

Why a Trade War?

by: Kang Lu

2025-04-11

On April 2nd, The United States (US) had their Liberation Day, which set out to apply a broad-based 10% tariff rate on all imports destined for the US. For certain countries that have a large trade deficit with the US, they had a higher rate based on a ratio of the trade deficit and the country's export to the US. China ended up with a 34% tariff rate that is additive to the already existing 20% tariff rate for an total effective rate of 54% to all inbound Chinese products to the US.

Between Liberation Day and the day of this writing, a series of tit for tat retaliation actions were carried out by both the US and China, which resulted in 145% and 125% respective import tariffs. These rates effectively represent an embargo of trade between the two countries.

One of the narrative of discontent by the US with the current trade situation with China is that China is practicing unfair trade. China is using excessive manufacturing capacity to produce cheap goods that they are unfairly dumping into the US market causing existential harm to US domestic industries. This extra capacity is due to heavy state subsidies, creating an unfair competitive advantage. Therefore, the US must raise a tariff wall to punish the Chinese unfair practice while protecting their local industry. An example of this is the Electric Vehicles (EV's) industry. There are other arguments such as state based current manipulation that artificially lowers the price of the exported product.

Remember in Star Trek, there is a technology call the Replicator . With this technology, as long as there is enough energy, and the design is known, it can produce any product that you want in an instant. Let us take it a step further, and say the technology can harvest energy from thin air as well. A party who possess this Replicator technology can create an environment of abundance. Isn't this what we all want, an environment of abundance? Is this not the heaven of prosperity that we all wished for when we were kids? If a country has this and offers this technology to the rest of the world, is it bad for the world? I think most people would say no. At least, on the surface.

How will the US react to a competitive country that has the Replicator? Will it ban the Replicator to protect its citizens from unemployment? Will the US ban it so that the owners of the patents of various products are not violated? Will there be a temptation to create artificial scarcity so that the rich can continue to profit?

I have my own bias on how the US will react to this situation based on my observations and interpretations on US actions leading to today's Trade War with China. You can form yours.

Of course China does not have the Replicator. However their ability and motivation of providing low cost products to the rest of the world is in the direction and spirit of the Replicator. One can form an argument on how unfair they are relative to local domestic competition, and it is important to preserve certain

manufacturing capabilities such as for defense and national security, even when it is more expensive and inefficient for domestic production. In the end, it boils down to trust. Even if you do have the Replicator, I do not trust you to share it and its benefits.

So why do we have a trade war? It is not about competitive or comparative advantage or unfair trade practices. It is about a lack of trust and the insecurity that the distrust creates when the competitive party is being more efficient and is willing to share their abundance with you. It is about losing control of your population that this abundance will cause. The abundance is treated like a narcotic and must be banned.

This realization is very sad. This means even when humanity progress to the point where a Replicator is possible, we may not be able to live in harmony because tribalism may still dominate our behaviours due to our untrustworthiness.

I really hope I am wrong.