariffs in detail, it was like loading a gun, putting the "safety" lock on, but getting ready to pull the trigger.

As of mid-April, the negotiations by trade representatives continued in the background, while US capitalists in the Business Roundtable and other prime

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corporate organizations added their input to the public commentary process that continued in the United States until May 22.

What happened in the subsequent 6 months from June to November was a steady escalation of threats and actions by Trump to raise tariffs, while he simultaneously kept saying his relationship with China President Xi was great and he expected a trade deal at some point. His response to China's US$50 billion tariff announcement to Trump's $100 billion was to publicly declare the United States should consider an additional US$100 billion in tariffs (Swanson and Bradsher 2018).

China again responded tit-for-tat, as its Commerce Ministry spokesman, Gao Feng, declared it would not hesitate to put in place "detailed countermeasures" that did not "exclude any options." And, in the most ominous comment to date, it was made clear that should Trump impose another US$100 billion, "China would not negotiate!" (Donnan and Feng 2018, 2). As China's Foreign Ministry spokesman, Geng Shuang, indicated in an official news briefing,

> The United States with one hand wields the threat of sanctions, and at the same time says they are willing to talk. I'm not sure who the United States is putting on this act for . . . Under the current circumstances, both sides even more cannot have talks on these issues. (Yao and Shepherd 2018)

For Trump the "act" was put on for his domestic political base. For the US elites, in particular the Pentagon—Defense Industries—and anti-China neocons faction of the US trade negotiations team, the primary objective has always been stopping China's technology transfer and preventing its technology ascendance challenging the United States. Trump supports their interests, and has increasingly done so as Trump's new cabinet members and advisors—Pompeo, the new Secretary of State, and Bolton, Trump's new National Security Adviser—were brought onto the Trump team after May which strengthened the influence of the trade team's China hardliners like Robert Lighthizer, head of the Office of Trade Relations, and Peter Navarro, Trump's trade advisor. Also working against a trade deal with China over the summer and fall of 2018 was Trump's strategy of appealing to his domestic political base with ultra-economic nationalist rhetoric. That rhetoric and the November US election also kept getting in the way of an agreement with China. Trump repeatedly attempted to lure China's negotiators to the United States during the fall of 2018 as the US midterm elections approached. Not to reach an agreement but to use a meeting with China as a tactic to appeal to his domestic political base before the US elections. China negotiators did not fall for the attempt, however, and did not restart negotiations with the United States—despite Trump announcing even more tariffs on China imports and threatening to do so on all China imports by January 2019. Following the November US elections, a meeting was now possible. The G20 venue

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in Argentina provided the neutral ground. As Trump prepared to meet with China's President Xi in Buenos Aires at the November 2018 G20 meeting, within the US trade team, the two major factions continued to maneuver to influence US policy. The Lighthizer–Navarro–Bolton faction released a second report criticizing China technology policy and appeared to have the upper hand. But Trump's hand may yet be forced by the traditional economic elite in the United States, that is, the capitalists driving the big multinational aerospace, tech, and finance corporations in the United States, and their major interest group organizations—the Business Roundtable, US Chamber of Commerce, and National Association of Manufacturers. It will be interesting, to say the least, to witness who will prevail in the end. And that "end" will almost certainly come by the early months of 2019 at the latest.

Further Objectives of Trump Trade Policy

Apart from the primary objective of stemming technology transfer to China to ensure long-run US military technology dominance, there are various additional objectives behind Trump's initial tariff announcements and his resurrection of an aggressive nationalistic trade policy.

First, the steel–aluminum tariffs were a signal to US competitors that they should prepare to "come to the table" and renegotiate current trade (and US investment and money flow) arrangements, since the United States now plans to change the rules of the game again—just as Reagan and Nixon did before in the 1970s and 1980s. The South Korean deal and exemptions to the tariffs reveal, however, that trade renegotiation with US allies have thus far been mostly for show and will likely continue to be mostly a "show." Some token concessions have occurred in NAFTA and South Korea agreements. But EU and Japan have been put on hold.

A second objective behind Trump's nationalist trade policy offensive has to do with a slowing US economy in 2019–2020. The floodgates of fiscal policy have been reopened earlier this year with Trump's US$5 trillion corporate and investor tax cuts (Congressional Budget Office [CBO], 2018), plus hundreds of billions more in defense and war spending hikes. Annual deficits of more than US$1 trillion a year for another decade are now baked into the US budget. The deficits in turn require the Federal Reserve US central bank to raise interest rates to fund the deficits and debt. Nor have the Trump tax cuts therefore stimulated economic growth very much. It is already apparent the US$5 trillion business-investor tax cuts are going toward buying back corporate stock (US$590 billion forecast by Goldman Sachs), paying out more dividends (US$400 billion plus), and financing record levels of merger and acquisition deals (US$1.2 trillion in 2018) (CBO 2018). So rising interest rates and ineffective tax cuts will need more expansion of US trade exports to boost the US economy to offset a slowing US economy in 2019.

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Third, Trump trade policy comes as global trade volumes have been slowing long term. More recently, global commodity prices are in retreat once again, especially the important copper and oil prices that are indicators of global economic and trade slowdown. Last year's much hyped "synchronized" global recovery is falling apart—in Europe, Japan, and elsewhere. Another recession is coming, possibly as early as late 2019 and certainly no later than early 2020. So US trade policy is shifting, attempting to ensure that US business interests retain their share of what will likely be a slower growing (or even declining) world trade pie. Trump and US business are repositioning before the global cycle next turns down.

US domestic and global economic objectives are not the only drivers behind Trump's turn to a more aggressive, nationalist trade policy. There are just as important US political objectives for Trump as well.

The tariff announcements also represent Trump's leap into his 2020 re-election campaign, a return to intense nationalist themes, and a move to mobilize his domestic political base once again around nationalist appeals. Electoral politics are in play here as well. The March steel and aluminum tariffs were announced within 48 hours of Trump's speaking to the "America First" coalition of ultra-conservative and aggressive capitalist interest groups that were meeting in Washington the same week of the steel–aluminum tariff announcements. The "American Firsters" promised to raise a huge amount of money for his re-election campaign; Trump rewarded them within hours of their meeting and financial commitment to his campaign with his latest bombast on trade. Trade is about re-election strategy.

Less obvious perhaps is Trump's leveraging of trade policy and nationalist themes as a way to agitate and mobilize his base, in preparation to counter the Mueller investigation once it is concluded. As the Mueller indictment of Trump approaches, Trump has been clearly preparing his base. He is also cleaning house within his administration, surrounding himself with like-minded aggressive conservatives, former Neocons, pro-militarists, and various sycophants—in anticipation of the "street fight" he is preparing for with the traditional liberal elite in the United States once he creates a political firestorm by firing Mueller.

What's Next for US–China Trade?

What Trump is doing is what US capitalists periodically have done throughout the post-1945 period: that is, change rules of the game to ensure US corporate interests are once again firmly in the drivers' seat of the global economy for at least another decade. Nixon did it in 1971–1973 targeting European challengers. Reagan did it in 1985 targeting Japan. Now Trump is replaying a similar scenario, targeting China. But China may prove a more difficult adversary for the United States in trade negotiations. The United States is relatively weaker today than it

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was in 1971 and 1985; moreover, China is in a far stronger position today relative to the United States than were Europe and Japan earlier.

China is not as economically or politically dependent on the United States in 2018 as was Japan in 1985. Nor as fragmented and decentralized as was Europe in 1971. Both Japan and Europe were also politically dependent on the United States for their military defense at the time. China today is none of the above. Thus the United States lacks important levers in negotiations with China it formerly had with Europe and Japan. Not only is China not economically or politically as dependent, but Trump's initial US$50 billion of US tariffs levied on China reportedly represents only 0.8% of all China exports. It will therefore take US tariffs worth hundred billions of dollars more to have an appreciable effect. And even Trump's announcement of US$200 billion in tariffs scheduled for January 1, 2019 may prove insufficient. Tariffs will not be enough.

And there is the matter of North Korea. If the United States expects China's "help" in getting North Korea to the negotiating table and denuclearizing the regime, it certainly will not get it by provoking a trade war with China.

China also has notable cards to play in its economic deck. For one thing, it could significantly slow its purchases of US Treasury bonds. That would require the US central bank to raise rates even further to entice other sources to buy the bonds China would have. That will pressure US interest rates to rise even further, and slow the US economy even more so than otherwise. China could also reverse its policy of keeping the value of its currency, the Yuan, within its current trading band. A downward drift of the Yuan would raise the value of the dollar and thus make US exports less competitive. It could impose more rules on US corporations in China, give import licenses to European or other competitors, and hold up mergers and acquisitions worldwide involving US corporations.

Another response by China might be to raise the requirements of technology transfer for US corporations located in China. There is a long-term strategic race between China and the United States over who will come to dominate the new technologies—especially AI, 5G wireless, and cybersecurity tech. China files about the same number of patents as the United States every year, with Germany third and the rest of the world well behind. Who files the most AI, 5G, and other patents may prove the winner in future global economic power. AI, 5G, and cybersecurity are the technology that will ensure military dominance for years to come. The United States sees China as its biggest threat in this sphere. The United States wants to prevent China from capturing these critically strategic technologies.

What happened between May 2018 and the US November elections was Trump continued with his bombastic statements and 3 a.m. tweets from the White House, undermining the efforts of his political lieutenants to engage with China and begin negotiations. Bombast and threats were followed with more tariffs, but at token

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10% levels and with delayed implementation. Any serious formal negotiations therefore failed to occur until after the US midterm elections.

Following the Trump–Xi G20 meeting, the Chinese have been offering minor concessions to the United States in terms of access to their economy, reducing auto tariffs, and buying more US farm products again. They will likely agree to other minor changes in imports to the United States. Trump will take the minor concessions and hype them as a major accomplishment, as a show of toughness, as evidence to his base. But what the US defense establishment behind Trump—the Pentagon, NSA, big defense sector corporations, the generals populating Trump's administration—really want is to slow technology transfer and China technology development. All the talk of tariffs and trade quotas is the mere appearance of essence of what is really behind the Trump trade offensive and the targeting of China. It is not so much about tariffs and imports but about technology dominance and about US domestic politics.

But the "wild card" may be the Mueller report that will be released most likely by early 2019. It could weaken Trump significantly, opening up possibilities for big US capitalists and corporations to take negotiations in hand and settle on some terms other than technology with China. However it turns out, Trump's current attempt to repeat the Reagan versus Japan and Nixon versus Europe trade offensives of the 1980s and 1970s will most likely prove in the end a caricature of those former initiatives.

Notes

1. See http://tradingeconomics.com for US country-by-country exports and imports totals. What's noteworthy is that while the terms of trade with China in recent months has been improving, the US total deficit with the rest of the world has been deteriorating rapidly: a total US trade deficit of US$44.9 billion in September 2017 accelerated to US$53.9 billion in December 2017 and by February 2018 had risen further to US$57.6 billion. If the fourth quarter 2017–first quarter 2018 rate of deterioration (roughly 9%) continues for all of 2018, the United States will experience a total trade deficit of roughly US$740 billion for the current year, 2018. (Author's calculations based on US trade deficit monthly rates of change from September 2017 through February 2018.)
2. See Rasmus (2017, 78–81) for the Nixon New Economic Program (NEP) and its relationship to US central bank policy evolution.
3. For a further in-depth analysis of the Nixon NEP and currency devaluation, see Rasmus (2006, 14–18).
4. The total business and investor tax cuts equal US$5 trillion. This was offset partially in the legislation by raising US$2 trillion in tax hikes on the US middle class by eliminating tax deductions, leaving a US$3 trillion net total. Trump, Congress, and the media alike then reported the net impact on the US budget was US$1.3 trillion. But the actual US$1.7 trillion was based on the assumption of US GDP growth of 3% to 4% annual for 10 more years, through 2028, and no recessions whatsoever in the interim.
5. The US$300 billion represented the increase in US federal spending, nearly two-thirds of which went to the US military and defense equipment companies as Trump initiated a "Reagan-like" military buildup. Reagan's target was the USSR; Trump's is China (Kaplan 2018).
6. The Congressional Budget Office (CBO; 2018, 79–80) estimates a 43% increase in the US budget deficit in 2018, to US$804 billion, and averaging US$1.2 trillion a year over the 10-year period, 2018–2028, thereby adding US$12.4 trillion over the decade.

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7. For example, no less than US$1 trillion a year, every year since 2010, has been distributed by US corporations to their shareholders, about US$600 billion annually in stock buybacks and another US$400 billion in dividend payouts. Those totals do not include noncorporate business distribution of income to their owners. At the same time, record US corporate issuance of debt—investment grade and high-yield (junk) bonds, commercial paper, and other debt securities—has been the annual norm. Total US debt has risen by US$20 trillion since 2008, with at least half of that attributable to corporate debt (CBO 2018).
8. See, for example, one analysis by Bob Davis (2018, 2).

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