

China-US Trade War: Hiatus or Busted Deal?

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This past week the US and China failed to reach agreement on a new trade deal, despite high level China representative Lie He meeting in Washington on Thursday-Friday, May 9-10.

In the wake of the meeting, Trump and his administration mouthpieces attempt to put a positive spin on the collapsed talks, while placing blame on China for the break up. The 'spin' at first was that China had reneged on a prior agreement and changed its terms when they arrived in Washington. China had caused the breakdown, not the US. The stock markets swooned. Trump quickly jumped in and said he got a nice letter from China president, Xi, and that it wasn't all that bad.

But make no mistake, a trade negotiations 'rubicon' has been reached. The real trade war may be starting. Or, it may all be theater to make it look like both sides are acting tough and that an agreement will be reached this summer. But that scenario may now be fading. Trade wars—like hot wars—have their own dynamic. Once launched, they drive their adversaries in directions they may not have initially sought.

So who's actually responsible for last week's trade breakdown?

To listen to Trump and his neocons running the US foreign (and trade) policy show now, it was the Chinese. They changed the agreement at the last minute. But who really did the changes? Who set off the process? And how?

If the Chinese backtracked on some terms of the deal, it was clearly in response to the Trump-Neocon trade team initiating the backtracking. Here's what the Trump team did:

- The US publicly declared the week before that the US would keep tariffs on even after an agreement. This violated the understanding that both sides would remove the new tariffs once an agreement was reached (\$100 billion China on US; \$250 billion US on China)
- Trump threatened tariffs on the remaining \$300 billion of China imports
- The US signaled that China would have to not only stop technology transfer from US corporations doing business in China, but that China would have to share its tech development with the US if it wanted an agreement. That included the military-sensitive nextgen technologies like 5G, AI, and cybersecurity.
- The US demanded that China stop subsidizing its state owned enterprises (SOEs) with low interest rate loans that put US multinational corporations in an uncompetitive position in China (even as the US continued to subsidize via tax cuts, trade credits, etc.)
- The US indicated it would continue its global efforts to prevent US allies from doing business with China tech companies like Huawei, ZTE, China Mobile, etc.

regardless if an agreement was reached.

If one wanted to scuttle negotiations at the last minute, this was certainly a way to do it. And as this writer has been saying for the past year, scuttling is just what the neocon China hard-liners driving the US negotiations have wanted all along. They don't want a deal to reduce the US goods trade deficit with China, and they are willing to forego China's significant concessions already made to the US in negotiations on US company access to China markets, if they can't also stop China's technology development—especially in the key nextgen technologies of AI, cybersecurity and 5G.

These are not only the new industries of the next decade, they are also the new technologies with major military implications. Should China reach parity or leapfrog the US in these areas, it could upset the US empire's military dominance.

From the very beginning of negotiations with China, back in March 2018, the tech issue was central. Neocon, China hard-liner and head of the US negotiation team, Robert Lighthizer, issued way back in August 2017 a warning report that China's 2025 plan aimed at surpassing the US in these three tech areas. That report promised to show that China was in fact stealing US technology from US companies in those areas. Lighthizer's March 2018 subsequent report then allegedly proved it. The US-China trade war was then launched that month.

At first it was led by Treasury Secretary, Steve Mnuchin. He led a team to Beijing and came back indicating a deal was reached with China. As part of the deal, it was later revealed publicly, China had agreed to allow US banks and businesses a 51% or more ownership of joint venture companies in China. This was the US bankers' main demand. China also indicated, revealed later, that it would purchase \$1 trillion more of new farm, natural gas, and manufacturing goods from the US over the next five years. So much for the goods trade deficit imbalance and issue. Both concessions were major wins for Mnuchin and the US. But China refused apparently to budge on the major issue of nextgen tech. It suggested concessions, but, failing a final agreement, would not agree to US demands beforehand or up front.

Over the summer in 2018 the neocon faction reasserted control over the US trade negotiating team. Mnuchin's firing of anti-China neocon, Peter Navarro, was reversed and Lighthizer put him back on the team. Over the summer Neocons deepened their influence and control of the Trump foreign policy, as Pompeo policy took charge at the State Dept., and as notorious neocon, John Bolton, took over as main Trump foreign policy adviser. His buddies (Abrams, Miller, etc.) were given enhanced roles in the administration as well. These were the guys that gave us Iraq war in 2003 and after. And they're on the same path again.

In the area of trade they have clearly convinced Trump that a more aggressive stance on trade negotiations will eventually produce a bigger 'win' for the US. They are the originators of the 'use national security' as an excuse to impose sanctions and use tariffs and sanctions to intimidate and force opponents (including allies) into major concessions.

We see this aggressive, high risk brinkmanship not only in trade negotiations with China. It's behind the collapse of negotiations with North Korea on missiles and nukes. (The North Koreans offered to dismantle a number of sites if the US removed an equal number of

sanctions. But the neocons refused, saying all the sites must be dismantled before the US would even consider lifting any sanctions at all. That's a non-starter in negotiations with anyone. If effect, it says: capitulate and then we'll think about lifting sanctions). It's there in the imminent attack and invasion of Venezuela. The recent US failed coup there is only the beginning. It's there in the refusal to stop supporting Saudi Arabia in Yemen. It's there in the escalation of military threats toward Iran. It's even there in the current threat of sanctions on Germany if it doesn't stop buying Russian gas and buy US gas instead. It's everywhere in US foreign policy. And it's there in the recent blowup of negotiations on trade with China.

The neocon, anti-China hardliners—Lighthizer, Navarro, and Bolton—don't want an agreement with China. They want a capitulation on the tech issue. They are aligned with the US Pentagon, Military Industrial Complex, Congress right wing—faction on the US trade team.

There has been fighting on the trade team from the beginning. The neocon faction has been contending with the US bankers-big business faction that want the 51% and the deeper control in China. China has already conceded that and in fact has begun implementing it. The farm-manufacturing-natural gas faction wants more purchases of their products. China has already agreed on that as well. But since last mid-2018 the neocon faction has Trump's ear and they are driving the policy.

That's why the US 'moved the goalposts' the week before the China delegation was to come to Washington last week to finalize a deal. They announced or leaked all the backtracking US terms well before the China team was to come: the retaining of US tariffs despite an agreement, the required sharing of tech regardless of limits on tech transfer in China, the demands that China stop subsidizing its SOEs (even as the US would continue subsidizing US corporations via massive tax cuts, export-import bank, and direct payments from the US government), and so on.

China's reply was to send its vice-chairman and head of its negotiating team, Liu He, to Washington last week nevertheless. Their reply was they would respond in kind to US tariffs with more tariffs of their own and that China would not capitulate on matters of 'principle' (read technology development and its 2025 plan).

So where does it go from here? Is this a bona fide breakdown or just a hiatus, with both sides posturing to look tough?

Trump advisor, Larry Kudlow, trotted out on national syndicated talk shows on Sunday, May 12, and admitted that Trump and China president Xi would not meet until June at the next G20 meeting—maybe. No doubt some discussions will continue next in Beijing in the interim. But it is now far less likely a deal will be made this year. But that's what the US neocons prefer, short of China capitulation.

The neocons have apparently convinced Trump a deeper trade war with China would be good politics domestically. The US economy is showing signs of slowing in key areas of business investment and household consumption. The trade war with China has produced a sharp decline of imports from China. Lower imports translates into higher 'net exports', a category in US GDP calculations that raises GDP. So less imports from tariffs means higher GDP. That could offset some of the slowing US economy in 2019-20.

The neocons believe China's economy is also slowing and that its stock market is fragile.

China cannot conduct a deeper trade war over tariffs with the US. It will eventually capitulate and agree to US demands, including tech, they no doubt argue. And Trump buys it.

But there are potential economic consequences to wars, including trade wars, that the neocons and their obsession with US imperial power do not understand or else do not want to acknowledge. Maybe they think they'll prevail before the economic negatives occur. The negatives mean a corresponding severe contraction of US stock values as well. This now appears emerging. The negatives include a sharp rise in US consumer inflation, as the higher tariffs on China imports get passed on in the US economy. That will reduce an already fragile US consumer spending and US business investing, as costs rise for both. Both business and consumer confidence are poised for a major contraction, and the trade war may just be enough to tip the balance. And rising inflation may force a new conflict with the central bank, the Fed, as it raises interest rates again to fund an even larger US budget deficit and debt caused by the economic slowdown.

But if the worse economically happens, the neocons no doubt are whispering in Trump's ear that he can then blame the US stock market collapse and economic recession coming on the Chinese—as well as on the Democrats. He can resurrect his extreme 'economic nationalism' appeals of 2016 to his base, once again claiming it's the 'foreigners' and the 'socialists' (e.g. everyone proposing a reversal of his war spending, tax cuts for the rich, cuts to education and social programs, etc.).

These are indeed dangerous times for the US, economically and politically. As even Democrat Party leaders are now saying, a bona fide Constitutional Crisis is brewing in the US as Trump insists on governing for his 35% supporters and to hell with the rest of the country, and as he governs increasingly at the expense of Congress' s constitutional rights.

It is also a dangerous time for the US economy, and the global economy as well. We can thank the growing influence, and disastrous policies, of the neocons who are now again firmly in control of US policy as Trump is now aligned with them on almost every policy front.

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Dr. Rasmus is author of the forthcoming 'The Scourge of Neoliberalism: US Policy from Reagan to Trump', Clarity Press, September 2019; and the just published 'Alexander Hamilton and the Origins of the Fed', Lexington Books, March 2019. He blogs at jackrasmus.com and hosts the radio show, 'Alternative Visions'. His twitter handle is @drjackrasmus.

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