

Short Communication

Is it more than a trade war?

Peter W. Wong

Faculty of Business and Tourism, Southern Cross University, Lismore New South Wales, Australia.

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The paper examines the underlying reasons for the trade war and is mainly aimed at China. It was suggested that there is an underlying motive apart from trade imbalance or intellectual property issues as accused by the United State of America government. It examines to some extent the possible contributions of countries such as Canada, England, Australia and the European Union (EU) to isolate China strategically. As this topic is contemporary and is evolving daily, it is difficult to conduct any primary data gathering or to develop any theory apart by reviewing only secondary data. None the less, the authors posit that there could be a say between the US and China if the current trade war continues along this path.

Key words: Trade, thucydides, tariff, political, war, China.

INTRODUCTION

The US president has again raised the stakes by imposing another 10% tariff on all Chinese goods. There is no doubt the Chinese government will respond in a similar manner. Thus, this paper is not only to discuss the trade war but also to predict what is going to happen in the immediate future. This discussion paper is based on secondary data and no primary research is conducted. That is because this topic is contemporary and is evolving very quickly. It is impossible to conduct any primary data gathering or to form any theory apart from summarizing the input from others and to provide for a discussion.

Is it Just a Trade War

The US government by unilaterally imposing tariffs on all

goods imported from China is committing a breach of World Trade Organization (WTO) agreements because WTO forbids any member countries from unilaterally increasing tariffs. As a powerful nation, the US, which has always maintained that every country should abide by the international law and order, has been breaking all the WTO rules and regulations. Yet the world, and especially the WTO, has been very silent on this. Donald Trump, the President of United States of America, used theft of intellectual property by China and the trade deficit as excuses for his policy to make America great again. The fact is trade deficit is quite common in most developed countries and most of the developed countries are trying to improve this through innovations or finding extra exports, for examples advanced weapons from the US or lithium from Australia. This concept is further highlighted (Woodward, 2018).

E-mail: wongpete@optusnet.com.au.

In Memory of my great friend William (Bill) Hegel

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Gary Cohen was convinced that trade deficit is irrelevant and could be a good thing, allowing American to buy cheaper goods. Americans who spent less money on those imported goods had more money to spend on other products, services and savings. This was the efficiency of global markets. The trade deficit is calculated by export minus import ($X - M$). A negative figure would suggest that imports outweigh exports. On the other hand, if export is more than import, then it is a trade surplus. This trade surplus or deficit is one of the contributors to calculate Gross Domestic Product (GDP). Since import is subtracted from GDP, if a country continues to be in a trade deficit, other factors need to be in good shape to compensate. However, even if GDP is increasing, it does not necessarily mean that the standard of living of the country's average citizen is better.

In Bob Kennedy's words, "Gross national product measures neither the health of our children, the quality of their education, nor the joy of their play. It measures neither the beauty of our poetry, nor the strength of our marriages. It pays no heed to the intelligence of our public debate, or the integrity of our public officials. It measures neither our wisdom nor our learning, neither our wit nor our courage, neither our compassion nor our devotion to country. It measures everything, in short, except that which makes life worth living, and it can tell us everything about our country except those things that make us proud to be a part of it." The President and the western world such as Australia, Canada, United Kingdom and EU are using national security and tariffs to politically and strategically isolate China. There is ample evidence, for example Huawei lost its bid for 5G in Australia and United Kingdom because of 'national security' even though Huawei has been operating in Australia for a decade providing some of the hardware to the telecommunication industries. It becomes national security problems when USA followed by UK said so without concrete evidence.

Furthermore, some of the US investments abroad are financed by Chinese capital and the incentive to produce is in fact located in China. The tariffs would bring in additional incentives for the US companies to relocate. Tesla is relocating to China to avoid Tariffs on imported aluminium. This is the same as Harley Davidson. Other high tech and high value- added production may follow to relocate. This could in turn bring up additional tariffs, this time on manufactured goods. Then, if China retaliates with restricting its trade and reassessing its trading partners US will in fact shoot itself in the foot, by depriving themselves of their own high-tech products. China initially was trying to form a trading bloc with EU to counter USA but then EU changed its position on China to appease the President, Donald Trump. Australia is no better. The former Prime Minister Malcolm Turnbull asked Australians to stand up to China against their influence on Australian internal affairs. Speculations and accusations abound about the Chinese infiltrating

Australian infrastructure or universities yet offer no evidence of such claim.

Canada has agreed to a new trading agreement. It appears the trade deal is only returning to status quo with only the name changed. However, the United States Mexico Canada agreement (USMC) has awoken the Canadians. As Perrin Beatty the President of the Canadian Chamber of Commerce said, "We must never again allow ourselves to be overly dependent on one trading partner" (Financial Times as cited in Australian Financial Review 3rd October 2018). The USMC forced Mexico and Canada not to source materials from China unless it is approved by US. The fact is since China's open-door policy thirty years ago, it has become the second largest economic power in the world. In fact, in many areas, such as GDP and research funding, China has surpassed the States in international infrastructure investment such as the BRI (One belt one road imitative). The latest strategic thoughts in the President's camp is that they do not want to be number two or even to see China succeed economically or geopolitically (Asia if not the world). The United States being a superpower since 1945 has had its first time feeling threatened by the rising of the orient. This policy direction is not limited to Republicans but is equally appealing to the Democrats. Indeed, it is predicted that a recession could happen in the middle of 2019. My reasoning is in-line with Roubini and Rosa (2018). They suggest that the world economy is going to crash by 2020. They cited ten reasons why this could happen. The list includes; a reduced corporate tax by Trump at the wrong time, the inability of the US to sustain the current US economy while Trump claims the country is "doing great", it is now moving into inflation territory, Hence, the Federal Reserve is forced to continue to increase interest rate to dampen inflation and to reduce the excess money as a result of Quantitative Easing (QE) 1-4, the trade war with the world especially, with China, will dampen investment (as it is happening in Australia), technology transfer and the supply chains. In short, the global supply chain has been turned upside down, the economic growth is slowing down and will continue to do so. For example, the World Bank has reduced Australia's growth by one percentage point. This is especially for China because she must reduce its overcapacity and excess leverage to avoid a hard landing, EU is not immune from this slow-down especially with the Italy financial crises that has yet to resolve, US and the global equity market is frothy. Government bonds are too expensive together with high- yield credit which has reached historical highs, once a correction occurs (as had just happened globally for the week ending 12th October) people will lose confidence in the market and start dumping their stocks and create a liquidity problem, the misalignment between the US government and the Federal Reserve. As mentioned earlier, the Trump tax cut was ill timed and now he is blaming Federal Reserve for

continued interest rates increases. Because of the hostility towards Iran and maybe Saudi Arabia, the supply of oil will be reduced which can create another oil crisis and When a recession happens, the US government will not have the financial capacity to handle it as she is now heavily in debts and may have difficulties raising funds further.

The future conflict between the West and the East is not a war of resources, rather a war based on culture as Allison (2017) suggested in his book "Destined for War". Allison based on his theory on the Greek historian's witness of the ultimate war between Athens and Sparta (From which he coined the term "Thucydides's Trap.") Allison (2017) also cited many renowned academics and politicians such as Kissinger, Rudd, Lee Kuan Yew and others for their view. Allison's analysis of cultural dimension is no different than Hofstede's cultural dimension in 1981. It is based on this cultural divide that the conflict shall eventuate. No country wants to go to war but when its perceived situation is threatened then war is unavoidable as was in the Spanish-American war, the conflict between Britain and Germany or Japan and Russia disagreement and of course The First World War. The Japanese invasion of China and the Eight Nations invasion of China shall remain a historical shame for the Chinese. Regardless, what other people said, the words "Never Again" has ingrained in their culture. The White house and Pentagon already have prepared a war on China plan five years ago. Gompert et al (2016) in the RAND report make various assumptions have been made in case the conflict emerges. Most importantly, nearly all believe they can win but at a very heavy cost especially if the war is a long one. Allison and Blackwill (2013) when interviewing the late Singapore President Lee Kuan Yew suggested that China will not yield to bullying and will engage in war if forced to. This view is supported by Kissinger (2011) and White (2012). Interestingly, all these authors also offer solutions for avoiding war. This includes negotiation, accommodation and collaboration. Unfortunately, Raby (2018) stated that the States has missed the opportunity. Instead of choosing any of the recommended strategies as suggested, Mr Trump has opted for confrontation. Raby comments on the Vice President of USA, Mr Pence's speech that it appears the States are prepared to 'force' its culture onto China.

However, if Chairman Mao closed China for twenty some years, supporting a Korean war, a big famine as well as a cultural revolution, sacrificing nearly a total of billion people, they can do it again. But this time with a big difference, it is my belief that the Americans are too optimistic in their prediction. There is no doubt Beijing will commit a close-door policy as a last step. With most of the western world are now rejecting Chinese investment because they believe these companies are trying to infiltrate and control their security. In addition, Chinese companies are quietly withdrawing their already invested

capital in the western world. The slow-down of Chinese investment and the restriction of capital out flow from China are indicative that they are evaluating their future investment in the western world very carefully. This is confirmed by Murray (2018) and Hewett (2018) that China investment has dropped 40% as well as the current political impasse. Without foreign investment, especially from China, one wonders where the Western World will obtain future direct investment. USA is 7 trillion in debt. In no more than five years' time, one believes a strong strategic partnership may emerge between India, Russia and China. Thus, one could argue that in the very near future, the Chinese and her allies would dominate the world politically and economically.

CONCLUSION

As presented, the decline of globalisation and free trade could end up damaging countries especially the developing nations. This further encourages the populist nations resulting in isolation. The current strategy adopted by the USA is confrontational and is not good for the world. As White (2012) and Kissinger (2011) suggested the United States of America should adopt an accommodation and collaboration strategy with China. Unfortunately, this is not the case. Most economists are suggesting that there are signs of economy slowing down in Australia and forecasting a global recession is 2020, if not earlier. Hence, we might experience another global financial crisis or even a "great depression" as in 1927. China will maintain a long-term view of their own nation building agenda. She will try to avoid and confrontation with the USA and the West for as long as possible. Chinese will maintain her goal of achieving their "China Dream" by 2050. If the United States continues its path of isolating and confronting China (or punishing China) via military confrontation in the South Pacific and extended trade war, then ultimately a cultural war is unavoidable

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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