Source : www.thehindu.com Date : 2019-08-20

THE FAR RIGHT'S DISRUPTION OF GLOBALISATION

Relevant for: International Relations | Topic: World Trade, WTO and issues involved

By launching a trade war against China, the United States government that had pressured many a country to liberalise trade and globalise seems to have turned against its own agenda. In a series of aggressive moves, the U.S. — the one-time votary of freer trade — has put in place and widened the coverage of a protectionist shield aimed at stimulating domestic production and reducing the country's trade deficit. While these moves initiated by the Donald Trump administration were on occasion targeted at multiple countries and involved rewriting the North American Free Trade Agreement with Canada and Mexico, the focus of the trade and technology war has been China.

China-specific tariff aggression began with a 25% tariff on imports worth $50 billion, out of the total of $540 billion imported by the U.S. from China in July 2018. Soon, an additional $200 billion worth of imports from China were subjected to tariffs of 10%, and those levies were also raised to 25% in May this year. Most recently on August 1, the balance of around $300 billion worth of imports from China were subjected to a phased 10% levy, with a clear threat that these levies too can be raised to 25%. China's responses to U.S. actions, which came at every step of the trade war, have in turn led to the $120 billion of goods it imports from the U.S. being subject to a 25% duty. The U.S. has also imposed sanctions on and shut off business relations with individual Chinese firms, such as Huawei, on grounds varying from national security to alleged theft of intellectual property from U.S. firms. This prevents the firms targeted from either selling in U.S. markets and that of its allies or buying goods, services and technology from U.S. firms or those of its allies.

Parallel to all this, based on the allegation that the Chinese authorities have deliberately allowed the yuan to depreciate *vis-à-vis* the dollar to support its exporters, the U.S. Treasury has designated China as a currency manipulator. What additional action that would lead to is yet unclear. What is clear, however, is that given the importance of China as a global manufacturing hub, these measures have disrupted global value chains and production networks that are the hallmark of globalisation. Deglobalisation may yet be a distant prospect, but the fact that the world's leading superpower is willing to disrupt globalisation provides both an example and the justification to other governments that find the need to move in that direction.

The U.S. justifies its actions against China by citing that country's significance as a source of inadequately reciprocated imports into the U.S. Imports from China account for more than a fifth of aggregate U.S. imports. With exports to China being nowhere as large, the U.S. runs an annual trade deficit with that country of around $420 billion, which 'imbalance' is attributed to Chinese policy.

There are, however, two important facts that this argument sidesteps. First, the gains to the U.S. from its economic relationship with China are inadequately captured by the trade figures. A major gain for U.S. companies, even if not for the U.S. per se, is the local sales by subsidiaries of American multinationals located in China. Official statistics from the U.S. indicate that U.S. multinational affiliates based in China notched up local sales of $222 billion in 2015, which do not figure in trade calculations. Second, these subsidiaries are responsible for a chunk of China's exports to the U.S. According to one estimate, more than half of Chinese exports to the U.S. originate in foreign invested enterprises which are either U.S. multinational arms or firms with parents in other advanced economies. That is, the U.S. trade deficit with China is the result of the off-shoring associated with globalisation, rather than to Chinese policy favouring its own firms.

Not surprisingly, it troubles the neoliberal policy establishment that the fallout of this kind of trade aggression can set back globalisation across the world. Members of the G20 other than the U.S. have strenuously and unsuccessfully tried to get the latter to sign on to another call for strengthening free trade. The International Monetary Fund, the World Trade Organisation and a host of international institutions have warned of the dangers of the new protectionism. Implicit in their reasoning is that the tariff aggression is an error being made by a maverick or misguided administration. But that does not take into account the fact that Mr. Trump had been railing against trade agreements that hurt the U.S. even in the course of his election campaign and withdrew from the Trans-Pacific Partnership Agreement days after he took office. It also ignores the fact that a section hurt by the Trump tariffs — U.S. farmers for whom China was a $6 billion market in 2018 with it absorbing 60% of U.S. soyabean exports — still support him. A survey by the Purdue Center for Commercial Agriculture found that 78% of farmers held that the Trump tariffs will in time benefit them and a Pulse survey by *Farm Journal* found that Mr. Trump had a 79% approval rating among farmers.

The faith in Mr. Trump and rejection of economic liberalism are telling. These farmers along with U.S. industrial workers have for long felt they had been left behind in the neoliberal years when elites in developed and developing countries alike captured all the benefits of growth and inequality increased hugely. With the increase in income and wealth at the top of the pyramid accruing largely through transactions in the financial sector, productive activity that could have delivered benefits to others has been lagging.

The idea that the benefits of whatever growth occurred under the neoliberal regime would trickle down to the poor and lower middle classes was shown to be what it was: patently false. Seen in that context, Mr. Trump is no maverick, despite his wild twitter and vocal outbursts. He tapped into a genuine grievance and railed against elements of a regime he too was a beneficiary of. That brought him to power once. It may well return him to power again. When in power he needs to adopt at least some policies that go against the grain of free market philosophy and the globalisation that flows from it.

That this is not confined to the U.S. comes through from the rise of what is dismissed as “right wing populism” in Europe, which is not just sceptical of free trade even within the European Union but is coming out against the fiscal conservatism promoted by financial interests that leaves the continent mired in a trajectory of low growth and high unemployment and individual countries reeling under austerity. Combining this with anti-immigrant rhetoric delivers a toxic mix that is helping them gain popularity and even a seat in some governments. On the other hand, sections of the centre left that had bought into the neoliberal paradigm are being shown the door. The pleasure derived by the advocates of neoliberalism from the significant decline of the left in the decades since the collapse of the Soviet Union (which deprives the progressive critique of neoliberalism of a strong political base) has proved short-lived.

Needless to say, the far right is hardly committed to the anti-globalisation strain implicit in its rhetoric. It is as wedded to the hegemony of capital and the markets as are the neoliberal dogmatists. Their ideological pragmatism is opportunistic and fickle. Yet for the moment, their actions, especially that of Mr. Trump, have disrupted globalisation.

C.P. Chandrasekhar is Professor at the Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi

END