Opinion **Trade Secrets**

Trump has limited powers to fight an economic cold war

The new president is not the man to shore up the US 'economic security state'

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Donald Trump and Chinese president Xi Jinping. The incoming US president and those around him are compromised by their penchant for cosying up to China © Bloomberg

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When Donald Trump enters the Oval Office on January 20, he will take control of an apparatus of global economic governance to project American influence abroad more powerful than anything the US has had since the cold war. But despite Joe Biden's efforts to create a counterpart to China's multi-faceted geopolitical force which combines economic, technological, intelligence and military power, the US structure is flawed in coherence and purpose — and Trump himself will prove compromised on multiple fronts in developing and deploying it.

The rise of China prodding the US into action might be compared to the threat of the Soviet Union, which galvanised Washington to eschew its prewar isolationism and create a national security state. But its modern counterpart — what experts Henry Farrell and Abraham Newman call the "economic security state" — has been hampered by poor co-ordination and competing political priorities.

The political unity and speed with which the postwar security state was constructed remains breathtaking. The US army in mid-1939 was smaller than Portugal's; by the end of the second world war it was among the largest. In 1929, Henry Stimson, the US secretary of state, disbanded the US military cryptology agency with the endearingly optimistic assertion that "gentlemen do not read each other's mail", a sentiment resoundingly rejected with the creation of the CIA in 1947 and the National Security resoundingly rejected with the creation of the CIA in 1947 and the National Security Agency in 1952.

Politically, the vestiges of interwar isolationism in the Republican Party were sent into sharp retreat. The Republican former second world war general Dwight Eisenhower, elected president in 1952, enthusiastically pursued an active foreign policy.

By the time the US accelerated the construction of the economic security state in the 2010s — an idea developed by the state department during Barack Obama's administration under the rubric "economic statecraft" — China had become a more formidable economic rival than the stultified Soviet Union. It controlled supply chains for highly sensitive inputs like critical minerals and was establishing leads in multiple high-tech industries. Even had it been desirable, it was not practical to impose trade embargoes on China the way the US had on the USSR and on Soviet satraps like Cuba.

Instead, the US used tools — as Farrell and Newman point out, sometimes repurposing old cold war instruments like the 1950 Defense Production Act — to impose financial sanctions using the dollar payments system, selective trade restrictions and export controls on technology.

Given China's size and the complexity of the modern global economy and financial system, these were always going to require fearsome technocratic expertise, with some government departments much more advanced than others. The US Treasury's Office of Foreign Assets Control, for example, has much more experience and power in imposing financial sanctions than the commerce department's Bureau of Industry and Security does in controlling technology.

The US federal government is a clumsy and multi-headed beast. Those governments with a more nimble economic security capacity, notably Australia, tend to have more centralised power and government departments that work very closely together.

Even to an inexpert eye, the limits of these attempts to create persuasive, or coercive, tools are evident not least because their repeated use can weaken their impact. Financial sanctions have prevented Russian companies dealing in dollars, but they have not stopped Vladimir Putin's war machine in Ukraine. China, Russia and India now trade somewhat more in their own currencies to avoid restrictions.

The Biden administration's "small yard, high fence" strategy on technology controls was a snappy slogan but hard to operationalise. US controls on semiconductor knowhow may have retarded China's chip development but they have also encouraged it to develop its own capacity.

The US has also been distracted from its economic statecraft by more parochial protectionist concerns. Using specious national security justifications to stop allies selling steel and aluminium to the US or taking over US steel companies does not give the impression of a country straining every sinew to deliver a good-faith economic security operation.

Incomplete and flawed though it is, we are probably at the peak of the practice of multi-faceted US economic statecraft. Trump is clearly not the president to consolidate and exercise good judgment in the US's economic security powers, unless you count bizarre initiatives like his threat to use trade or military coercion to seize Greenland from Denmark.

Trump has already mooted replacing the precision targeting of financial sanctions with clumsy trade tariffs. He, and those around him like Elon Musk, are compromised by their predilection for cosying up to China rather than confronting it. His administration will be stuffed with enthusiasts for the cryptocurrencies that can be used to bypass the dollar payments system and weaken its influence.

You can quite easily imagine Trump angrily ordering round after round of financial sanctions which countries increasingly evade or firing off blunderbuss volleys of trade tariffs whose only lasting impact is to further marginalise the US in the global trading system.

This is not the equivalent of the 1950s, and Donald Trump is very definitely no Dwight Eisenhower. A great deal of patient technocratic work has gone into constructing an admittedly imperfect economic security state. It's not terribly pessimistic to imagine that much of it will be undone.