

Trump's Protectionism and China's Emergence as a World Economic Power

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US Presidents, European leaders and their academic spokespeople have attributed China's growing market shares, trade surpluses and technological power to its "theft" of western technology, "unfair" or non-reciprocal trade and restrictive investment practices. President Trump has launched a 'trade war', - raising stiff tariffs, especially targeting Chinese exports - designed to pursue a protectionist economic regime.

The China-bashers of the western world ignore the developmental experiences of the past two hundred and fifty years, starting with the post-revolutionary United States policy of protecting 'infant industries'.

In this essay we will proceed to criticize the model underlying the current western attack on China. We will then turn to outlining the experience of countries which overcame backwardness in the course of successfully industrializing their economies.

Development in Historical Perspective

Western ideologists claimed that 'backward economies' should follow a development path originally established by successful countries, namely the UK.

They argued that 'stages of development' begin by embracing liberal free market policies, specializing in their 'comparative advantages', namely exporting raw materials. Economic 'modernization' would lead, stage by stage to a mature high consumption society.

The advocates of the liberal stage theory dominated the economic departments of major US universities and served as the planning strategy advocated by US policy makers.

Early on, dissenting economic historians pointed out serious anomalies. For example the 'early developers' like the UK secured trade advantages, products of a world-wide empire which forced colonies to export raw materials under unfavorable terms of trade, an advantage which 'later countries' lacked.

Secondly the post-revolutionary US led by Treasury Secretary Alexander Hamilton successfully promoted protectionist industrial policies to protect US "infant industries" from the established UK Empire. The US civil war was fought precisely to prevent US plantation owners from linking their exports to British liberal free traders and manufacturers.

In the mid-19th and early 20th century, developing countries like Germany, Japan and Soviet Russia rejected the ideology of free trade and open markets in favor of state-centered protected industrialization. They succeeded in overcoming backwardness, competing and overtaking the 'early developers' like the UK.

In the post-World War 2 period, after unsuccessful attempts to follow the 'western free market' model, South Korea, Taiwan and Malaysia successfully pursued statist, protectionist export models of development.

Regions and countries which followed western free-market policies specializing in primary goods exports like Latin America, Africa, the Middle East and the Philippines failed to overcome stagnation and backwardness.

A leading economic historian Alexander Gerschenkron argued that economic backwardness provided emerging countries with certain strategic advantages which involved systematic substitution of imports by domestic industries leading to dynamic growth and subsequently competitive export strategies. (Economic Backwardness in Historical Perspective: A Book of Essays)

The successful late developing countries borrowed and acquired the latest productive techniques while the early developed industrializer remained with the existing outmoded methods of production. In other words, the developing countries, guided by the state, 'jumped' stages of growth and surpassed their competitors.

China is a superb example of Gerschenkron's model. Through state intervention, it overcame the constraints imposed by the monopoly controls of existing imperial countries and rapidly advanced through borrowing the most advanced technology and innovations and then moved on to become the most active filer of advanced patents in the world. In 2017 China surpassed the US filing 225 patents in 2017 while the US lagged behind with 91 (FT 3/16/18 p. 13).

An excellent example of China's advances in technological innovation is the Huawei Group, which spent \$13.8 billion on research and development in 2017 and plans to increase its annual R&D budget to \$20 billion a year. Chinese companies will lead standard setting in next-generation technologies, including networking (FT 3/31/18 p 12). Washington's resort to excluding China from US markets has nothing to do with China 'stealing' US patents and secrets and everything to do with Huawei's R&D spending directed at obtaining talent, technology, equipment and international partnerships. The White House's protectionist Sinophobia is driven by its fear of Chinese advances in fifth generation high-speed data networks, which are undermining the US ability to compete in cutting edge technology.

China's competitive excellence was the result of the state's systematic substitution of advanced technology, which allowed the economy to gradually liberalize and out-compete the US in global and domestic markets.

China has followed and exceeded the example of earlier late developing countries (Germany and Japan). It combined advanced industrial export growth as the leading sector with a relatively backward agricultural sector providing cheap labor and low-cost foodstuffs.

China is now moving up the development ladder, deepening its domestic market, advancing its high technology sector and gradually reducing the importance of the low value consumer and rust belt industries.

Cry-Baby Economies Revert to Protectionism

The US failure to compete with China and its resulting trade deficits are a result of its

inability to incorporate new technologies, apply them to domestic civilian production, increasing income and upgrading and incorporating the labor force into competitive sectors which could defend the domestic market.

The state has surrendered its leading role to the financial and military elites which eroded US industrial competitiveness. Moreover, unlike China the state has failed to provide leadership in identifying priority targets compatible with intensified competition from China.

While China exports economic products, the US exports arms and wars. The US has a surplus of arms exports and a growing commercial deficit.

China has multi-billion-dollar infrastructure investments in over fifty countries that enhance trade surplus. The US has multi-billion-dollar expenditures in over 800 overseas military bases.

Conclusion

US charges that China has emerged as a world-economic power by unfair trade and theft of US technology ignores the entire history of all late developing countries, beginning with the US rise and eclipse of the UK during the 19th century.

The US attempt to turn back the clock to an earlier stage of protectionism will not raise US competitiveness nor increase its share of the domestic market.

US protectionism simply will result in higher prices, unskilled labor, war debts and financial monopolies. A US “trade war” will simply allow the Chinese state to divert trade from the US to other markets and re-direct its investments toward deepening its domestic economy, and increasing ties with Russia , Asia, Africa, Latin America and Oceania.

The US ‘blame game’ with China is misplaced. Instead it should re-examine its reliance on a laissez faire economy with neither plan nor reason. Its resort to tariffs will increase costs without raising income and improving innovation.

Current US protectionism began ‘still born’. The White House has already downgraded its tariff which targeted competitors. Moreover its \$60-billion-dollar tariff on China affects less than 3% of its exports.

Instead of seeking to blame outside competitors like China it would be wiser to learn from its experience and absorb its technological advances and its strategic investments in infrastructure and domestic consumption. Until the US reduces its military spending by two thirds, and subordinates its finance sector to industry and domestic households it will continue to fall behind China.

Instead of returning to the strategy of backward countries relying on protecting infantilized industries, the US should accept its responsibilities to compete through state directed development linked to upgrading its labor force, raising skills and expanding social welfare.

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