

China tries to teach Trump economics

By Paul Krugman

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If you want to understand the developing trade war with China, the first thing you need to realize is that nothing Donald Trump is doing makes sense. His views on trade are incoherent. His demands are incomprehensible. And he vastly overrates his ability to inflict damage on China while underrating the damage China can do in return.

The second thing you need to realize is that China's response so far has been fairly modest and measured, at least considering the situation. The U.S. has implemented or announced tariffs on virtually everything China sells here, with average tariff rates not seen in generations. The Chinese, by contrast, have yet to deploy anything like the full range of tools at their disposal to offset Trump's actions and hurt his political base.

Why haven't the Chinese gone all out? It looks to me as if they're still trying to teach Trump some economics. What they've been saying through their actions, in effect, is: "You think you can bully us. But you can't. We, on the other hand, can ruin your farmers and crash your stock market. Do you want to reconsider?"

There is, however, no indication that this message is getting through. Instead, every time the Chinese pause and give Trump a chance to rethink, he takes it as vindication and pushes even harder. What this suggests, in turn, is that sooner or later the warning shots will turn into an all-out trade and currency war.

About Trump's views: His incoherence is on view almost every day, but one of his recent tweets was a perfect illustration. Remember, Trump has been complaining nonstop about the strength of the dollar, which he claims puts America at a competitive disadvantage. On Monday he got the Treasury Department to

declare China a currency manipulator, which was true seven or eight years ago but isn't true now. Yet the very next day he wrote triumphantly that "massive amounts of money from China and other parts of the world is pouring into the United States," which he declared "a beautiful thing to see."

Um, what happens when "massive amounts of money" pour into your country? Your currency rises, which is exactly what Trump is complaining about. And if lots of money were flooding out of China, the yuan would be plunging, not experiencing the trivial (2 percent) decline that Treasury condemned.

Oh well. I guess arithmetic is just a hoax perpetrated by the deep state.

Still, even if Trump isn't making sense, will China give in to his demands? The short answer is, "What demands?" Trump mainly seems exercised by China's trade surplus with America, which has multiple causes and isn't really under the Chinese government's control.

Others in his administration seem concerned by China's push into high-technology industries, which could indeed threaten U.S. dominance. But China is both an economic superpower and relatively poor compared with the U.S.; it's grossly unrealistic to imagine that such a country can be bullied into scaling back its technological ambitions.

Which brings us to the question of how much power the U.S. really has in this situation.

America is, of course, a major market for Chinese goods, and China buys relatively little in return, so the direct adverse effect of a tariff war is larger for the Chinese. But it's important to have a sense of scale. China isn't like Mexico, which sends 80 percent of its exports to the United States; the Chinese economy is

less dependent on trade than smaller nations, and less than a fifth of its exports come to America.

So while Trump's tariffs certainly hurt the Chinese, Beijing is fairly well placed to counter their effects. China can pump up domestic spending with monetary and fiscal stimulus; it can boost its exports, to the world at large as well as to America, by letting the yuan fall.

At the same time, China can inflict pain of its own. It can buy its soybeans elsewhere, hurting U.S. farmers. As we saw this week, even a mostly symbolic weakening of the yuan can send U.S. stocks plunging.

And America's ability to counter these moves is hindered by a combination of technical and political factors. The Fed can cut rates, but not very much given how low they are already. We could do a fiscal stimulus, but having rammed through a plutocrat-friendly tax cut in 2017, Trump would have to make real concessions to

Democrats to get anything more — something he probably won't do.

What about a coordinated international response? That's unlikely, both because it's not clear what Trump wants from China and because his general belligerence (not to mention his racism) has left America with almost nobody willing to take its side in global disputes.

So Trump is in a much weaker position than he imagines, and my guess is that China's mini-devaluation of its currency was an attempt to educate him in that reality. But I very much doubt he has learned anything. His administration has been steadily hemorrhaging people who know anything about economics, and reports indicate that Trump isn't even listening to the band of ignoramuses he has left.

So this trade dispute will probably get much worse before it gets better.