

# Trade wars are no longer about trade

Trump has created an opportunity for China to make common cause with American allies both in Asia and Europe. But in the long run, India's relations with China will remain competitive in nature while the US will probably remain an indispensable partner.

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World attention remains fixed on the ongoing tit-for-tat trade war between the US and China but this deflects from the sharpening contention for power between the two countries. China under Xi Jinping believes that its impressive accumulation of economic and military power in the past four decades entitles it to claim predominance in Asia and at least equal status with the US globally. The US, on the other hand, refuses to cede ground and, though in relative decline, remains unmatched in its economic and security capabilities and global reach. There is now a sense that China may have declared victory too early while the US may have reacted too late in the day. There will be knock-on effects on inter-state relations across the world much as the Cold War did in the second half of the twentieth century. The assumption that the density of economic interdependence between the US and China would countervail political and security-related tensions between them no longer holds. Trade wars are heightening security tensions and making them intractable. In fact, the trade war has become an instrument in strategic competition. The Chinese understand this clearly. At a recent international conference in Beijing, more outspoken Chinese participants said that the trade war was “merely the tip of the iceberg” and warned that if Trump went ahead with the imposition of penal tariffs on Chinese goods then this would “show that the attitude of

the US to the trade war has risen to a strategic level”. It was said that the real US intention was “to suppress China’s development. Therefore the trade friction may last long”.

China is vulnerable on various counts. Despite continuing efforts, the shadow banking sector in China is estimated at \$20 trillion, with large volume of wealth management products and loans whose viability is mostly unknown. Non-performing assets at Chinese banks may now be of the order of US\$ 450 billion and the overall debt overhang is nearly 300% of GDP. The value of the Chinese currency vis-à-vis the US dollar has declined 10% since April. This may offset the higher tariffs on Chinese exports but also carries the risk of triggering large scale capital flight as had been witnessed in 2015. An escalating trade war with the US may trigger a debilitating financial crisis. A precipitate slowdown of the Chinese economy may in turn have unpredictable political consequences. Having concentrated power in his own hands, Xi may find himself holding the can when the economic crunch sets in. The fear in China’s leadership is the real possibility that economic disruption may unleash political upheaval. Despite the rhetoric of retaliation there are signs that China may be prepared to quietly concede considerable ground to assuage Trump but uncertain whether this would relieve the pressure. There is a gentler and more modest tone in China’s international discourse. A Chinese scholar commented that China had abandoned Deng Xiaoping’s wise dictum of lying low and biding one’s time too early and that China was still far behind the US in virtually all indices of power.

What about the US? There is no doubt that Trump and his key advisers see China as the most significant and abiding challenge to the US power. The one area where the US retains a clear lead over China is in technology and

is determined to preserve it. There are several measures which have been adopted to restrict Chinese access to US technology and more are likely to follow. But while China may be ready to make concessions in trade, it is unlikely to make changes in industrial policy to suit the US. Thus the Make in China 2025 plan — to bring the country to the front ranks in new areas such as artificial intelligence, quantum computing, and electric vehicles — is likely not only to be pursued but even intensified. It is only an economic and financial crisis which may derail this ambitious long-term initiative. Therefore, it is probably too late for the US to prevent the emergence of China as an independent centre of technology generation and innovation.

While the focus on China as the prime adversary is apparent in Trump's foreign policy, it is not clear what his countervailing strategy is beyond the use of the trade instrument. Strengthening the Western alliance and the alliance system in the Asia-Pacific does not appear to be part of the strategy though clearly the US cannot hope to contain China on its own. In fact, by simultaneously engaging in a trade war with his own allies, Trump has created an opportunity for China to make common cause with American allies both in Asia and Europe. China has lost no time to reach out to Europe. It has revived the China-Japan-Korea trilateral negotiations on a northeast Asia free trade area. It is demonstrating more flexibility in the RCEP trade negotiations and there will no doubt be very positive noises at the forthcoming BRICS summit in Johannesburg, too. Ironically, therefore, Trump may himself have created the conditions for the failure of his China strategy by alienating allies and partners alike. In this complex and changing environment, India should be bold in leveraging its relations with each major power to upgrade its relations with another and retain maximum room for manoeuvre. But in the long run, relations with China

will remain competitive in nature while the US will probably remain an indispensable partner.

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*The views expressed are personal*