The US Trade War with China

As of March 2018, the global hot topic is a trade war rather than the FOMC. At the end of February, Trump announced that a prohibitive tariff would be collected on steel and aluminum imported to the U.S., which shocked the globe.

Later, Trump declared that various countries would be exempted, while the safeguard tariffs of the China-export commodities to be collected could reach US$ 50 billion, showing the rest of the world that a U.S. trade war with China is at hand. The penalty tariff on steel and aluminum is just a way of forcing the countries to take sides in this trade war. The major stock indices dropped immediately to the bottom at the end of February. According to Trump's scenario, the U.S. stock indices are on the verge of a bear market.

Market Turmoil makes Most Investors Wait and See

In response to Trump's act, China declared to collect retaliatory duties on U.S.-export commodities in the amount of US$ 3 billion. This market turmoil forced officials to pacify the trade war, which has calmed the market a bit. One week later, China unexpectedly declared to collect the same duties, with the enactment date depending on when the US retaliatory tariff will be enacted.

This shocked the consensus on one side and convinced the public of the moderate state of both powers on the other side. The stock indices are volatile due to the trade war at hand. The DJIA index volatility is over 500 points every day.

No Trade War in the Economic Aspect

Currently, the trade war depends on how Trump will deliberate in the end. It goes without saying that protectionism was abandoned by the world decades ago.
In our opinion, the protectionism now being adopted by the U.S. is a consequence of two causes: One is that the U.S. accuses China of protectionism first, as seen in the central restrictions on foreign capital investment in China and subsidies for businesses, which have led to trade losses due to inequality for the U.S. The other is that China has plagiarized the U.S.’s high-end technologies more than once. However, the proportional authenticity of the charges does not matter much since they are merely economic accusations. The economic accusations are sensible as the only way to gain profits in the end no matter how bad the situation is.

In fact, China has never minded further opening the market for the U.S. in order to pacify Trump’s fury. The ultimate outcome of the talks between both powers will be whether China or the U.S. enjoys more profits. However, a failed trade war means risks influenced by the global void.

The China Threat Theory under incubation

Therefore, the major market regained vitality after hitting rock bottom at the end of February, despite the huge trade struggles continuing between both powers. The U.S. 10-year yield has returned to 2.8%, a relatively slight reaction, indicating that the risk tolerance has failed to change too much due to the upcoming trade war. Therefore, most investors believe that the talks will reveal the final outcome.

However, besides the economic accusations, how much are politics involved in this trade war? Actually, the China Threat Theory is more and more convincing as China continues to have an increasing impact on international economics and politics every day. With Trump’s presidency initiating U.S.-ism, the China Threat Theory has become a useful statement. Recently, China has become a headline or the at least focus of articles in such western magazines as The Economist.

China and the U.S. are currently ranked as the top two economies in the world. Over the past 30 years, China has managed to catch up to the U.S. in the economic, military, financial, and trade fields. For example, the crude oil price calculated by USD has always been a firm footstone for USD hegemony. Nevertheless, Shanghai has launched the crude oil future center calculated by CNY in pursuit of calculating the crude oil price in a non-USD currency, which could definitely agitate US citizens in terms of challenging USD hegemony.
In fact, the U.S. is accustomed to purposively suppressing certain emerging countries, the nearest example being Japan in the 1990s.

**The Trade War is a Starter if Politics Surmount Economics**

It is undeniably nicer to see China and the U.S. cooperating together than confronting one another in the economic aspect. However, the hawk-dominant populism in the U.S. has promoted the political value of the China Threat Theory, and it remains uncertain whether the foregoing belief surpasses the economic considerations, but this concern cannot be overlooked.

Once the China Threat Theory is truly the main tone adopted by the White House, we believe that the trade war is just the start, with the main dish being the CNY currency.