

Power Struggle between China and the United States: Lessons of History

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Fernand Braudel, the economic historian, gave a key for reading the power struggles occurring today between the United States and China. «Just as a country at the center of a world-economy can hardly be expected to give up its privileges at international level, how can one hope that the dominant groups who combine capital and state power, and who are assured of international support, will agree to play the game and hand over to someone else?» In other words, the ruling circles in the United States, the hegemonic power of today, want to keep their leadership, China, the rising and challenging power, would like to replace the USA as the hegemonic country: the trade war starting in 2018 should be analysed in this context. The paper will deal with the recent developments of this hegemonic struggle: within the American establishment, the Pentagon and the US Department of Commerce have regained control over «Wall Street» which has resulted in an updated version of the US military-industrial complex, with China replacing the USSR in a new "cold war". Complex strategies are developed on both sides, involving manufacturing, technology, trade, financial, diplomatic and military issues. Referring to this geo-economic key for reading, a number of actions taken by the US government since 2018 aims in particular at checking China's mounting economic and financial power. For the United States, it is about challenging the development of China's influence in the world, in particular along the new maritime Silk Roads.

Key words: geopolitics, international trade, belt and road initiative.

The Belt and Road Initiative, BRI, announced in 2013 by President Xi Jinping, is at the core of China's foreign policy strategy. Already, the initiative has cost more than the post-World War II U.S. Marshall Plan, measured in today's dollars. Beijing champions the project as a means to spur development, goodwill and economic integration between China and its neighbours: most notably Central Asia, the Middle East and Europe.

However the project has proved controversial and several countries expressed suspicion about China's true geopolitical intentions: the U.S. and Japan remain skeptical

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about its stated aims and even more worried about unspoken ones, especially those hinting at military expansion. The BRI is therefore viewed within the new US Administration as part of a Grand Strategy aiming at replacing America as the Global Superpower...

The trade war starting in 2018 should be analysed in this context. So far, the US has imposed three rounds of tariffs on Chinese goods, totalling more than \$250bn, but President Trump has threatened tariffs on another \$267bn worth of goods – meaning all Chinese imports could be subject to tariffs. After months of hostilities, a temporary breakthrough of sorts came in December, both countries agreed to give time for talks. The paper will deal with what looks more and more like a new «Cold War».

Spykman¹ vs. New Silk Road

Chinese President Xi Jin Ping announced the concept of the new Silk Roads, in its land dimension, for the first time in September 2013 during a visit to the Nazarbayev University in Kazakhstan, and again one month later before the Indonesian Parliament. However, this time a maritime and financial dimension was added via the creation of the *Asian Infrastructure Investment Bank (AIIB)*, designed to finance infrastructure projects along these new land and sea routes. Officially, its aim was to be an economic and commercial one, with the goal of increasing China's presence on the Eurasian continent. The land route envisions connecting Central Asia and Europe, and the maritime version connects the ASEAN countries via the South China Sea, to the Middle East and West Africa via the Indian Ocean, and finally to Europe via the Suez Canal and the Mediterranean Sea.

This initiative is without precedent. According to some estimates, investments could reach up to 8 000 billion dollars and commit China through 2049 – the centenary of the People's Republic of China – in line with the «long-term» concept held by the economic historian, Fernand Braudel. For Xi Jin Ping, by 2049 China will again be «rich and powerful», and take a final revenge on the «century of humiliation» that began in 1840 with the first Opium War.

The latest developments of the Belt and Road Initiative in 2018 showed however that the Chinese investment around the world fell sharply in 2018. The decline was most evident later in the year and among state-owned enterprises. These companies also engaged in fewer power construction projects². In addition, the number of countries in the Belt and Road Initiative keeps expanding, but activity levels per countries are flat.

¹ Nicholas Spykman's 1942 Rimland Theory advocated that mobile maritime powers, such as the UK and the U.S., should aim for strategic offshore balancing. The key was to control the maritime edges of Eurasia – that is, Western Europe, the Middle East and East Asia – against any possible Eurasia unifier. When you don't need to maintain a large Eurasia land-based army, you exercise control by dominating trade routes along the Eurasian periphery.

² Scissors D. 2019. Chinese Investment: State-Owned Enterprises Stop Globalizing, for the moment. AEI Paper & Studies. January 2019. <https://www.questia.com/read/1G1-574566601/chinese-investment-state-owned-enterprises-stop-globalizing> (accessed 18.02.2020)

On the economic plan, the new Silk Roads could in many ways be considered as a prolongation of the strategy of growth carried out by China over the last 30 years, centered on exports and structural investments. As far as the infrastructure of the New Silk Roads, investments financed by Chinese state banks are not located only in China, but mainly in other countries. The shifting of the Chinese economy towards a consumer society being slower than originally envisioned, has given them the reason to find new outlets for the overcapacity of production in domestic markets.

Geostrategic Stakes

This purely economic framework was however displaced by the geostrategic context. In fact, the maritime routes are a major response from China to what it perceives to be an attempt, both military and economic, by the United States, to impede its rise in power. On the military side, the Obama Administration began a gradual repositioning in 2011, calling the US naval and air resources in the Pacific «pivot to Asia». By 2020, it is anticipated that 60% of all US external intervention capacity will be located around China. Economically and commercially, excluding China from the *Trans-Pacific Partnership Agreement* negotiations was also part of the same strategy of «containment».

In 2012, mixing economic, business, and military considerations, President Barack Obama stated «*When it comes to our military and Chinese security, part of the reason that we were able to pivot to the Asia-Pacific region after having ended the war in Iraq and transitioning out of Afghanistan, is precisely because this is going to be a massive growth area in the future. We believe China can be a partner, but we're also sending a very clear signal that America is a Pacific power, that we are going to have a presence there. We are working with countries in the region to make sure, for example, that ships can pass through, that commerce continues...*»³.

Remember that these initiatives by the Obama Administration were made in response to Beijing's territorial ambitions in the South China Sea, which it clearly declared to the United Nations at the beginning of 2009. This assertion of Chinese sovereignty over most of the South China Sea was not new, but it could be considered as a major diplomatic development by Beijing in the backdrop of the weakening of the US after the financial and economic crisis of 2008. At the time, Chinese leaders saw it as the opportune moment to cross the diplomatic line Deng Xiao Ping had put in place in the early 1980s, and for the return of China to the capitalist spheres that advocate a low profile and the rejection of any notion of leadership. Consequently, the major diplomatic change that took place in 2009 requires that we reframe our thinking about China in reference with a global geopolitical framework.

³ Obama–Romney debate, (22 October 2012). <https://www.throughlinegroup.com/2012/10/22/obama-vs-romney-debate-scorecard-october-22-2012/> (accessed 18.02.2020)

Maritime Power vs. Continental Power

Since the work of Admiral Alfred T. Mahan (1840-1914), the United States has emerged as a maritime power (Mahan 1890). Moreover, its geopolitical vision is inspired by the doctrine of the British Sir Halford Mackinder (1861-1947), who advocated for the containment of any continental power likely to dominate Eurasia (Mackinder, 1904). For the British, it was Russia, which – in its race towards the warm seas in the second half of the nineteenth century – directly threatened the «jewel in the crown» of the British Empire: India. This sparked a major British – Russian geopolitical confrontation, known at the time as the «Great Game».

Nicholas Spykman (1893-1943), an American academic considered as the father of geopolitics in the US (Spykman, 1942), merged the ideas of Mahan and Mackinder, and defined a geopolitical vision that formed the background and the permanence of American strategies since the end of the Second World War. This approach was largely echoed by Zbigniew Brzezinski (1928-2017) and, more broadly, by all US administrations since.

What does Spykman tell us? He specifies that essentially: «*Who controls the rimland rules Eurasia, who rules Eurasia controls the destinies of the world*» (Spykman 1942). In the light of this geopolitical line of thought, the hegemonic naval power that is the United States is therefore opposed to the continental Eurasian powers that are Russia and China. Consequently, the points of friction lie on the borders of Eurasia: in Ukraine, the Middle East, the China Seas, Korea, etc. By building ports in Hambantota in Sri Lanka and Gwadar in Pakistan, settling in Djibouti or Piraeus in Greece, China is, in fact, advancing all along the borders of the Eurasian continent. In addition, by using debt as a weapon, China creates situations of dependence, even increasing «vassalisation», for the countries that receive its financing; however, these advances, officially commercial and peaceful, are occurring at the same time as its navy is growing more powerful, casting doubts on its ultimate objectives.

In the minds of Chinese leaders, the development of New Silk Roads is intended to strengthen economic, trade, and financial ties on the Eurasian continent, but they must also significantly increase China's global influence. Their vision is to return to the great past that was China: the Middle Kingdom, and the most advanced world power (Shkvarya et al. 2016). Because of their maritime and potentially military components, in direct opposition to the American geopolitical objective of controlling the borders of the Eurasian continent, the New Silk Roads are the center of major geostrategic stakes thereby creating a «Great Game» of the 21st century, whose players this time are the United States against China.

Wall Street's Turnaround?

It is appropriate at this stage to question the balance of power within the American ruling circles vis-a-vis China. Wall Street's financial circles have long been supportive

of the development of a relationship between the United States and China that is «systemic» in nature. The term «Wall Street» as used herein encompasses the broad financial sector of the United States, which includes the US Treasury Department, the US Central Bank (the «Fed») and, of course, all listed US multinational industrial, service, or financial companies and stock markets.

Historically, the **US Treasury** was one of the main beneficiaries of this «systemic» relationship between the US and China. In fact, the purchasing of US treasury bonds by the Chinese Central Bank was, to a very significant extent, the main way China «recycled» its trade surpluses. This market had the liquidity and security characteristics initially desired by the Chinese authorities. The US Treasury was thus able to benefit from low financing rates, but most importantly, did not have to resort to fiscal austerity policies (tax increases and / or spending cuts) that would have been necessary without these contributions.

The US trade deficit has been described as «pain free». The ability of the US to finance both its trade and budget deficits in its own currency, practically without any limits, is generally accepted to be one of the exorbitant privileges of the US dollar. By recycling its trade surpluses, China has contributed significantly to the financing of the US budget deficit.

The entry of China into the World Trade Organization (WTO) at the end of 2001 in particular resulted in a very strong growth in trade surpluses, particularly with relation to the United States, China becoming the main source of the US trade deficit.

However, since the beginning of 2014, and despite record-breaking Chinese trade surpluses (Tian 2019), the recycling of these surpluses has no longer been made in US Treasury bonds. China has reduced its holdings of US Treasury bonds by nearly \$150 billion. It held more than \$1,300 billion of them in January 2014, but in August 2018, the amount fell to \$1,150 billion. The reasons for this are complex: outflow of capital from China, downward pressure on the Yuan (the Chinese currency), the Chinese stock market crisis of 2015 – but the main point here is that the US Treasury has not any longer the same interest in maintaining a «systemic» relationship with China today than it has had previously. It now even considers itself to be under the potential threat of a massive sale of treasury bonds by China, which would result in an increase in US long-term rates and, subsequently, in the costs of financing the budget deficits.

The **FED** has also long encouraged the development of a systemic relationship between the United States and China. This relationship contributed to what has been described by economists as a «Great Moderation» period. In other words, the variations in inflation and annual growth, economic cycles, were much more moderate between 1990 and 2007 than in previous decades, which facilitated the Fed in achieving its objectives.

However, the 2008 crisis showed that this "great moderation" was obtained at the cost of considerable rise in economic imbalances for the US: a trade deficit, a sharp rise in external and internal debt, deindustrialization, etc. Since then, the Fed has to «revise» its analysis grids. Ben Bernanke, Chairman of FED in this respect wrote in

2009: «*In my view, however, it is impossible to understand this crisis without reference to the global imbalances in trade and capital flows that began in the latter half of the 1990s. In the simplest terms, these imbalances reflected a chronic lack of saving relative to investment in the United States and some other industrial countries, combined with an extraordinary increase in saving relative to investment in many emerging market nations*»⁴.

At the end of 2008, the US economy was even on the verge of falling into a deflationary spiral. Consequently, the FED decided to launch its «Quantitative Easing» program, when it was obvious that short-term rates lowered down to zero percent, would not be sufficient to monitor a recovery of the US economy. On March 18 2009, the Fed embarked on a monetary policy, which, above all, would enable the US budget deficit to be directly financed by the central bank, since it partly involved buying treasury bonds issued by the government on the primary market⁵. The FED bought in this context more than 3,5 trillion of US bonds between the end of 2008 and 2014. For the record, this type of policy can be seen as a modern form of printing money.

On a financial point of view, the “quantitative easing” program was aiming at lowering the whole yield curve and therefore to ease financial conditions. As Ben Bernanke explained in 2010 (Bernanke 2010): «*Easier financial conditions will promote economic growth. For example: lower mortgage rates will make housing more affordable and allow more homeowners to refinance. Lower corporate bond rates will encourage investment. Higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion*». This financial strategy aimed at «containing a depression» like the one of the 1930ies and was successful in preventing such developments.

However, a second reading, a geopolitical one, has to be done regarding the FED decision of the 18th of March 2009. For the United States, this announcement represented a unilateral breaking of the rules that, in the past few decades, had held sway in the international monetary system. This break was in many ways just as radical as the decision by the Nixon administration in August 1971 to end the US dollar's convertibility into gold. The shock for the Chinese government was huge since, in essence, it signaled nothing less than the end of the United States' financial dependence on outside creditors -first and foremost China, which was being replaced by an ex-nihilo financial creation of the Fed's that, by definition, was potentially unlimited.

As the Chinese government was extremely concerned by the US monetary decision announced on March 18th, five days later, Zhou Xiaochuan, the Chairman of the PBoC, the Chinese Central Bank, published a paper insisting on the urgent necessity of a reform of the international monetary system... In other words, he was asking to

⁴ Bernanke B.S. “*Financial Reform to Address Systemic Risk*”, speech at the Council on Foreign Relations, Washington, D.C., March 10, 2009. <https://www.federalreserve.gov/newsevents/speech/bernanke20090310a.htm> (accessed 18.02.2020)

⁵ Bernanke B.S. “*Financial Reform to Address Systemic Risk*”, speech at the Council on Foreign Relations, Washington, D.C., March 10, 2009. <https://www.federalreserve.gov/newsevents/speech/bernanke20090310a.htm> (accessed 18.02.2020)

put an end to the “exorbitant privilege of the US Dollar”⁶. A decade later, no reform has been achieved and the Dollar is still the central currency of the system.

Today however, the United States could be obliged to buy the treasury bonds sold by China if China decides to get more aggressive about it. Such potential actions would effectively force the FED to increase the size of its balance sheet, even though it has worked for the exact opposite to normalize its monetary policy (increasing rates, ending liquidity injections and, since 2017, gradually withdrawing liquidity previously «injected» into the US economy). Back to 2005, the FED policy was already constrained by the US – China «systemic» relationships: Alan Greenspan, Chairman of the FED at that time, preferred to talk about a «conundrum», when long-term rates fell despite the fact that the FED had raised short-term rates by 150 basis points. However, this yield curve’ move was related to clearly identified flows: China was indeed recycling its trade surpluses into US treasury bonds or Fannie Mae and Freddie Mac bonds, preventing the FED to cool down the US real estate markets and ultimately contributing to the 2008 financial and economic crisis⁷.

Finally, **American multinational corporations** have been the largest beneficiaries of the United States / China systemic relationship. The moving of production to China since the 1990s to take advantage of its low-cost labor and its massively undervalued Yuan contributed to the record profits of multinational firms, which were primarily American. These profits were such that they also largely contributed to the establishment of a global «norm» of a minimum return of 15% on equity. However, there are a number of reasons for the turnaround of the heads of a significant number of US companies:

- Americans estimate that the theft of intellectual property by the Chinese has amounted to more than \$200 billion a year;
- The «Made in China 2025» plan launched by Xi Jinping – intends to compete with the United States on leading-edge sectors;
- The exclusion of Silicon Valley firms (Google, Amazon, and Facebook), who have been ousted in favor of the Chinese national champions (Baidu, Alibaba, Tencent);
- The limitations of access to the Chinese financial sector;
- The competition from the Chinese steel or aluminum markets and the dumping of surplus on world markets; etc.

For all these reasons, more and more American companies are no longer seeing Chinese firms as partners or subcontractors, but as direct – and in many cases – unfair competition.

⁶ Zhou X. 2009. Reform the International Monetary System. PBoC, March 23. <https://www.bis.org/review/r090402c.pdf> (accessed 18.02.2020)

⁷ Testimony of Chairman Alan Greenspan Federal Reserve Board's semiannual Monetary Policy Report to the Congress Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate February 16, 2005 <https://www.federalreserve.gov/Boarddocs/hh/2005/february/testimony.htm> (accessed 18.02.2020)

However, it does not mean here that *all* US companies have adopted a negative position towards China. Indeed, a lot of US companies simply cannot afford it as they depend heavily on China, to name a few: General Motors, Caterpillar, Apple, Wall Mart, etc. Walmart imports each year almost 50 billion USD of Chinese goods, a survey from the Economic Policy Institute (Robert E. Scott) estimated that more than 400 000 jobs were lost in the United-States in relation with these imports between 2001 et 2013⁸.

The Return of the Military-Industrial Complex

The National Trade Council, created in 2017, now deems China to have been the main source of the 2008 crisis and the difficulties that followed it. Peter Navarro, a professor of economics and White House advisor, authored the 2011 book «Death by China: Confronting the Dragon – A Global Call to Action» (Navarro, Autry 2011) and a second book in 2015, «The Crouching Tiger: What Chinese Militarism Means for the World» (Navarro 2015). The notion that international trade, economy, and defense are linked is the reason why the Pentagon (the US Department of Defense) is able to once again prevail in its view, considering that China is the main threat to US national security. This position is not new. After the implosion of the USSR, not only the Pentagon but also the US Department of States (US foreign affairs agency), identified China as the new rival from the early 2000s. In February 2000, Condoleezza Rice, future adviser for the National Security advisor and US Secretary of State, wrote: «*China is a great power with unresolved vital interests, particularly concerning Taiwan (...). China resents the role of the United States in the Asia-Pacific region. (...). This means that China is not a «status quo» power but one that would like to alter Asia's balance of power in its own favor. That alone makes it a strategic competitor, not the «strategic partner» the Clinton administration once called it (...).*». In her opinion, China's rise in the region must be checked and, as a result», (...). *It is essential to adopt a strategy that would prevent China's rise as regional power(...). In particular, the United States must deepen its cooperation with Japan and South Korea and maintain its commitment to a robust military presence in the region»⁹.*

In other words, as regards to China, the Pentagon and Department of State stood in opposition to the financial sector for nearly fifteen years without success. Indeed, the recycling of Chinese trade surpluses, liquidity flows resulting in cheap financing, low inflation, and record profits for the big American multinational firms, were seen by American leaders to be evidence of the benefits enjoyed by the US from its “systemic” relationship with China. As a result, the trade deficit was not considered to be a problem, nor did the deindustrialization of the country, compensated for the US

⁸ Scott R.E. 2015. A Conservative Estimate of 'The Wal-Mart Effect' Wal-Mart's growing trade deficit with China has displaced more than 400,000 U.S. jobs. December 9. <https://www.epi.org/publication/the-wal-mart-effect/> (accessed 18.02.2020)

⁹ Rice C. 2000. Campaign 2000: Promoting the National Interest. *Foreign Affairs*. January/February <https://www.foreignaffairs.com/articles/2000-01-01/campaign-2000-promoting-national-interest> (accessed 18.02.2020)

consumers by the gains in purchasing power generated by the importation of low-cost products from China.

However, this «purchasing power consumption gains / employment deindustrialization» relationship was significantly called into question during the last US presidential election. In fact, the “Rust Belt” states, that had seen a decline in industry, caused a shift in the election in favor of the new administration. A majority of voters in those states rejected the previous free trade policies and considered them to be responsible for the deindustrialization of the US, which is why the new National Council for Trade now has a much larger influence over the US Administration. In this case David H. Autor et al. shows that the emergence of China as a trade powerhouse rattled the American economy more violently than economists and policy makers anticipated at the time China joined the WTO in 2001 and that the U.S. workforce adapted more slowly than expected... Therefore economists estimate that voting results in the last presidential election would have been different if some states has not been hit as hard by rising imports from China¹⁰ (Davis 2016).

In summary, the US treasury, the Fed, and a large part of the big American companies have re-evaluated their positions on China. A systemic relationship with Beijing is no longer considered to be as beneficial as it had been in the past, and the Pentagon and the US Department of Commerce have regained control over «Wall Street» which has resulted in an updated version of the military-industrial complex, with China replacing the USSR in a new «cold war».

«Just as a country at the center of a world-economy can hardly be expected to give up its privileges at international level, how can one hope that the dominant groups who combine capital and state power, and who are assured of international support, will agree to play the game and hand over to someone else?» (Braudel 1992).

Strategy vs. Strategy...

If one believes, as does the economic historian Fernand Braudel, that the hegemonic conflicts between major powers are the main factor shaping the structure of the world economy, then the changeover described among US leadership may lead to a new interpretation – such as that of Michael Pillsbury (Pillsbury 2015), author of the book on China, *The Hundred Years Marathon* published in 2015. Mr. Pillsbury took a consistently positive view of China’s future and has long held that «We believed that American aid to a fragile China whose leaders thought like us would help China become a democratic and peaceful power without ambitions of regional or even global dominance». He now believes that «the influence of Chinese Hawks» has been underestimated, which brings him to ask the crucial question: «What if the Chinese dream is to replace the United States, as the United States replaced the Brit-

¹⁰ Autor D.H., Dorn D., Hanson G.H. 2016. *The China Shock: learning from Labor-Market Adjustment to Large Changes in Trade*. <https://www.ddorn.net/papers/Autor-Dorn-Hanson-ChinaShock.pdf> (accessed 18.02.2020)

ish Empire, without having to fire a single shot?» In other words, the Xi Jinping's «Chinese dream» would have mainly a geostrategic dimension: to replace the United States as the hegemonic power. This hypothesis is now echoed at the highest level of the American leadership.

A Chinese Mercantilist Strategy?

It is therefore appropriate to remember the main characteristics of the «Grand Strategy» China has followed since the 1980s. The underlying strategy that has elevated China in power since its return to the capitalistic world arena is classic. It is characterized by the developments that one can consider virtuous:



Fig. 1. Chinese «Grand Strategy».

Source: compiled by the author.

This «Grand Strategy», mixing economic, trade, financial, diplomatic and military actions is behind the rise of China in the last forty years. It consists of a strategy called «mercantilism» that had been used by England until the mid-19th century, by the «Colbertist» or Napoleonic France, by the United States from the Lincoln presidency until the Second World War, and by Bismark in Germany, etc.

In this context of hegemonic struggles, the economic and financial hegemonic power would adopt, as a global strategy, free trade, free competition and free international capital flows. Indeed, the Hegemon's top manufacturing companies, international trade companies, financial institutions being more efficient, are bound to win the international competition. The interest of the hegemonic center in this context is to force potential challengers and more generally all countries to open their borders. Free trade is consequently an economic weapon in the hand of the Hegemon. On the other hand, potential challengers, if they want to raise their manufacturing, trade and financial capabilities, have no other choice than

to protect themselves from the Hegemon by using various forms of protectionist measures (tariffs, regulations and norms, with the most effective of all being an undervalued currency...).

In this respect, Braudel wrote about Holland, the trade and financial dominant centre of Europe at the end of the 17th century: «*Holland was only mercantilist at certain very rare moments - precisely those at which she was aware of an external threat. As a rule unchallenged, she was able to practice free trade with impunity since it could only benefit her. When in the eighteen century, England began to move away from strict mercantilism, was it, as I am inclined to think, proof that the age of Britain's power and greatness on a world scale has dawned? A century later (1846) she could embrace free trade without running any risk at all. (...). There was considerable difference between modern seventeenth-century Holland and majestic-looking states like France or Spain. This distance is revealed in the attitudes of governments towards an economic policy regarded at the time as a panacea and which we now call by a word invented after the event, mercantilism. When we made up this world, we historians assigned it a variety of meanings. But if one of these meanings was to be paramount, it would be that which implied a defense against others. For mercantilism was above all a means of self-defense*» (Braudel 1992).

In a general fashion, the success of mercantilism, as an economic, commercial, financial, diplomatic, and military Grand strategy, depends first and foremost on recurrent international trade surpluses and an accumulation of financial assets. In the case of China, it must be remembered that the trade surpluses that have occurred since the beginning of the 2000s translated into a considerable accumulation of foreign exchange reserves, which reached more than \$4,000 billion in 2014. If one applies the grid of analysis made by Peter Navarro and Michael Pillsbury, the mentality dominant at the White House, leads us to believe that China has pursued, and continues to pursue, a Grand Strategy of mercantilism, in all the aspects outlined above.

Therefore, it must be reasoned that the priority goal of the United States must be to reduce Chinese commercial trade surpluses. It also must be noted here that this does not entail reducing the American trade deficit, even if it seems to be the same goal. In fact, the reduction of the American trade deficit is in no way desirable for the United States. In order for the US dollar to remain the central currency of the international monetary system, as it must remain from an American point of view, it suits that the rest of the world is fueled with US dollars and a US trade deficit is one of the ways to achieve it. There is nothing new here. The economist Robert Triffin (1911-1993), advisor to President Kennedy, perfectly analyzed this issue, as well as the instability inherent with the Bretton-Woods Gold-Dollar international Monetary System of the 1950ies and 60ies (Triffin 1960).

Regarding the mercantilist strategy of China, Paul Krugman, Nobel Prize in Economics in 2008, wrote in 2009 and 2010: «*China has become a major financial and trade power. However, it does not act like other big economies. Instead, it follows a mercantilist policy, keeping its trade surplus artificially high. And in today's depressed world,*

that policy is, to put it bluntly, predatory»¹¹. «This is the most distortionary exchange rate policy any major nation has ever followed.(...) Most of the world's large economies are stuck in a liquidity trap – deeply depressed, but unable to generate a recovery by cutting interest rates because the relevant rates are already near zero. China, by engineering an unwarranted trade surplus, is in effect imposing an anti-stimulus on these economies, which they cannot offset»¹².

Assuming that the overriding US objective is now to reduce Chinese trade surpluses, then it appears that many of the economic, commercial, and financial actions undertaken by the US government in 2018, present a consistency that must be carefully evaluated. These actions bring focus to a set of strategic goals aimed at reducing or even eliminating Chinese trade surpluses and thus drying up the primary source of China's rise in power.

Strategic Targets of the United States

For Washington, the first strategic target is that of **Chinese exports to the United States**. On March 23, 2018, President Trump announced a first wave of tariffs on \$50 billion worth of products imported from China. In September 2018, an additional \$200 billion was subject to tariffs, which was initially to be increased from 10% to 25% on 1 January 2019. The US President justified his decisions by stating that Chinese business practices constitute a serious threat to the health and prosperity of the US economy long term. A third wave of tariffs was also expected, this time bringing in \$267 billion worth of additional merchandise, with President Trump stating, «*If China takes retaliatory measures against our farmers or other industries, we will activate phase 3, with tariffs on 267 billion additional imports*». If this last phase were in fact implemented, the entire amount of Chinese imports to the United States – more than \$500 billion worth of goods – would be hit by tariffs. However, after months of hostilities, a breakthrough of sorts came in December, both countries agreed to give time for talks at the G20 meetings in Buenos Aires... A deadline was announced for the 1st of March 2019, but at that date no agreement has been reached by American and Chinese negotiators.

This set of measures, which are essentially protectionist, are a complete challenge to the free-trade ideology that has prevailed in the United States in recent years. In this respect, as a campaign advisor to President Obama and a principal trade negotiator for Reagan, Clyde Prestowitz has repeatedly warned against disregarding foreign competition as the U.S. suffers a rapid erosion of its productive base, he wrote: «*So to paraphrase Abraham Lincoln, the world in which we live is half free trade and half mercantilist. Half of more of the countries have a clearly defined national economic interest, an economic strategy focused on export-led growth, and a series of industrial policies to fulfill the strategy*» (Prestowitz 2010).

¹¹ Krugman P. Chinese New Year. *New York Times*. December 31, 2009. (accessed 18.02.2020)

¹² Krugman P. Taking on China. *New York Times*. March 14, 2010. (accessed 18.02.2020)

However, by raising tariffs, it is only the nature of the actions of the United States in the field of international trade that has changed and by no means its final objective. Indeed, the exclusion of China from the Trans-Pacific Partnership Agreement that had been finalized by the Obama Administration was undoubtedly founded on the same reasoning of the containment of China. It was an indirect strategy, aiming at fixing the norms and standards of future international trade and consequently with medium and long-term effects expected. The president Obama clarified the US position in a speech held in 2015: «*When more than 95% of our potential customers live outside our borders, we can't let countries like China write the rules of the global economy. We should write those rules, opening new markets to American products while setting high standards for protecting workers and preserving our environment. That's what the agreement reached today in Atlanta will do*»¹³.

However, the new American administration had the perception that the threat from China has risen a notch and consequently that more direct actions with immediate impacts had to be considered. In this context, both free trade agreements and protectionist measures are to be looked at as economic weapons¹⁴ that are at the disposal of the dominant power and could be triggered in a pragmatic way upon circumstances.

The introduction of tariffs by the new US Administration was a surprise even more to the Chinese leaders, because the rhetoric of the candidate Trump during his presidential campaign – which was quite virulent towards China – had not shown any concrete signs of manifestation during the 15 months following the presidential election. This period corresponds to the time granted by the Americans to trade negotiations with China, though it proved unsuccessful¹⁵, but was also equal to the time necessary for the changeover in the American ruling circles mentioned above.

However following the announcement of tariffs by the US aiming at Chinese imports, the Chinese Yuan went immediately down, the parity USD/CNY going from 6,25 in April 2018 to 6,85 at the beginning of August, corresponding to a depreciation of nearly 10% of the CNY in 4 months. This was happening in a context of Chinese trade surplus, that in theory should translate into a higher CNY and of a very significant undervaluation of the CNY in terms of purchasing power parity. In other words, to a trade war, US tariffs raised, China retaliated with a currency war, depreciation of its currency.

Transfer of Technology and Theft of Intellectual Property

The second US strategic target refers to technology transfer and intellectual property theft. The Commission on the Theft of Intellectual Property (IP Commission)

¹³ Barack Obama. Statement by the President on the Trans-Pacific Partnership. October 05, 2015. <https://obamawhitehouse.archives.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership> (accessed 18.02.2020)

¹⁴ Address by Secretary of Defense Ashton B. Carter in Arizona State University in Tempe. April 2015. <https://www.mccain-institute.org/events/a-conversation-with-secretary-of-defense-ashton-b-carter/> (accessed 18.02.2020)

¹⁵ China's Xi to meet Trump in Mar-a-Lago on April 6-7 <https://pressfrom.info/us/news/world/-36361-chinas-xi-to-meet-trump-in-mar-a-lago-on-april-6-7.html> (accessed 18.02.2020)

estimated in march 2018 that the annual cost of counterfeiting, software piracy, and theft of trade secrets to the American economy is more than \$225 billion a year, and could even be as high as \$600 billion, and that China is the main source of offenders. The American objective is therefore here to reduce the chances of success of the Plan «Made in China 2025» that aims to give to China a dominant position in many advanced sectors.

The Commission – headed by Admiral Dennis Blair, former director of national intelligence in the Obama administration between 2009 and 2010, and Craig Barret, previously CEO of Intel Corporation – suggested in March 2018 that «dialogue» was being engaged, mainly between the United States, the European Union, and Japan, on the dual problem of intellectual property thefts and technology transfer.

A broad consensus has been reached by the United States on these two points. Indeed, during a visit to the Chinese number two, Li Keqiang Mr. Jean-Claude Juncker, President of the European Commission, declared: «*We share many of the concerns of Messrs. Trump and Lighthizer¹⁶, about the Chinese State Capitalism. We do not necessarily like Mr. Trump's methods, but that doesn't mean he's invented it all*». At the same time, the European Commissioner Trade, Cecilia Malmstrom, clearly confirmed the European position in this matter. «*There's no secret that we think China is a big sinner here*»¹⁷.

In other words, it is on these two crucial points that the new American administration has arrived at its decision to isolate China in line with its strategy of containment of the Middle Kingdom (Mitchell 2018). Indeed, by reducing the transfer of technology to China and fighting against the theft of intellectual property by Chinese entities, it reduces the chances of success of the «Made in China 2025» plan.

Oil and Chinese Energy Independence

The third US strategic target is the import of oil and Chinese energy dependence. The New Silk Roads aimed at strengthening the economic trade and financial links within the Euro-Asian continent. More specifically, they must also allow – and they already allow – a diversification of China's sources of oil and gas energy supplies via pipelines from Central Asia and Siberia, for the most part. China seeks to circumvent shipping lines and more particularly to avoid, as much as possible, the strong dependence on the Strait of Malacca, between the Malay Peninsula and the Indonesian island of Sumatra, which is under the control of the US Navy. For the record, China's net oil imports rose from 3.3 million barrels a day in 2007 to 8.4 million barrels in 2017. China's energy dependence has therefore increased sharply over the last decade, and consequently is now one of the most significant points of fragility likely to slow down its rise in power.

¹⁶ Robert Lighthizer is the US State Trade Representative since 2017.

¹⁷ Mitchell T. 2018. Trade Wars: China Fears an Emerging United Front. *Financial Times*. 11 September.

It is in this context that we must understand the collateral effects on China resulting from American sanctions against Iran and Venezuela, both of whom are privileged «partners» of China. In fact, following the introduction of these sanctions, there were more than two million fewer barrels/day available on the world market. American foreign policy towards these two producing countries has thus contributed to a strong rise in oil prices, reinforcing the agreements between Saudi Arabia and Russia, and indirectly, favoring US oil and shale gas producers. China appears to be one of the indirect victims of these latest developments. In fact, because the price of oil rose from \$45/barrel in June 2017 to \$85/barrel in October 2018, China's oil bill increased by nearly \$100 billion a year, which reduced its trade surpluses and, consequently, its accumulations of financial assets.

Such a «weapon» is however difficult to use. Indeed a rise of the oil price is not without consequence for the US economy. Though it will boost the activities of domestic shale oil and gas producers, it has also unwanted consequences, pushing inflation expectations up and raising the probability of rates hikes by the FED. Such development could then trigger a sharp correction down in the stock market and put an end to current growth cycle. In this context, the President Trump asked the King Salman of Saudi Arabia to act to counter the rise of the oil price. A few weeks later: «*Russia and Saudi Arabia struck a private deal in September to raise oil output to cool rising prices and informed the United States before a meeting in Algiers with other producers*».¹⁸ After a fall at the end of 2018, the oil price hovered again around 70 Dollars a barrel of Brent in March 2019.

«*Who controls the rimland rules Eurasia, who rules Eurasia controls the destinies of the world*». (Spykman 1942) This key sentence from Nicholas Spykman places the rivalry between the United States and China in its relevant context. The United States, the established hegemonic power of today, want to keep their leadership, China, the rising and challenging power, would like to replace the USA as the hegemonic country.

When Beijing claimed territorial ambitions in the South China Sea, the US answer was to begin a gradual repositioning of naval and air resources around China, the so-called «pivot to Asia». When China announced the Belt and Road Initiative, the previous Obama Administration answered with an attempt to isolate China with free trade partnerships including every major developed country except China.

In a more direct and frontal strategy, many of the actions taken since April 2018 by the new US government aimed clearly at curbing the economic and financial rise of China. The main objective is to reduce the Chinese trade surpluses and therefore drying up the major source of accumulation of financial assets. In the end, the ultimate goal for the United States is to counter the development of China's influence in the world, especially along the new maritime Silk Roads, the «borders» of the Euro-Asian continent, as well as its concurrent rise in military and naval power.

¹⁸ Russia and Saudi Arabia struck a private deal in September to raise oil output to cool rising prices and informed the United States before a meeting in Algiers with other producers <https://www.reuters.com/article/us-russia-saudi-oil-exclusive/exclusive-saudi-arabia-russia-agreed-in-september-to-lift-oil-output> (accessed 18.02.2020)

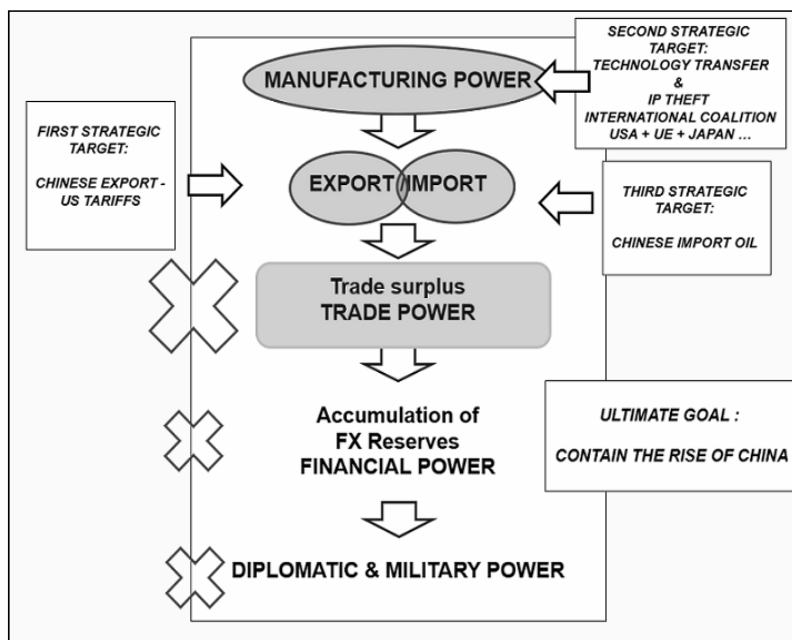


Fig. 2. US strategic target: contain the rise of China.

Source: compiled by the author.

The geostrategic struggles between the United States and China inserts into what Fernand Braudel called the history of the *longue durée* (English: the long term). This expression comes from the French Annales School to designate their approach to the study of history that gives priority to long-term historical structures over «events» history. In this context, the current hegemonic struggles cannot be limited to ongoing trade negotiations, whatever their short-term outcomes. Referring to Braudel, it cannot be expected that the United States, country at the center of the world-economy, would give up their privileges at international level and that US dominant groups will agree to play the game and hand over to someone else?

The outcome of this hegemonic struggle may however depends more on China than on the United States. Indeed, three Damocles swords hang over the future course of the Chinese economy and threaten to slow the rise of China:

- A growing energy dependence from oil and gas imports from abroad
- An unprecedented rise of debts that contributes to growing potential financial vulnerabilities that could threaten the long-term health of the Chinese economy, particularly in relation with the corporate sector debt.
- In addition, last but not least, a major demographic issue: how the Chinese economies will cope with and adapt to low birth rates, an aging population and little to no growth in the working age population.

A slowing population growth could make the other headwinds facing China harder to manage, energy dependence and debt trap. In other words, the Chinese economic growth is going to slow down in the 2020ies, with high risks of mounting social

tensions when one billion people are still queuing up with the hope of joining the middle-class. In this context, the US trade war may take its toll. Indeed, it could prove to be a determining external shock, because it hits an already weakened economic and financial structure. Today's US Administration is bound to have contemplated such a hypothesis.

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Борьба за власть между Китаем и Соединёнными Штатами: уроки истории

Л. Эсташи

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Бизнес-школа KEDGE, Франция

Аннотация: Фернан Бродель, историк экономики, дал ключ к пониманию борьбы за власть, происходящей сегодня между США и Китаем: «Точно так же, как страна, находящаяся в центре мировой экономики, вряд ли может отказаться от своих привилегий на международном уровне, как можно надеяться, что доминирующие группы, которые объединяют капитал и государственную власть и которые уверены в международной поддержке, согласятся играть в эту игру и передадут её кому-то другому?» Другими словами, правящие круги в Соединённых Штатах, гегемонистская сила сегодня, хотят сохранить своё лидерство. Китай, растущая и сложная держава, хотел бы заменить США в качестве страны-гегемона: в этом контексте должна быть проанализирована торговая война, начавшаяся в 2018 г. В статье будут рассмотрены последние события этой гегемонистской борьбы: в рамках американского истеблишмента Пентагон и Министерство торговли США восстановили контроль над «Уолл-стрит», что привело к созданию обновленной версии военно-промышленного комплекса США, а Китай заменил СССР в новой холодной войне. С обеих сторон разрабатываются комплексные стратегии, включающие производственные, технологические, торговые, финансовые, дипломатические и военные вопросы. Ссылаясь на этот геоэкономический ключ для чтения, ряд действий, предпринятых правительством США с 2018 г., направлен, в частности, на

проверку растущей экономической и финансовой мощи Китая. Для Соединённых Штатов речь идёт о том, чтобы бросить вызов развитию влияния Китая в мире, в частности вдоль новых морских Шёлковых Путей.

Ключевые слова: геополитика, международная торговля, инициатива «Один пояс и один путь».

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