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The China-US Trade War

The advent of a “trade war” between the United States of America and the People’s Republic of China has turned the international economy into a field of battle. Given the globalization of markets and the economic interdependence it generated, no country is immune to the side effects borne out of this clash of giants. What do we mean by “trade war”? What is the place of Brazil, which, on the one hand, has recently shifted its geopolitical position towards the US, but on the other has a strong economic relationship with China? These are some of the questions to be debated in this 10th edition of the International Forum of Ideas, held in June 7 2019.

Professor Antonio Marcelo Jackson: Hello everyone! I am Professor Antonio Marcelo Jackson from the Federal University of Ouro Preto and we are now starting another International Forum of Ideas. Our main theme today is the US-China Trade War. Our main speaker today is Professor José Luiz Albuquerque, also from the Federal University of Ouro Preto. José Luiz holds a Law degree from the Federal University of Minas Gerais, a Master’s in Law and Economics from the University of Utrecht, and a PhD in International Relations from the Pontifical Catholic University of Minas Gerais.

Also taking part in our Forum from the city of Hangzhou, China, is Professor José Medeiros da Silva from the Zhejiang International Studies University. Dear José Luiz, the floor is yours.

Professor José Luiz Albuquerque: What a pleasure it is to be here in the presence of such different perspectives and to talk about a theme that is certainly transdisciplinary. There is no use in looking at this Trade War as exclusively a matter of Law, or of Economics, or Geopolitics. It is also important to understand the cultural aspects and historical issues that are behind all of this, and are instrumental for an analysis of how China positions itself today, especially given this – let’s say – aggressive behaviour from US foreign policy, and how this affects the world. These are two giants and, when they fight, they tend to get everybody in their crossfire.

It is also interesting to think about how did we get to this situation, since the very accession of China to the international economic system – and to the WTO, for example. China’s insertion to the capitalist system was, to a great extent, brought by the

very actions of the United States who benefitted from this fact for a long time, and with myriad commercial advantages. This was very important for many US-American companies.

However, the very growth of China turned out transforming this country into not only a partner, but also a challenger. There is an expression in English that kind of translates the US-China relationship today: *Friends and Enemies* (“frenemy”), meaning that chum of yours who competes with you.

Especially from 2018, there is an escalation in rhetoric and in practice. This is particularly true when it comes to the adoption of trade tariffs in excess to the ones in compliance with regulations by the World Trade Organization, and thus in violation of International Law. This, and a very inflamed adversarial rhetoric led journalists worldwide to write about a “Trade War”. Of course, the word “war” is a very strong one, but there can be no doubt that the use of such stark term was also prompted by the dimension of what is at stake.

As such, I would like to make some provocations on the theme: what would “Trade War” mean precisely? In what way these current events fit into this category? Why have we reached the point in that we speak about a Trade War? Could this Trade War become a true military conflict? Is this risk evident? And, if that is so, who could win this war? Could we predict that? That would be a guess. Also, within our possibilities, we could also speculate what’s the place of Brazil in this scenario, since the movements of these great powers could be compared to tectonic shifts that generate earthquakes and tsunamis all over the globe.

This is the perspective I wanted to present. But before we go further, I would like to give the floor to Professor Medeiros so he can talk about his perceptions of the arithmetic of the Trade War from the standpoint of the Chinese daily life, its media and its perspectives.

Professor José Medeiros: Firstly, I would like to say that I am very happy to be at this International Forum of Ideas, which is becoming consolidated as a field for intellectual reflection. About this theme, this is certainly the most important matter of our times, at least in the field of geopolitics and international affairs. As Professor José Luiz has well said, these are two giants that are facing off.

About the perspective of this struggle from inside China, I have noticed a shift in the Chinese media, which started emphasizing an anti-American discourse. The People’s Daily, for example, has published an editorial speaking about recapturing the “Spirit of the Long March”. From the Chinese standpoint, this means bracing oneself for great adversity and even sacrificing oneself to overcome a certain situation.

Thus, the first thing China is doing is to prepare the population’s mindset for potential economic difficulties, interruptions in commercial flows, or even larger complications. This indicates a new phase of this conflict.

Rafael Lima, a Brazilian friend living in China, has raised a very timely hypothesis. In his view, China has long believed that the United States were earnestly interested in negotiating a commercial deal. As such, China has negotiated and given in to an

extreme. However, China has realized that the goal of the US is not to negotiate but to confront. I agree with his analysis because I believe that, from now on, the US will have to deal with this China, the one that is ready for larger conflicts.

Professor José Luiz Albuquerque: Antonio Marcelo Jackson, earlier this week, the Chinese government has released an official document named *China's Position*, that is, it is the first time that China releases a long, detailed document about its understanding of the matter. In the document, they are using the term *Trade War*. I would like your comment on that. China does not want a Trade War, but it is not afraid and will fight if necessary. China's position is such, and it never changed, that is, if Trump was bluffing, if he was talking out of the back of his head, it seems that this has awakened the dragon, and China is positioning itself as one who is ready to do what is necessary whatever happens. What do you say?

Professor Antonio Marcelo Jackson: Reflecting upon José Medeiros's first comment regarding the Long March, I remember the American common ideology of the Manifest Destiny. It is very interesting to see China build – even if it is from another viewpoint – a similar ideological tool. That is, the first battle – assuming that the war has already been declared – is in the home front, which means one has to convince society that dark times are coming. It is also interesting to see that, when we are talking about a trade war, we are not only talking about production capacity, but also about capacity to consume. In this sense, I ask myself if it is in the United States' best interest to take this “conflict” to its utmost consequences – or, then, that Trump learns a bit more about politics. In other words, China has not only a larger productive capacity than the US, but also a larger capacity to consume.

I remember reading – or maybe it was a conversation with José Medeiros – around two years ago, about the prediction that China would overcome the US in every level around 2030-2040. This was said by the Americans themselves.

Now I will give the floor back to you, José Luiz, but I want to make a request: around the themes you have studied, and I know you are a specialist in the matter of Trade War, I would like to steer the theme into the quote by Clausewitz: “War is the continuation of politics by other means”. However, before we reach *de facto* war – and let's hope it doesn't come to that – where does this Trade War stand? And, also, I would like you to touch upon the concept of “Hybrid War”, that comes from the field of International Relations.

Professor José Luiz Albuquerque: We have a traditional, commonsensical, idea of war that makes us think about an armed conflict between state actors. This is the basic idea of war, the typical scenario of the First and Second World Wars, that is, state *versus* state, military violence, well-defined groups. And then, for someone who comes from Law studies, comes the questions: was there a formal declaration of war? How many people died? How long did it last? This questions problematize the idea of war, and, in this classical – and somewhat juridical – sense of what is war, the situation we are seeing cannot be framed as a War per say.

Now, a “Trade War” is something else. The problem here is that, ever since the Cold War, we started noticing some blows among states that are not compatible with the

armed conflict characterization. There are many forms of conflict that no longer rely on the idea of an armed group going to a certain place and wreaking death and destruction. However, there is a spirit of reciprocal aggression. Thus, some theoreticians started working with new concepts, positing that even when there is no armed struggle, there can be an action that is detrimental to adversary governments.

You see that this terminology is quite broad: “an action that is detrimental to adversary governments”, this involves diplomatic, economic, and political actions, as well as propaganda, dissident movements, agent infiltration, diplomatic pressures, fake news, lawfare, economic sanctions, cyber warfare and many other actions which, maybe punctual and not part of a larger package. Depending on the moment and on the context, an actor can adopt one or another. Faced with that, one can start talking about non-conventional wars. From that came the expression *Hybrid Warfare*: this term is very connected to the utilization of certain tactics that may involve military and non-military action, covert and overt actions, economic or judicial actions, as well as diplomatic and cybernetic means. So, in these terms, there can be no doubt that there has been a myriad of attacks of the United States against China.

For a long time now, China has responded within the scope of the *Lex Talionis* – that is: an eye for an eye, a tooth for a tooth. So, every action taken by the US led to a proportional response from the Chinese government. The idea of retaliation at the same level is very associated to the *Lex Talionis*, but from this week on, China changes the tone with the release of this official positioning, and let something very clear: China did not seek this conflict, it did not provoke it, as Professor Medeiros said. It sat to negotiate many times and gave in to a great extent. China understands that its growth bothers other nations and, in specific, the United States. For this reason, China was willing to negotiate reasonably, but in the way Trump was leading the negotiations, it came to a point where China crafted a strong-worded document.

China is quite minimalistic. It does not speak more than it needs to, it never bluffs, everything is meticulously calculated. Every diplomatic action is made thinking on what is necessary. China has used expressions such as *trade bullying* relative to the treatment the US dispenses to different countries of the world – a form of economic bullying. Let’s remember that, while the US is pressuring China, it is also putting pressure on Russia, Iran, Venezuela, North Korea, Syria... everybody. All that are not submissive have to deal with many measures in the military and economic realms.

One example are the many kinds of small sabotages, such as the access to international payment systems. These examples make clear that, firstly, the Chinese and the US-American economies are too integrated, too interconnected. This economic interdependence makes it a terrible idea for them to engage in this type of conflict – and the whole world suffers for it. The only sensible way for them would be to cooperate.

I believe that I am being clear that there is space for an agreement, with mutually satisfactory solutions, as long as it does not demand from China a submission in the real of principles. Later on, Professor Medeiros could talk about how China deals with its traumas about asymmetrical agreements, such as the century-old agreements with England and other European powers, which are still a bitter pill for the Chinese to swallow. That is what being put by China: look, we can negotiate, we want to make a

deal, but we do not want to concede on anything that touches on our principles”. And this is the principle of equal treatment, it needs to be good for both sides. China cannot be the only actor to give in, the only one who concedes, as it was the proposal of the United States... but perhaps the US did not want a deal, but to strike a provocation.

Professor José Medeiros: It seems to me that what we are here calling a trade war is just the beginning of a longer conflict. Professor Antonio correctly cited Clausewitz, who saw war as an extension of politics. This commercial battle is, in my view, also a matter of politics. This internal communication preparing the imagination of the Chinese people for a conflict is a very significant signal. For example, there is already a recommendation from the Chinese government for students and researchers to avoid the US. Currently, there are 370,000 Chinese students in the United States.

Professor José Luiz Albuquerque: Is China going to also boycott North American products as well?

Professor José Medeiros: No doubt! In case this conflict advances, yes... because then the Chinese conceptualization of enemy is very clear!

Still on the matter of war, I would like to recall *The Art of War* by Sun Tzu. In it, the author says that a great general is the one that can win without the need of a physical battle.

So, coming back to the topic of the China-US trade war, this is a strategic conflict that is not circumscribed to Trump. We also need to be aware of the arguments of the US-led Western world. “Can we trust China?”, “Could it not be planning a form of domination based on the development of high technology”?

This suspicion is normal when it comes to the United States. So far, there is nothing new. On the other hand, the Trump’s rise to power changed the game completely. This is so because the financial markets that dominated US-Politics saw China under a different light, looking to take advantage of China’s economic boom and further accumulate capital. This is why negotiation was more frequent.

I believe that we are witnessing two very different worldviews in a collision course. The west, here represented by the United States, is acting with the objective that other countries function in conformity to its doctrine, its ideology and its worldview. The Chinese east is different. It does not want to change the “barbarians”, only that they are contained at the outside of its walls, so as to not tamper with the “Great Harmony”. That is, the Chinese perspective of organization of the International System is completely different from the US-American, or, let’s say, from the Anglo-American.

Professor Antonio Marcelo Jackson: What I will say here is not on the agenda, but we have a powerhouse like China, with 1.3 billion inhabitants and with an absurdly large consumer market. To its side, we have India with 1 billion inhabitants, leading towards a path that tends towards China, avoiding US influence. Faced with this commercial conflict, is India not benefitted?

Professor José Luiz Albuquerque: I believe that, in this context, the US has pressured countries so that they take a side, also adopting illegal sanctions. Since they are not

backed by international law, this should not prosper judicially. This is a political act and a show of strength and, although one could build a legal justification, in principle, we should say they are illegal.

I see little enthusiasm – even from historical US partners – in heeding the American call and entering this fight. They become more isolated if they do so, and they generate problems for their allies. I believe that if these countries manage to not be connected to one side or another, they can take advantage of the commercial opportunities that rise because of the space left behind by American companies in China and by Chinese companies in the US.

Countries who manage to not align may seize opportunities. This is what I want for Brazil, although I am not very hopeful.

For instance, Brazil produces soy beans, the US also does. If China stops buying from the US, there is a demand that will need to be fulfilled, and who is going to do it? Well, if Brazil is not taking the United States' side gratuitously, it could well be Brazil. This is the type of circumstance in which China is inserted. In sectors that are possible to substitute one or another, this trade war opens up opportunities. To the ones who are aligned to one side or another, these opportunities will be more narrow.

Marcelo, I would like to also put a question to you, because I think your analysis will be interesting. Here it goes: Trump has this entrepreneurial style, at least he talks this way; do you think he abused the rhetoric this commercial rhetoric, did he talk more than he should? In the end, is he trying to just sell an image to the American electorate? Is he more concerned with the American public than with economic and international issues? Do you think he might be more concerned with the coming elections than with international trade, and this is all just a scene?

Professor Antonio Marcelo Jackson: Traditionally, in political science, when talking about democratic regimes that have periodic elections every, on average, four years, it is known that, in the first year, the government is seeking to build its own image. It spends the next two years trying to do something practical, and the last year thinking about the next elections. So, in four years of government, it actually governs for only two.

Let's not forget that, when looking at Trump's election and other such phenomena – and I include Brazil in that – these elections happened as they did because of Fake News, where political platforms were built very differently. We were used to calculate politics with more traditional methods, but we can see that Trump is a man in perennial campaign, as is Bolsonaro. However, there is a problem when you are in permanent campaign: the leader speaks only to his or her electorate, and governs less and less, thus losing touch with reality.

I remember that, a few months ago there was the possibility of an impeachment against Trump. It is very weird because it looks like he is advertising his company. He acts as if he was a corporate manager, and forgets that he is now administering a country. When we look at China or India – or some other countries – the situation is reversed, because there it exists a long term vision. It is a more predictable campaign where the head of state is not campaigning for re-election, he is not thinking solely about tomorrow's election. This is a big difference. It is a problem to see an individual governing while

permanently in campaign, because International Relations – and all the rest, for that matter – are compromised. This is a problem.

Professor José Medeiros: About Trump, I hypothesise that his main conflict is still internal. That is, even if he is elected, he will not be able to defeat some of the domestic forces. Of course, he managed to get a group out of power, but that does not mean that his group is predominant in the exercise of power. Struggles continue in myriad sectors of American society, such as the communication sector. Trump may be using this anti-China rhetoric also to increase his chances of re-election, as he did in his previous campaign.

In the event of a re-election, his internal power will reach a different level, and then we might see the real Trump. For instance, he might change his relationship with Russia to weaken China, and so on...

About India, this is another actor that should be followed closely. I believe that, strategically speaking, India and Russian are a counterpoint to power of China. There are also many internal contradictions in this relationship.

For the Brazilian case, as it was said so well by professor José Luiz, I agree that we should not take a side on this matter, for this “trade war” is theirs. We should act as mediators, seeking for a peaceful environment that could favour our development.

Professor José Luiz Albuquerque: I would like to make use of the last part of your commentary to say the following: if Brazil somehow enters into an unconditional alignment with the US, seeking their favour, and thus adopting sanctions against China – as it is sometimes requested by US-American diplomacy – Brazil would be quite vulnerable to a Chinese retaliation, which would hurt our exports deeply, since China has a large bargaining power when it comes to our soy beans and iron ore. They can close the market for Brazil with a speed that our exporters cannot cope with it, nor can they seek alternatives on the short term.

I also believe that, although Trump may have catalysed or hampered one thing or another, there is a deeply rooted historical process afoot. China’s rise and US decline would fatally meet someday. There was some speculation – during the 1980s – that this would inevitably come to pass for the US and Japan, but it ended up not happening. That is, these tensions beget speculations... however, these Asian, or Chinese, integration models like the Belt and Road Initiative are very different from the trade liberalization integration paradigm proposed by the WTO or the IMF. There is an antagonism there, and I believe this episode to be just the tip of the iceberg.

Professor Antonio Marcelo Jackson: I come to two conclusions: Firstly, in a US-China Trade War, Brazil may die from a stray bullet. Secondly, I believe that, once again, José Medeiros is absolutely right when he says we are going to need more editions of the Forum to go deeper into this questions. Since we are now coming to the one hour mark of our talk, we should now head towards our final remarks.

Professor José Medeiros: This forum was a kind of brainstorming, where we just raised some general questions about the nature of this trade war and placing it on a broader geopolitical context.

What is clear about Brazil is that we should not (and about that I believe there is a consensus among us) take part of one narrative or another. That is, we must create our own narrative so as to position ourselves better in this dispute.

Professor Antonio Marcelo Jackson: Now I would like to give the floor to José Luiz, so he can end today's forum.

Professor José Luiz Albuquerque: I really enjoyed this debate. I leave here wanting more. I would like to be able to talk longer, and I hope we can find other opportunities to extend our conversation. I would like to leave the following thoughts: I believe that, in this historical – *longue durée* – perspective, the reason why the United States are moving in this direction is because they are losing the economic war. The US declares war because, economically, it is losing. China is economically swallowing the US whole. China has become a larger, more dynamic and promising economy: China's perspective for the future is much more consistent, coherent and palpable than any other, and especially the one offered by the US.

I believe that the reason why they feel compelled to accelerate and escalate this conflict is due to the fact that they already are, to a great extent, losing space in the international market. They believe they will keep losing – and believe China's overtaking is inexorable in the current juncture, and this trade war will not change that. China has better conditions to absorb the losses of this US-provoked war – it has more capacity to overcome than the US. The Belt and Road initiative offers countries – even Latin American ones who are not in the geographic Road itself – such interesting possibilities that I do not envision the US being able to come up with a proposal that gathers international support.

That is so much so, that they are forcing countries to do things they do not want to do without offering anything in return. There were threats and more than that during Trump's tenure, and there I think there is a difference between one presidency and another, for he promoted profound disengagements with international governance bodies.

The current US government has imploded certain initiatives that aimed at building integration megablocs with Europe to one side and Asia on the other. Anyway, this government has withdrawn support from the UN, it emptied international bodies, and China is filling these open voids, because these organizations demand that. The IMF has asked China for money, and was attended, the UN also did. So, I believe that, in the end, even before this war begun, China won. China is being attacked because it is winning. I believe this war will not escalate so much, because the provocateur has more to lose than the one reacting to the provocation. When one has nothing to lose, one may envision a military solution. But despite the US having a far superior military power than China and the rest of the world, we are at a point of technological advancement so as to make this kind of military power in something obsolete. As, for example, happened with Aircraft Carriers.

I believe that the US would not go into a total war, and that makes it more likely that the conflict stays on the economic and diplomatic realms. I believe this to be the beginning of the end of an era that was born after the Second World War, and was based on

international organizations that were planned, created, incentivized, and implemented by the US who, themselves, now reject them. What will come will not have the same kind of dominance that we had in the second half of the 20th century. Maybe it is not now clear what it will be, but we need to be attentive and find that out, since our future hangs exactly on that. I give the floor back to you, Marcelo.

Professor Antonio Marcelo Jackson: I would like to thank José Luiz Albuquerque, professor from the School of Law, Museology, and Tourism of the Federal University of Ouro Preto, and also José Medeiros, who is a co-founder of the International Forum of Ideas, as project that is now reaching its second year. This makes me and everyone who works directly and indirectly with the Forum very proud. I hope that the reflections we made today are useful to all. My best regards, and see you soon in our next Forum.