

# 'Everybody loses': What an economic war between US and China would look like

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HARES



*Wall St. concerned over Trump's China warning*

Donald Trump's Twitter-fueled provocations of China are underscoring just how much the world's two biggest economies have to lose if tensions were to escalate.

Trump risked angering China on Friday by **taking a call from Taiwan's President Tsai Ing-wen** — a first for a U.S. president or president-elect with any Taiwan leader since 1979. For decades, the United States has not recognized Taiwan as a separate state from mainland China.

China's foreign ministry lodged a formal diplomatic complaint with Washington, pointing out that it sees U.S. recognition of its "One China" policy as a core of the two countries' relations, Reuters reported Saturday. Then Trump provoked China again on Sunday, using Twitter to hammer the country for devaluing its currency, to claim China "heavily" and unfairly taxes U.S. exports, and to slam it for military buildup in the South China Sea.



*Trump shakes up China diplomacy*

The U.S. and China have enormous economic entanglements, and both could be seriously hurt if tensions were to escalate into economic retribution. Neither of the trading partners has clear advantage over the other, and any policy designed to hit the other country's economy may only lead to "mutual assured destruction," analyst Robert Manning said.

"I think everybody loses. And the global economy is even worse when you have the two biggest economies going after one another," said Manning, a senior fellow at the Atlantic Council's Brent Scowcroft Center on International Security.

### Where China has leverage

**China exported about \$482 billion in goods to the U.S. last year, more than any other country exported to the United States, according to the Office of the United States Trade Representative. The U.S. exported about \$116 billion in goods to China in 2015, putting its goods trade deficit \$366 billion.**

**Many U.S. companies rely on China's low-cost industrial workers to make their merchandise, and U.S. consumers have become accustomed to cheap Chinese imports sold by big big-box retailers and others.**

**China also holds more U.S. debt than any other country, about \$1.2 trillion in Treasury securities as of the end of September, according to the Treasury Department. When the United States needs to borrow — which is more or less perpetually — it very often borrows from China.**

**While Trump has directed free-wheeling rhetoric toward China, Beijing's relatively "cautious" response may signal that it has decided to punish Taiwan for the Taipei-to-New York phone call, while trying to "educate" Trump on U.S.-China relations, said Rodger Baker, vice president of strategic analysis at Stratfor.**

#### **Where the United States has leverage**

**Still, China was one of the biggest targets of Trump's campaign rhetoric; he repeatedly argued that the Asian giant took American jobs and depressed wages in working-class America. Trump may not soften his pronouncements, and that could increase tension, even if he does not immediately take any drastic economic policy steps toward China, Baker added.**

**Trump's transition team did not immediately respond to a request for comment. But to the extent that his past rhetoric can be taken at face value, he clearly believes that the United States has strong economic pressure it can bring to bear against China.**

**On the campaign trail, Trump repeatedly accused China of **manipulating its currency** in order to give its exports an advantage over U.S.-made goods, and he threatened to slap a tariff of up to 45 percent on Chinese imports. That would obviously be a problem for China given that the United States is a critical export market.**

**Many forms of economic punishment would have drawbacks for either side, Manning and Baker said. U.S. impediments to Chinese trade would hurt China, but U.S. companies — and farmers — would likely also lose access to China's growing middle class.**

**"There are implications of cutting trade and economic activity that hurt U.S. businesses and business operations," Baker said.**

**The threatened tariffs could have the same effect, as many U.S. businesses have built supply chains that stretch around the globe, including into China, Manning added.**

**China has the "nuclear option" of dumping its U.S. Treasurys. Such a move could roil financial markets in the U.S. by causing shifts in the dollar or interest rates.**

**But even a move that drastic would not present a clear advantage to China, Manning said. Investors — including many of the world's sovereign governments — buy U.S. debt because it is a safe investment. For China to put that money elsewhere, such as into an increasingly unstable euro zone, would create new problems for Beijing.**

**Regardless, Baker said he expects sustained U.S. resistance to China in some key areas, such as impeding Chinese investors from buying property and technology in the United States.**