

China ties: History shows trade can lead to servitude

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China has suspended imports from four Australian abattoirs in an escalation of trade tensions between the two nations. Picture: AP

With China's trade war against Australia escalating, the scene seems distressingly contemporary: a fraying global order, riven by mounting tensions between states; an ascendant, brutally authoritarian power, determined to throw its weight around; and dependent economies which, though formally independent, find their room for manoeuvre increasingly compromised as the rising power uses its economic clout to punish them for stepping out of line.

All that was at the heart of Albert Hirschman's *National Power and the Structure of Foreign Trade*, which the young German refugee, who went on to become an enormously influential economist, published in 1945 while serving in the US Army's Office of Strategic Studies.

Hirschman's primary concern was of course with Nazi Germany. He sought, however, to develop an analytical framework of much broader applicability.

There were, he argued, two channels through which trade could further the "power of coercion which one nation may bring to bear upon other nations". Most directly, trade could, in what he dubbed the "supply effect", allow states to "acquire goods that enhance their military power". But every bit as important was the "influence effect", in which the gains from trade could "spell dependence of the country that receives the gain on the country that bestows it". The "influence effect" was greatest when the smaller state had much more at stake in the trading relationship than the larger state: that is, when curtailing trade flows would cause the smaller state disproportionate harm. What seemed like mutually beneficial exchange could then morph into dominance for one partner and subordination for the other, in an "informal empire" that enhanced the larger state's ability to achieve its strategic objectives.

Appearing in the wake of Germany's defeat, Hirschman's book passed largely unnoticed. However, subsequent historians have shown that its analysis, based mainly on trade data, was far from being abstract speculation.

On the contrary, even before Hitler's rise to power, Germany had started reorienting its economic relations from its traditional partners towards the smaller countries of central and southeastern Europe, which had been devastated by the collapse in agricultural prices that began in the late 1920s. In part, the shift was motivated by balance of payments considerations; but it was also widely understood that Germany, which had continental Europe's largest home market, would have far greater leverage over those countries than it had with the advanced economies.

As Heinrich Brüning, whose chancellorship was a crucial stepping stone in the slide from the Weimar Republic to the Third Reich, put it:

"Germany's strongest weapon in its foreign relations is its vast import market. That is a weapon we must keep sharp."

The coming of the Third Reich only increased the emphasis that weapon received. The regime's 1934 "New Plan", which underpinned the Nazi economic recovery, and even more so Hermann Goring's Four-Year Plan in 1936, linked trade policy to the acquisition and exercise of influence over dependent countries, subordinating economic efficiency to political power.

Nowhere was that clearer than in Hitler's "Four-Year Memorandum" which, in considering Germany's economic relations, declared that "the nation does not live for the economy, economic leaders, or financial theories; rather, they all owe unqualified service to the nation's struggle for self-assertion". The results did not take long to materialise. By combining preferential trade agreements with investments that redirected the target economies to serving the German market, the Nazis reshaped European trade. By 1938, the Balkan economies were heavily dependent on trade with Germany, which had grown in less than a decade from insignificance to 5 per cent of their GDP.

Nor was Germany shy about exploiting the sway that dependence entailed: mingling inducements with frequent and credible threats, it first detached those states from the French and British spheres of influence, then made them into acquiescent neutrals, before finally converting them into more or less willing allies. If it succeeded, it was also because the gains to the dependent economies were so large. With the Nazis' massive infrastructure and rearmament programs soaking up resources, Germany's demand for raw materials boomed, and its terms of trade deteriorated sharply. The dependent economies therefore benefited both from a trebling in their export volumes and from steep increases in prices, allowing them to recover from the Depression exceptionally quickly.

As even the Royal Institute of International Affairs, one of Britain's leading

research institutes, conceded, the fundamental obstacle the UK faced in trying to shore up its alliances was that "at any rate up till the spring of 1939, the countries of South-Eastern Europe on balance have gained, in a material sense" from their ever-deeper entanglement with Germany. But while the dependent economies thrived, the gains were hardly widely distributed, instead flowing mainly to narrow business, political and academic elites. And as well as new-found wealth, which made the region's business leaders staunch defenders of German interests, elites in the dependent economies benefited from Germany's rapidly expanding programs of cultural diplomacy.

Endorsed by Hitler himself in 1937, and spearheaded by Martin Bormann, the powerful head of the Nazi Party chancellery, institutions such as the German Cultural Institute and the Southeast-Europe Society distributed generous grants to cash-starved universities, research centres and journalists in exchange for their willingness to take a "balanced, realistic and responsible" attitude to the Nazi regime.

Academics and prominent intellectuals, such as Mihail Manoilescu in Romania and Milan Stojadinović in Yugoslavia, who were flattered by the treatment they received on frequent trips to the Reich, proved especially supine, excusing the Nazis' anti-Semitism and their incessant rants, harassing and helping to repress anti-German protesters, and fostering the climate of opinion that led so many of their countrymen into the moral cesspit of collaboration. At the same time, as a self-proclaimed "propagandistic state", Germany used its lead in wireless telecommunications to ensure that there was "no escaping the news from Germany", allowing Nazi views to command the region's airwaves.

As war approached, Rosie Goldschmidt Waldeck, who was covering Germany's growing influence in the Balkans for Newsweek, could therefore report that southeast Europe's upper classes were at best "indifferent" to Hitler's crimes, at worst blatantly "pro-Nazi" —

comforting the Reich along the path that led to tens of millions of deaths.

Now Xi Jinping is not Hitler, and China is not Nazi Germany. Nor is ours a struggling peasant economy, as Germany's client states were. Moreover, the world economic and political order, which had fallen apart in the 1930s, is still, however perilously, in place. Yet Hirschman's analysis is as valid today as it was 75 years ago. And this too remains true: history teaches, but it has no pupils. As Australians contemplate the future, they should, for once, remember the past.