Trump’s economic warfare looms over global economy

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23 December 2024

As 2024 draws to a close, the global economy is dominated by two interconnected issues: the impact of Trump’s threatened tariff hikes and the industrial powerhouse that is China.

The connection between the two is that Trump’s economic war, waged under the banner of Make America Great Again, is ultimately grounded on seeking to prevent the rise of China’s high-tech development in order to maintain US economic hegemony.

But while China is the central target, the US economic warfare goes across the board. Canada, Mexico and Europe have already been threatened with tariffs of 10–20 percent, while Trump has said a tariff of 60 percent could be directed against all Chinese goods.

There is now what the *New York Times* described as a “scramble” by European governments to devise policies “for what they fear could be a trans-Atlantic trade war.”

European growth is all but stagnant, with its central economy, Germany, shedding hundreds of thousands of jobs in the auto and other key manufacturing industries—the backbone of its economy. Under these conditions, governments and the European Commission, the executive body of the European Union, are divided over what to do.

There are those within the economic and financial establishments, such as the president of the European Central Bank, Christine Lagarde, who favour a policy of appeasement based on buying more US exports, particularly liquified natural gas.

Others, however, favour retaliation and discussions are already underway within the European Commission over what measures could be undertaken. No concrete measures have yet been formulated, not least because it is unclear where the Trump tariffs will hit.

But there is no question they are on their way. Last Friday, Trump posted on social media that he had “told the European Union that they must make up their tremendous deficit with the United States by the large-scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way!!!”

Trump has no doubt been emboldened to press ahead by the political crises in Europe, with the fall of both the French and German governments this month.

The European powers are not only threatened directly by US tariffs. They also fear the flow-on effects of tariffs imposed on China and that goods excluded from the US market will be diverted to Europe.

Besides its impact on trade, the threatened Trump economic war is affecting financial markets and the policies of central banks. This was seen in the so-called “hawkish” rate cut of 0.25 percentage points by the US Federal Reserve last week. One of the reasons why members of the Fed’s governing body cut their forecast of the number of further rate cuts next year from four to two was concern over the inflationary impact of tariffs.

Following the Fed decision, the Bank of England (BoE) voted to keep interest rates on hold and warned of “inflation persistence.” It said trade policy uncertainty had “increased materially.”

“With the heightened uncertainty in the economy, we can’t commit to when or by how much we will cut rates in the coming year,” BoE governor Andrew Bailey said.

Trump initiated economic warfare against China during his first term, and it was continued and deepened under Biden. The latter’s administration focused its attention not so much on the trade deficit as with Trump, though the Democrats retained his tariffs, as on the exclusion of China from access to US high-tech products.

But even these measures, significant as they have been, may well come to be regarded as just initial skirmishes compared to what Trump has in store in the next round. China’s growth rate is slowing: the official target is “around 5 percent” this year, the lowest in three decades, and lower growth is predicted by most economic forecasters in the years ahead. As a result, China is becoming more dependent on exports to maintain growth.

According to a recent report in the *Financial Times*: “Goldman Sachs estimated that exports will ultimately contribute nearly three quarters of overall GDP growth in 2024 at 4.9 percent. They expect that figure to fall to 4.5

percent next year as a result of a loss of export growth."

This means that the need to fight back against punitive US economic measures is becoming an existential question for the Xi Jinping regime.

Having long ago abandoned any commitment to social equality, let alone socialist principles, its political legitimacy in the eyes of the Chinese working class and sections of a rising middle class has depended on high economic growth.

But if growth significantly falls, then social tensions and a movement of the working class can erupt very quickly—a veritable spectre which haunts the Xi Jinping regime, the representative of Chinese billionaires and oligarchs.

While its economy is vulnerable, above all because of the mountain of debt in the property sector, China possesses powerful weapons with which to hit back. It has already started to use some, as seen in the recent bans imposed on the export of critical minerals to the US and the opening of an anti-trust investigation into the leading US high-tech and AI firm Nvidia.

In a recent comment piece, *Times* columnist Thomas Friedman highlighted the scope of the problem confronting the incoming Trump administration if it wants to crush China's technological advance.

Reporting on a recent visit to China, he wrote: "While we were sleeping China took a great leap forward in high-tech manufacturing of *everything*."

He noted that the China which Trump now confronts is a far more formidable export engine than it was eight years ago. He cited a recent post by economics writer and blogger Noah Smith, based on data compiled by a United Nations agency.

In the year 2000, the US and its allies accounted for the overwhelming majority of industrial production with China coming in at just 6 percent.

By 2030, according to the UN agency, China will account for 45 percent of all global manufacturing, exceeding the US and all its allies. This level of domination has only been seen twice before, by Britain at the start of the Industrial Revolution and by the US at the conclusion of World War 2.

Others have made the same point.

Arvind Subramanian, a senior fellow at the Washington-based Peterson Institute for International Economics, whose remarks were cited in the FT, said that China's manufacturing prowess was "a level of dominance that we have rarely seen in history." And it was only going to get stronger.

According to Richard Baldwin, professor of international economics at IMD Business School in Lausanne, whose research was also cited by the FT, China's share of global gross production rose from 5 percent in 1995 to 35 percent in 2020—three times the increase of the US and more than the next nine countries combined.

Friedman offered some examples of the scale of Chinese production. In 2019, when Trump was ending his first term, net lending by Chinese banks was $83 billion. It has since risen to $670 billion, according to the central bank.

China, he continued, has started the construction of 170 ships capable of carrying several thousand cars to export markets. Before the COVID-19 pandemic, "the world's shipyards were delivering only four such vessels in a year."

He said that people were fooling themselves if they believed "China's growth strength in advanced manufacturing is only from unfair trade practices."

The question that arises is where is this vast economic shift in the global economy heading?

The Chinese economy, Friedman wrote, was unbalanced and would eventually generate a global alliance against it. The answer, he maintained, was to unleash in the US the "genius engineer-entrepreneur" Elon Musk who can make "big stuff" such as electric cars, reusable rockets and satellite internet systems, while China had to "loosen up" and allow more consumption purchases such as Taylor Swift albums.

Hence the title of his article was "How Elon Musk and Taylor Swift Can Resolve U.S.-China Relations."

As opposed to these fictions, the reality is that there will be no peaceful resolution of economic relations under capitalism. The rise of China's manufacturing industry is not going to produce a rebalancing on the part of the US, but rather an intensification of the economic warfare, leading to outright military conflict as it seeks to maintain its global dominance.

The only way to ensure the harmonious development of the world's productive forces under conditions of globalised production is by the establishment of international socialism—the ending of national divisions and the profit system, the breeding grounds of a third world war.

The necessity of the active political fight for this perspective is going to arise ever more clearly before the international working class, in China, in the US and around the world, in the coming period as the contradictions of global capitalism assume ever more explosive forms.