



Is Trump About to Trigger a Global Trade War?

Description

President-elect Donald Trump said a lot of crazy things during the divisive election campaign, but few were crazier than his suggestion of launching a trade war with China.

The Donald accused China of manipulating the yuan to make its exports more expensive and give it a favourable trading advantage.

He threatened to fight back by slapping a 45% tariff on Chinese imports to the U.S. and officially named the country a currency manipulator.

He has also talked of a 35% import tariff on Mexico as well as smashing global trade agreements and even pulling out of the World Trade Organisation.

These aren't just crazy ideas; they could trigger global economic havoc if implemented. So how should investors respond?

Manipulate that!

First, Trump is probably wrong to accuse China of currency manipulation.

It may have fallen to an eight-year low against the dollar, but that is partly a consequence of current dollar strength; it is actually pretty strong against most other currencies right now.

The yuan has massively appreciated since 2005, so the currency manipulation accusation will prove hard to stick.

Ironically, Trump himself is partly the reason why the dollar is currently so strong, as markets expect his \$1 trillion stimulus package to push up inflation and U.S. interest rates.

War is stupid

There is another reason why Trump would be unlikely to trigger a global trade war: it might undermine his campaign promise to “make America great again.”

U.S. jobs haven’t just been stolen by the Chinese and Mexicans; they have also been lost to technological change and improved productivity.

A trade war won’t reverse that. Instead, it will push up prices and hit the poorest voters hardest of all—many of whom voted Trump.

Also, China can fight back with retaliatory tariffs on autos, iPhones, soybean and maize imports, or it can replace orders for **Boeing** planes with French-owned Airbus.

Some may question Trump’s ability as a businessman, but surely he isn’t that daft?

Recession rhetoric

The Peterson Institute of Economics has estimated that Trump’s various trade policies, if enacted, could cost four million U.S. jobs and start a recession. I don’t believe he will want to start of his presidency with this.

The more emollient Trump that we have seen since the election is likely to triumph in this respect. He certainly isn’t averse to changing his mind on a whim.

Trump card

That said, President Trump probably has to do something, and the markets will be on high alert to see how far he will go.

We may see a lot of volatility with spikes and dips whenever Trump opens his mouth on the subject of trade and currency manipulation.

In that case, long-term investors should get ready to buy shares at reduced prices, because the rhetoric is unlikely to be as extreme as the reality.

Other Trump policies, such as tax cuts and \$1 trillion infrastructure and military spending, should be far positive for the global economy. He won’t want to risk that by starting needless fights he cannot win, will he?

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