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The Waiting Game

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The US is the world's largest economy (GDP of US$ 18 trillion). Its exports are US$1.6 trillion, ranked as number three. But, it imports more: US$ 2.3 trillion: number one. America's annual trade deficit with China has been around US$ 366 billion, one billion-a-day.

The US consumers at their Walmart and Target stores guzzle China's consumer goods to the delight of the Communist rulers. China successfully adopted the capitalist mode of amassing wealth, emerging not long ago as the world's second largest economy. China is the world's number one exporter: at US$ 2.2 trillion, amounting to 12% of world exports.

Did not Deng Xiaoping say: "Poverty is not socialism; to be rich is glorious."

Exciting US elections

Communist China's politics under one party government are predictable. Nothing exciting!

But, uncertainties and political fireworks now seen on US TV Channels, televised all over globe, are a great entertainment to all. We all know there are no big differences between the two parties. If one party is for freedom, the other party wants more freedom, with no controls on acquiring guns. If one party is for enterprise, the other party wants rugged individualism!

They are more like Tweedledum and Tweedledee, the fictional characters from *Alice in the Wonderland.*

The US economy would grow regardless of party differences.

It grew under both Democrat and Republican administrations. They were not just Presidents of US. They were world leaders of great influence: Democrat Presidents, Franklin Roosevelt and John Kennedy; and the Republican Abraham Lincoln and Ronald Reagan. They supported world economic growth, as long as the methods were not socialistic. The great Chinese communist theoretician Deng reminds us again:

“It doesn't matter if a cat is black or white, so long as it catches mice”.

With elections once in four years in the US, the world economy always gets going. Only when the US economy got into bad patches just as the 2008 financial crisis, the world had to grow slow. Even then, there was no problem during last eight years, as the US central bank pumped in money, through quantitative easing. The US investors took their funds out of America to emerging economies and the rest of the world seeking higher return.

The world was not let down!

Now the world is worried!

Worried, because the two parties are forging one common agenda!

Traditionally, the Republicans are in favour of free trade. On the other hand, Democrats lean upon labour unions for political support. Labour unions oppose free trade as imports take away their jobs.

With the BREXIT vote in the UK which enabled Britain to vote itself out of a single European market, the two parties in America want to get out of free trade mania.

President Obama tried to get the Trans-Pacific Partnership (TPP), a recently negotiated trade deal between the U.S. and 11 Asia-Pacific nations, ratified by the US Congress. The legislative approval of TPP looks impossible.

Republican candidate Donald Trump has already taken the stand that he would oppose TPP.

He has been accusing China of currency manipulation. He announced he would impose a 35% tariff on imported cars and parts produced by Ford plants in Mexico and a 45% tariff on imports from China. Republican senators have withdrawn support to TPP and are now seeking the working-class white men’s support.

Democrat candidate Hillary Clinton, at best a lukewarm an enthusiast of free trade, now knows well why she lost the Michigan primary to her opponent, Senator Sanders. He rallied voters against “disastrous trade deals”.

Sanders’ supporters want Mrs. Clinton to maintain that trade was killing American jobs.

So where is the world heading?

If Clinton and Trump take an identical stand, world trade would shrink.

If US impose the tariffs, no doubt price level increase and domestic production would rise and new jobs will be created. Prof Barry Eichengreen writes in his latest syndicated column that such restrictions on imports would be welcomed against the current background of no job growth in the midst of liquidity trap and low interest rate.

But if China and others retaliate with their own tariffs, US exports will be flattened.

The total effect would be a decline in the volume of world trade. The sufferers will be small nations.

Already, Fiji and other Pacific islands are experiencing slowdown in their commodity exports. Further, decrease in world trade volume would render smaller trade surpluses for richer nations. They will not be able maintain previous high levels of capital outflows to countries with capital shortages.
With decreased economic activities, tourism would also decline

Last word

Professor Eichengreen writes: "I want to be clear: there are other, better ways of raising prices and stimulating economic activity. The obvious alternative to import tariffs is plain-vanilla fiscal policy – tax cuts and increases in public spending".

His final advice to the potential world leader, who has to be a diplomat as well, is:

"Tariff protection may not be a bad macroeconomic policy in a liquidity trap. But this doesn't make it good foreign policy – for Trump or anyone else."

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