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Crouching Donald, Paper Tiger

Barry Eichengreen | University of California, Berkeley | 10 April 2017

Donald Trump's comments about China during the US presidential campaign didn't exactly bolster high hopes for Sino-American relations once he was elected. Trump denounced China for "taking our jobs" and "[stealing] hundreds of billions of dollars in our intellectual property". He repeatedly accused China of manipulating its currency. The low point came last May, when Trump warned his followers that "We can't continue to allow China to rape our country. That's what they're doing. It's the greatest theft in the history of the world."

Given such inflammatory rhetoric, many people understandably felt considerable trepidation in the run-up to Trump's summit with Chinese President Xi Jinping at Trump's Mar-a-Lago estate. It wasn't hard to imagine a refused handshake or the presentation of a bill for payment, like the one Trump reportedly gave visiting German Chancellor Angela Merkel (a report denied by the White House).

Instead, Trump treated Xi with considerable deference. One explanation is that he was preoccupied by the impending US missile strike on Syria. Another is that it is easier to command Trump's respect when you have an aircraft carrier, 3,000 military planes, and 1.6 million ground troops. But the best explanation is surely that the US depends too heavily on China, economically and politically, for even a president as diplomatically reckless as Trump to spark a conflict.

Economically, the US and China are too closely interlinked through global supply chains to be able to cut ties. US companies not only compete with Chinese imports, they also rely heavily on them. Retailers like Target and Walmart rely on Chinese imports to stock their shelves. Electronics companies like Apple rely on workers in China to assemble their products. And the idea that the US could easily source the same inputs from other countries is fanciful. Put simply, while Trump has repeatedly observed that China sells more to the US than the US sells to China, starting a trade war in an effort to correct this supposed imbalance would still cost American business very dearly.

And if there is one constituency that Trump listens to consistently, it is business. Aggressive US trade sanctions against China would send equity prices plunging, alarming a US president who measures his economic policy success by the level of the stock market. The 1930 Smoot-Hawley Tariff didn't cause the Great Crash, much less the Great Depression. But that tariff and the foreign retaliation it elicited sent the stock market down still further, which was hardly helpful.

Politically, too, the US cannot afford serious conflict with China given the growing crisis on the Korean Peninsula, which North Korean provocations and Trump's incautious reaction have brought to the fore. Posturing aside, Trump will be forced to recognise that military force is not an option. A surgical strike against North Korea's nuclear facilities would most likely not succeed, while a massive attack would provoke devastating retaliation against South Korea.

The only feasible strategy is tighter sanctions and political pressure to bring North Korea to the negotiating table. And the only party capable of tightening sanctions and applying effective political pressure is China, whose goodwill the US now regards as essential.

Trump's about-face on China is of a piece with his "recalibration" on repealing Obamacare, reforming the tax code, organising a large-scale infrastructure-investment initiative, and renegotiating the North American Free Trade Agreement (NAFTA). In each case, his glib campaign slogans have run up against the hard reality of actually making policy.

In all of these areas, Trump is learning that he is hemmed in by the same constraints that led Barack Obama's administration to make the choices it did. As with Obama, the agent of change is turning out to be an agent of continuity.

The US has some legitimate economic grievances against China – for example, over its treatment of American intellectual property and US beef and grain exports. But the appropriate venue for adjudicating such disputes is the World Trade Organisation. That is where Trump's administration, like Obama's, is likely to end up.

The Trump administration could yet label China a currency manipulator, rebuking it for keeping its exchange rate artificially low. It could do so either now or later in the year. But that accusation would be contrary to the facts. The renminbi is now fairly valued and China has actually been intervening to support the exchange rate, not weaken it further. Inside the Washington, DC beltway, however, facts are no longer what they once were. Singling out China for manipulation might still appeal to a president who values symbolism as much as Trump does.

But little of consequence would follow. The US depends too much on Chinese cooperation to risk overly antagonising China's leaders. Labeling China a currency manipulator would be the economic-policy equivalent of launching 59 cruise missiles at an isolated air base in Syria. It would be much sound and fury, signifying nothing.

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