Trump is not a ‘great deal-maker.’ His trade issues with China make that obvious.

Robert J. Samuelson

Donald Trump sold himself to the American public as an expert dealmaker. At the top of his list was a promised trade bargain with China that would boost U.S. exports and remedy some of the more egregious examples of discrimination against American firms.

It isn’t working as planned.

To the contrary: The ensuing trade war between the United States and China is morphing into something bigger and more ominous. It's increasingly not just a trade war but a broader and more dangerous economic battle, with each nation seemingly determined to hurt the other as much as possible.

What triggered the latest confrontation was Trump's recent decision to slap a 10 percent tariff on roughly $300 billion of Chinese exports to the United States; earlier moves imposed a 25 percent tariff on $250 billion of Chinese exports.

The president's actions reflected his frustration with China's unwillingness to overhaul its trade policies. Instead, according to U.S. officials, China refused to buy more U.S. farm goods. American negotiators have also pushed China to stop forcing U.S. firms to relinquish their latest technologies as the cost of investing in China.

China retaliated by having its central bank — the People's Bank of China (PBOC) — devalue the country's currency, the renminbi (RMB). The PBOC had been defending the currency at 6.9 RMB to the dollar; it moved its target to 7 RMB. A cheaper currency would boost China's exports, offsetting some of the effects of Trump's tariffs. The administration reacted by declaring China a "currency manipulator."

Just what happens now is anyone's guess. Start with China's decision to let the RMB go to 7 to the dollar. Ordinarily, this would have been an economic hiccup: a small and not especially important event. Now it has been invested with enormous political significance. Economist Eswar Prasad of Cornell University, a China expert, puts it this way:

"[The RMB depreciation] is a clear signal from the Chinese authorities that, from here on, all available covert and overt economic and trade actions are on the table as retaliation against U.S. trade hostilities."

Or take the U.S. decision to label China a "currency manipulator." This sounds tough. It isn't. Once the United States labels a country a "manipulator," it must open negotiations with the offending nation. But we've already been negotiating unsuccessfully for years with China, notes economist C. Fred Bergsten of the Peterson Institute. More negotiations don't look promising.

In the past, China clearly manipulated the RMB. Between 2006 to 2014, China spent $350 billion annually buying dollars and selling RMB, reports the Institute of International Finance, an industry research and advocacy group. The resulting depreciation of the RMB gave Chinese exporters a huge advantage and made imports into China more expensive.

But now, say Bergsten and other economists, China has stopped using these practices and no longer meets the Treasury Department's criteria for manipulation.

The U.S. law defining currency manipulation sets three tests: first, a significant bilateral trade surplus with the United States. China meet this test; its 2018 goods deficit with the United States was $419 billion. But it no longer meets the second test, which is persistent intervention in foreign exchange markets, or the third test, which is a large current account surplus with the rest of the world.

Despite this, Bergsten thinks Trump might use the stigma of being cast as a "currency manipulator" to take further action against China. In the past, he has mentioned imposing a 25 percent tariff on imported vehicles. Another possibility would be raising existing tariffs from 25 percent to much higher levels.

The central — and unanswerable — question now is whether we are stumbling toward a larger and unmanageable global economic crisis. There are several possibilities.

One is that the gradual slowing of economic growth in Europe, China and the

United States makes it harder for borrowers to service their loans, leading to spending cutbacks or defaults. A related danger is massive capital flight from "emerging market" countries (such China, India and Brazil), as investors move their funds into safe havens. This, too, would tighten credit.

For the moment, most economists seem to be discounting a devastating crisis. Higher tariffs mean higher prices. They discourage spending and growth, but the amounts affected are modest compared with the size of the U.S. or Chinese economies. Remember that the U.S. economy is roughly $20 trillion.

What could change the outlook is the impact of the U.S.-China conflict on consumer and business confidence. If people suddenly become more uncertain about the future, the impact on spending could be much larger.

Meanwhile, Trump's self-declared reputation as a great dealmaker is in shambles. It will be hard to make that claim again.

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