

Maybe Trump Was Right about Trade War with China



New York, Feb 17, 2019 (IssueWire.com) - In early March of last year president Trump famously said Trade Wars are Good and Easy to Win. This was met with almost universal derision from all manner of economists and pundits. The US economy and consumer would suffer along with a wide range of businesses was the usual outcry. No one wins was the standard refrain. Well now, let us step back a minute and see what is really happening. Of course, the Chinese economy has its own self inflicted and homegrown problems and the recent bad economic news that is being attributed to the Tariffs imposed by the U. S. may be overstated. But then again maybe its not.

It is impossible to understand and predict what will happen without appreciating the long term festering issues best exemplified by the legal case surrounding Huawei, Chinas largest and most important international technology company. U. S. trade negotiators have said that this case is, totally unrelated to negotiations (as they should do) on trade, but it is impossible to ignore the underlying issues of the case. Recently the Director of the FBI testified before Congress that the role of Chinese companies and the goals of the government are one and the same. He said especially the lines between lawful behavior and fair competition and lying and hacking and cheating and stealing. WOW, good thing he isn't heading up trade negotiations!

While not widely popular across party lines, Trumps trade policy towards China, is not a divisive issue politically. He can talk about fabulous meetings and great progress without removing all of the tariffs and he can let it drag on for many months with one step forward and one step back. This approach has led to uncertainty about investment and business expansion across a wide range of industries in China. More and more international companies are implementing supply chain adjustments which is a CEOs diplomatic way of saying pulling out of China. How bad it really is affecting Chinas GDP growth rate, given their unreliable statistics, is becoming of less importance than the real impact on confidence both within and outside China. A Command Economy can force large areas of a business to spend money when they dont want to but they cannot force consumers to feel great and spend money. Economic

distress and fear cannot be hidden and repressed very well.

It will be very interesting to see what is really happening to growth inside China in the coming months. The real truth eventually comes out and if it is, as we suspect, a real significant downturn in China while the U.S. economy is doing relatively fine then Trump can claim an ongoing victory. It may be that bad planning, overbuilt construction, bad loans and ghost towns are coincidentally coming home to roost at the same time as Trump's tariffs but it won't matter much. The same pundits that claimed nobody would win a trade war will be calling Trump the victor as China reluctantly and slowly falls into line with U.S. trade demands. Lucky Trump. Again.

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Source : Bradshaw Management

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