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## OPINION

# This Year of Living Dangerously

By Jomo Kwame Sundaram and Anis Chowdhury

**KUALA LUMPUR and SYDNEY, Jun 2 2020 (IPS)** - Indonesia's founding President Sukarno delivered his annual Independence or National Day address on 17 August 1964 anticipating the forthcoming year as *Tahun vivere pericoloso*, the 'year of living dangerously'. 2020 may well be the world's turn, and not only due to the obvious Covid-19 threat to the world.



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### US as number one

With the collapse of the Soviet Union and the end of the Cold War, the US became the world's sole superpower. Many argue that after abandoning its pre-Second World War isolationism to become the post-war hegemon, the US has needed threats to justify ever rising military spending for the US 'military-industrial complex', as President (General) Dwight D. Eisenhower warned.

The more recent rise of US President Donald Trump probably reflects these two seemingly contradictory claims, both the re-assertion of post-Cold War dominance as well as jingoist paranoia about American decline due to neoliberal globalization.

After George W Bush saw God in the eyes of Vladimir Putin, the Obama administration reinstated Russia as the main US enemy threat, not particularly credible after its collapse during Boris Yeltsin's first presidency, reducing the economy by half and lowering life expectancy by more than five years in less than half a decade!

Nevertheless, in the last three years, the US Democratic Party establishment has tried, in vain, to use 'Russiagate' to discredit President Trump for trying to 'normalize' relations with Russia.

### Making America great again?

Trump's populist jingoism has multiple foreign enemies. Even though Japan, Korea, Germany, Canada and Mexico account for much of the large US trade deficit, it is easily blamed on China, the familiar source of most cheap consumer goods to the public.

The US trade deficit with China grew rapidly from the end of the 20th century, as US transnational corporations (TNCs) 'off-shored' production to China, reducing labour costs for more profits. With living costs thus lowered, consumers in the North did not really complain until job losses and lower real incomes eroded employees' wellbeing and self-esteem.

The earlier US preoccupation with intellectual property probably accelerated China's fast-growing technological capabilities, epitomized by Huawei's 5G edge, recently the target of a largely unsuccessful Washington effort to mobilize allied support against its adoption.

US TNCs remain divided over Trump's increasingly belligerent xenophobia against a wide range of security and economic threats from China, real and fictitious. Thus, Trump now blames China for Covid-19, despite praising its response in January after securing a favourable trade deal to reduce earlier US-China tensions following his moves against Huawei.

China's emergence as the principal US threat is especially urgent as Trump seeks re-election after mishandling Covid-19 contagion. China's increasing willingness to stand up to him may thus help Trump secure re-election, as will protests against African-American deaths at the hands of the police.

### Presidential powers ripe for abuse

The Trump administration has been considering punitive measures, including outright confiscation of China's assets in the US. The 1977 International Emergency Economic Powers Act (IEEPA) gives POTUS the right to do almost anything with any property of a foreign country posing an "unusual and extraordinary threat".

In the past 40 years, the US has invoked the Act 58 times for supposed emergencies, most lasting more than a decade. Currently, there are 31 ongoing IEEPA declarations, including the longest-running emergency, the Iran hostage crisis declared by President Carter in 1979.

Trump invoked the act last year to stop US companies from investing in China. On 1 May, Trump used the IEEPA to stop power-grid equipment imports from any 'foreign adversary'.

Outright default on sovereign debt, including over a trillion dollars of US Treasury (T) bonds held by China, is not only prohibited by the US Constitution, but would also greatly disrupt the US\$18 trillion US T-bonds market. This would be reckless as the US needs to borrow heavily after Trump's huge post-election tax cuts.

While the US cannot simply refuse to pay all its debt, it could try to target China, e.g., by seizing or freezing its assets, or by stopping banks from paying to ostensibly Chinese government accounts.

### China not helpless

China could circumvent attempts to make it pay by reneging on US debt obligations to China by selling T-bonds on the international market. China also has several other options for retaliation. For example, if the US does not respect the laws of other countries, or international law, why should China defer to US laws on commercial contracts, patents, brands or even nationalization?

Many US TNC production facilities are located in China, a preferred location for offshoring production until recently. Of course, POTUS could retaliate against Chinese assets in the US, but it is not clear who would be worse off following rounds of mutual retaliation.

Of course, no one, except the most naïve, should expect the US to 'play fair' regardless of its rhetoric. The US has already blacklisted Huawei and tried to coerce NATO and other allies to reject it.

This has, in turn, inadvertently adversely affected US semiconductor corporations selling chips to Huawei. Washington's actions are seen by many TNCs, foreign and American, as disrupting global manufacturing supply chains and interdependence, enabled by previous administrations.



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Foreign investments, technologies and training have undoubtedly helped enhance China's industrial capacities. However, Chinese technological capabilities have also been developed by its own entrepreneurs, producing not only for export, but increasingly also for its own large consumer market.

After China was forced to appreciate its currency from around a decade and a half ago, and its labour surplus declined, its authorities greatly expanded its domestic market by enabling real wage rates and working conditions to improve significantly.

#### **Success' high costs**

And if 'weaponizing' Chinese ownership of US government debt proves 'successful', others will be more cautious in buying US T-bonds, undermining the very market which has enabled easy and cheap US access to foreign savings. If the US Federal Reserve became the only purchaser of T-bonds, fiat money to finance the deficit could simply be printed, without issuing bonds.

Such weaponization may also affect general willingness to hold other US dollar-denominated assets, thus negatively impacting stock and other financial markets, and undermining the dollar's role as world reserve currency, which would limit its ability to run trade and budget deficits by printing money.

If Trump decides to 'up the ante' against China, all the world will be at great risk. If he gets more politically desperate, he may view the adverse consequences of stepping up measures against China as a small price to pay for its political benefits.

The US-led encirclement of China, except on the Russian and Korean fronts, suggests that a conflict is more likely to be provoked in South or Southeast Asia. Although recent India-China hostilities have captured headlines, Pakistan's long-time alignment to both the US and China suggest that Southeast Asia may become the next theatre for confrontation.

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