Deliberations Over Devaluation - An Analysis of Chinese Currency Manipulation Strategy

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Secretary of the Treasury Alexander Hamilton, who in his work, the Report on the Subject of Manufactures, claimed that for the United States to experience significant economic growth, it was necessary to protect the so-called “infant industries” that constituted domestic companies and small businesses that were working hard to meet demand by millions of American consumers. And why? His reasoning was that increased competition with large, foreign-based corporations that commonly provided cheaper goods and services was seen to have been harming these newly formed American industries.

Hamilton further justified his intent to impose tariffs on imported goods and protect domestic industries by invoking economies of scale. This concept means that, for example, if a textile industry in Boston, Massachusetts grows in human and physical capital and increases its production, it is more likely to save money, lower its costs, and ultimately end up with higher profit margins, which is better for the United States as a self-interested, rational economic agent. This turns such a company into a decreasing-cost industry, one in which as the industry grows larger, and expands its capability to produce, its costs decrease, and production becomes more efficient. This is essentially why, in the present day, you might notice that your local bookstore charges a higher price for a certain book than Amazon. The issue that Hamilton wanted to avoid was the possibility that if tariffs were not placed on foreign competitors, the market for any particular good or service would be too crowded. This effect could ensure that American consumers might prefer cheaper products sold from overseas because many of those large corporations would have achieved economies of scale, making it difficult for domestic companies to do so.

Additionally, Hamilton had this ambition to raise revenue for the federal government in order to pay off significant war debts and other expenses. Prior to the creation of the modern United States Constitution in 1787, the Articles of Confederation failed to guarantee a way for Congress to collect revenue from the states through taxation, and the debts that had accumulated during the Revolutionary War were subject to interest that made it further difficult for the confederation and the states to repay those debts. This economic gridlock could not be reformed without unanimous consent, and this being a herculean task would inevitably lead to its complete replacement by the Constitution. In 1787, the essay Federalist No. 30 was published by Hamilton in order to advocate for federal taxation, which had remained extremely controversial due to its absence from the Articles of Confederation prior to the Constitutional Convention in Philadelphia. He essentially argued that in order for the government to achieve economic and financial stability, it was necessary to pay off their debts, and taxation was likely a good means of doing so.

However, Hamilton realized that paying off debts would require incredibly high taxes, so he sought to offset this by imposing tariffs on foreign companies a few years later to provide a secondary channel of revenue for the government, so that the brunt of taxation would not have a damaging effect on Americans' economic lives and futures. Additionally, Hamilton found that these tariffs and other protective measures regarding products from international markets would generate some extra revenue for the federal government. Because of this, he ardently advocated for the idea that while keeping foreign industries at bay, the government would be able to provide subsidies to promote agriculture and manufacturing throughout the United States without affecting the prices of those goods or the supply available. Hamilton saw this as a prize-winning economic solution that decades later, during tariff disputes between the Northern and Southern United States, would prove troublesome as manufacturing and agricultural industries diverged with respect to their geography.

Given domestic companies' interests in ensuring that they were not outperformed by their competitors overseas (especially in Europe, an emerging economic power), these numerous initiatives would theoretically incentivize them to engage in research, development, and innovation. These firms often found themselves working together to improve domestic supply chains and the overall American manufacturing sector so that it would be strengthened against foreign economic power. Popular methods included collaborating with the public sector on internal improvements, such as railroads, canals, and turnpikes. These would support domestic trade and commerce and assist in allocating government subsidies with care to generate maximum profits and become increasingly competitive in their respective markets, while creating both private and government jobs that contributed to aggregate output and lower unemployment rates nationwide.

What is rather interesting about Hamilton's report is its similarities to many of the tenets that both the Democratic and Republican Parties of the present day support: for example, today's parties both support the protection of domestic companies and workers, and both want to ensure that American firms become more competitive. Additionally, Hamilton's inclination to reduce the impact of taxation on Americans might correspond to Democrats' and Republicans' preferences to reduce or place moderate taxes on specific individuals within the American socioeconomic hierarchy (any one of the working class, middle class, wealthy, etc.). Many liberal Democrats have long been wary of free trade because of the major risks it can pose to the domestic labor market in the United States. In contrast, there are lots of conservatives and Republicans who have embraced "fair trade" because they believe that tariffs will discourage unfair trade practices by both foreign companies and foreign state-owned industries.

But how do infant industries relate to the ongoing United States-China trade war? It has been used by members of the Trump administration as well as Congress to provide justification for embracing protectionist in foreign trade policy. While it is typically implemented by developing countries (such as the early, pre-industrial United States), it's been observed, especially in the U.S., that there does not always exist a direct relationship between the health of the aggregate economy and the health of its individuals and firms – and given the (albeit limited) amount of economic sovereignty states may possess due to the country's federalist system. In fact, in his 2005 paper, "When and How Should Infant Industries be Protected", Harvard University economist Marc J. Melitz, an expert on international trade, emphasized that different markets within an economy might be at various stages of development, even if some have achieved economies of scale and others have not – therefore, he, like other economists such as John Stuart Mills, argue that governments (such as the United States) would identify "trouble markets" or "trouble sectors" within their economy and respond using methods such as tariffs or import duties, or may go a step further to appreciate or depreciate the value of their currency.

China is notorious for having devalued its currency over the past few decades, and it has devalued it further. Although currency devaluation might make it weaker when compared to other currencies, depreciation of the yuan causes Chinese exports to become cheaper. By devaluing their currency, China is compromising for tariffs. It cannot devalue its currency for only one nation, such as the United States - if it devalues its currency, that affects all nations it trades with. If China devalues the yuan, then U.S. dollar appreciates. This has what could be referred to as a "domino effect of devaluation", in which other countries' currencies also appreciate against the yuan. For example, let's say hypothetically that as a control, India had not imposed any significant tariffs against China. Since China devalued its currency, the Indian rupee will appreciate because of relative differences in values.

This appreciation in the U.S. dollar, Indian rupees, and other currencies that trade with the yuan will cause imports to rise and exports to fall. The value of imports being increasingly greater than that of exports will lead to increased trade deficits, and currency devaluation would allow exports from China to become more competitive while making imports more expensive in terms of their U.S. dollar cost (because the U.S. dollar appreciates in value). Although the PRC is currently countering tariffs from the United States with currency devaluation in order to prevent changes in how much goods are priced at in global markets, there are some potential negative effects: For example, if China were to replace the Hong Kong dollar with the weaker yuan as it exercises more political and economic control over the region, this would create uncertainty in markets and potentially cause recessions for Western nations. While Chinese yuan devaluation causes appreciation in the currencies of Western nations and therefore more expensive Western goods, if the Hong Kong dollar is replaced by the yuan or is forced to devalue by the Chinese government, then this will cause increased instability for Western currencies such as the U.S. dollar or euro.

Prior to the COVID-19 pandemic, citizens of Hong Kong were protesting against the PRC due to an extremely controversial extradition bill that would indirectly allow China to assume greater control of the region and extradite political dissidents from Hong Kong. Although the United States is currently engaged in trade hostilities with China, it is a major trading partner with Hong Kong, which is a Special Administrative Region (SAR) that oversees distinct political and economic systems than those of mainland China. This has allowed it to become a global financial and trading hub, and it has retained strong economic partnerships with Western nations, especially the United States.

The United States wants to use Hong Kong as an economic asset while threatening China with additional tariffs and restrictions on imported goods. China, on the other hand, which faces tariffs on exports to the U.S., is aware that Hong Kong is not involved in these economic restrictions, so Beijing may seek to control Hong Kong's ports to export goods that lack tariff impositions, thus circumventing the situation. What this means is that if China can use Hong Kong to get around tariffs, then they do not suffer as much from the trade war, which is something the United States may not be expecting them to do. While noting that the U.S. is maintaining favorable economic relations with Hong Kong, if Washington decides that it wants to continue with this trade war and China begins using Hong Kong as a front for mainland exports, there may be a need for drastic changes in foreign economic policy.

In August 2019, the People's Bank of China (PBC), the nation's central bank, lowered the exchange rate of the yuan to seven per dollar, an action that had not been seen in years, to make up for the potential revenue that had been lost from American tariffs on Chinese exports, allowing the dollar to appreciate and become even more expensive. This caused, in the short run, an increase in Americans' aggregate demand for Chinese-made products and a decrease in their demand for domestic goods and services to counterbalance the decreased aggregate demand that was a result of tariff imposition.

Manufacturing companies especially saw a sharp downturn in stock prices and overall market performance during that month, with the Dow Jones Industrial Average, a stock market index of thirty large and influential American companies that are listed on the stock exchange, dropping nearly three percent (2.9%, to be exact) in a single day from the actions taken by the central bank of the PRC. In this specific case, there were American tariffs placed on Chinese goods, so the PRC decided to devalue their currency to neutralize any lost revenue and maintain the same amount of demand as before. It is important to note that this could, in the future, turn into a currency war between the United States and the PRC, whether it occurs under a Democratic or Republican administration.

Assuming that this trade war didn't exist, or we were investigating an economic time period prior to this conflict that involved both the United States and China, one can consider the following mini-case study, which does not consider tariffs imposed on Chinese goods and services: A significant majority in both political parties believes that it is necessary for the United States to limit the PRC's power in the global economy, because of a widespread belief it could be detrimental to the United States, its allies, and both developed and developing nations worldwide. Essentially, currency wars occur when nations attempt to gain advantages in terms of trade by artificially adjusting their exchange rates. In this instance, depreciation usually occurs, and this is primarily for the purpose of making one country's own goods more competitive and the other country left with less demand for the products they put forth in global markets.

Although nations prefer to let market forces control how much their currency fluctuates in relation to other currencies, some may resort to stimulating their economies out of desperation for growth, or simply because they have the ability and immunity to do so. Nearly seventy nations, most of which are found in Africa, the Middle East, Central Asia, and Southeast Asia, have opted to "peg" their currencies against others, such as the U.S. dollar, by which their currency's value is maintained at a fixed, stable exchange rate against a historically strong currency. However, there does not exist a system of reciprocity in which the dollar's value is necessarily fixed — instead, American currency, which constitutes over sixty percent of all central bank foreign exchange reserves, exists on a floating exchange rate, in which the price that the United States sets on its currency, the dollar, is set nearly completely based on supply and demand, affected by other currencies.

Based on changes, fluctuations, and other events in the foreign exchange market, the dollar changes value, and this is extended to other major currencies, such as the euro, Japanese yen, Indian rupee, British pound sterling, Canadian dollar, Swiss franc, and Australian dollar. These nations, with the exception of the United Kingdom, Japan, and India, maintain little to no currency intervention in their own central banks. When nations such as the United States find it necessary to manipulate their own currency, they engage in open market operations (OMOs). This is necessary to ensure that monetary policy — which tackles shifting interest rates, inflation, exchange rate, the buying and selling of government securities and bonds, and the expansion and contraction of the nation's money supply — is managed properly by the central bank.

In this manner, the Federal Reserve Bank in the United States has the ability to set targets for interest rates in the federal funds market, allowing for control over interest rates and the money supply. Since there is no currency pegged against the Chinese yuan, the central bank of China is generally freer in how it manipulates its currency. However, the United States has very strict and defined restrictions and limitations on currency manipulation, mostly because nearly seventy countries' exchange rates are pegged to the U.S. dollar, and it cannot afford to take action that would have a negative domino effect on international currency markets. This makes the PRC more powerful in how it handles its currency, which is why it has so much leeway in how depreciation or appreciation of the yuan takes place.

The PRC's power in controlling its currency originates mostly in its ability to export, in significant quantities, to major economies such as the United States and the European Union, and the lack of other currencies that peg themselves to the Chinese yuan. With manufacturing constituting the clear majority of Chinese exports, both private firms and state-owned industries in the PRC are able to acquire raw materials for assembly at their factories, in which workers are paid much less in terms of income per capita, even when adjusted for purchasing power parity. Because of significantly low costs and incredibly high potential for revenue generation, these Chinese companies are able to sell to American and European consumers at low prices, while being paid in American dollars, given that it is the world's largest reserve currency.

To summarize this process, what is happening is that Americans use the dollar, which is a strong currency that appreciates more often than not, to buy Chinese goods. Instead of receiving cheap yuan, Chinese firms receive strong dollars. As the value of the dollar increases, so do these companies' revenue, and likewise their profits. From here, state-owned industries in the PRC send much of their earned dollars to the People's Bank of China, which maintains a stockpile of foreign currency reserves. Therefore, the PRC effectively reduces the supply of dollars available for trade, while increasing their own private supply in their central bank. When the supply of U.S. dollars decreases in the currency market, the corresponding supply curve shifts to the left and its scarcity increases, raising the price of American currency.

To prevent the possible occurrence of a devastating currency war, the United States resorted to officially accusing the PRC of devaluing its currency in 2019, for the first time in approximately thirty-five years. This effectively allowed the United States to use its influence over global institutions such as the International Monetary Fund and the World Trade Organization with the hope that China itself could be regulated. The federal government's actions arrived just a few years after the PRC shocked the world by depreciating its currency by three percent after about two decades of growth against the value of the American dollar.

The People's Bank of China was accused by the United States and European Union of engaging in blatant, unethical endeavors for the purpose of boosting overall exports from the country, thus making net exports more positive and increasing their gross domestic product by way of state interference, and these accusations were leveled by both Democrats and Republicans — believe it or not, there are many political opinions regarding China that are in fact bipartisan. And while this currency move certainly benefited the People's Bank of China, it resulted in mostly negative effects worldwide, with stock market indexes in Europe and Asia posting heavy losses and Wall Street facing one of its worst days in 2019. In the United States, a heavy blow was dealt to manufacturing and services, which form the vast majority of the country's overall economic activity and are heavily connected with Chinese markets.

But why this decision? Because the People's Bank of China felt that to offset the most recent tariffs imposed by the Trump administration, it was strategically necessary to maintain their currency's stability. Take the Lerner Symmetry Theorem, for example, which was developed for international trade theory by British economist Abba P. Lerner in 1936, whose research also focused on market socialism, which contributed to China's strategy in becoming a global economic power and opening up its markets in the late twentieth century. Now, the aforementioned theory concerning international trade maintained that increases in import tariffs would be balanced by a rise in foreign currency exchange rates. Essentially, this means that if higher amount of Chinese currency (the yuan) was equivalent to the American dollar, then the tariffs would have little to no effect on the PRC itself, holding all else equal, because the cost of the good being imported would not in fact change.

It is likely clear to President Jinping and the Chinese government that the Trump administration (and the federal government as a whole) cannot possibly impose tariffs at high percentages and for high volumes of goods, especially because of China's role as an essential trading partner with the United States, and it is very difficult to regulate currency manipulation, especially with organizations such as the IMF and WTO, which are heavily influenced by the United States and Western powers. While such a move did make the PRC a place that might attract more investors, it caused those especially in North America, Latin America, and the European Union to become more wary of putting capital into Chinese industries and projects, which is quite understandable.

President Jinping and Chinese government officials have issued statements repeatedly over the years trying to reassure the world that these are necessary steps to turning the PRC into a more market-friendly economy, an indicator of their motivation to continue Deng Xiaoping's legacy as the "Architect of Modern China" in order to open up China to the world and turn it into a major economic power in the global order. Known in predominantly-capitalist countries as the "Opening of China", these revolutionary Xiaoping-era adjustments to China's economy allowed for the private sector to flourish, even with the most powerful industries in the country still under state control and subject to a limited degree of privatization. Some have indicated that this blend of socialism and capitalism does not necessarily make the PRC a mixed economy like India or Canada, but rather, it allows the Communist Party of China to maintain a significant amount of political control over how its markets function and interact with others on an international scale.

By way of currency manipulation China has the ability to fuel its own economic growth, by essentially making their products cheaper for American consumers while countering the negative impact of the Trump administration's tariffs. While this strategy may be of aggregate help to the country's economy, it has multiple potential downsides: Currency devaluation could prove harmful for Chinese firms that deal largely in U.S. dollars and have accumulated debt in the form of that currency, so a relative appreciation in the cost of American currency caused by artificial devaluation of the yuan would put an upward pressure on the amount of debt that these companies owe. This would be especially problematic for private sector corporations in China that are not state-owned, because higher debt would result in higher costs of production, making their goods more expensive and less appealing to consumers. Additionally, countries throughout East Asia, Southeast Asia, and South Asia would immediately feel the ripple effects of this monetary policy, and in order to keep up with China they would be forced to devalue their own currency in the hopes of maintaining economic stability.

As currencies circulating across Asian countries become cheaper, inflation would likely increase, causing a downward effect on aggregate consumption and upward force on household saving, which is detrimental to GDP and GDP per capita growth. Therefore, we can extrapolate from these observations that while exports would be made less expensive and the competitiveness of Chinese firms would be more prevalent in international markets, importing goods would serve as a problem for Chinese consumers with demand for foreign-made products. These consumers would ultimately resort to making purchases from domestic companies in the country. Currency wars are infamous for their detrimental impact on consumers, households, and firms, but the People's Bank of China may be willing to use currency manipulation as a means to justify increasing interest rates.

The economy would flourish leaps and bounds ahead of its current growth patterns, but long-run issues include rapid capital flight out of China, where the valuation of assets is lowered, wealth disappears, and the future of the exchange rate is thrown into jeopardy. Mass volatility would be injected to the global financial system, with markets for property, real estate, and stocks plummeting in response to increased inflation and expensive imports. Additionally, currency wars would spur conflict in international economic and financial institutions, such as the World Trade Organization and International Monetary Fund, which serve to regulate worldwide markets and facilitate fair, peaceful economic interactions between countries.

In Asia, capital flight was most infamous during the 1997 Asian financial crisis, in which Southeast Asian countries (especially Thailand) saw too much foreign debt, devalued currencies and markets, and incredibly high debt-to-GDP ratios. Outside of Southeast Asia, the United States saw reductions in its trade deficit with nations such as Japan, which saw the creation of an asset price bubble in the late 1980s and early 1990s. This economic bubble was a result of uncontrolled economic expansion and monetary easing, resulting in what became known as the "Lost Decade" from 1991 to 2001. It had a ripple effect on the economic environments of other East and Southeast Asian countries, many of which experienced economic bubbles that invited short-term capital flow and unrestricted levels of borrowing in global financial markets. With the pressure of depreciation on exchange rates, these countries, in an attempt to increase their economies' competitiveness, saw currency collapse, increases in private and foreign debt, and bankruptcy of state institutions (even national governments!).

This is an issue that the PRC must seek to avoid, and it is likely that they have floor imposed on how far the Chinese yuan can fall relative to other currencies, such as the American dollar. Capital flight has already been found in the PRC, whose real interest rates have generally increased over time from their currency manipulation strategy. Until the last quarter of 2013, the exchange rate between the Chinese yuan and American dollar has been falling consistently, an indicator of the PRC's growing power in international currency markets. However, the yuan has seen steep increases since then (with the exception of a significant drop from the last quarter of 2016 to the last quarter of 2017, a one-year period), and as of August 2019 (the month in which the United States officially called out the PRC for currency devaluation), the value of the yuan had depreciated so much it was registering values not seen since the beginning of the Great Recession.

In contrast, from summer 2005 to summer 2019 (a period of approximately fourteen years), the Chinese yuan has in fact seen its value appreciate by nearly forty percent. This two-year difference between 2005 and 2007 is so significant because the currency of the PRC saw very steep levels of appreciation. It would take a lot more devaluation to move the Chinese yuan to pre-2005 levels than one may think. Therefore, while the People's Bank of China has certainly manipulated its currency, one cannot technically claim, as of 2020, that China has devalued its currency over time, given that approximately fifteen years prior its value was even less and was climbing toward that of the U.S. dollar.

What about potential currency devaluation in terms of the United States? At one point during the summer of 2019, the Trump administration proposed currency intervention, by which they would manipulate the U.S. dollar in order to counter the growing effects of the trade war with China. The federal government was seeking to reduce the trade deficit by reducing interest rates, because such rates would allow for increased strength for the U.S. dollar. In general, although a stronger dollar might sound really positive, there are some potential negative effects. If interest rates set by the Federal Reserve Bank are higher relative to interest rates set by the central banks of, for example, the European Union or China, then domestic consumers in the United States benefit from buying more imported goods because those goods are cheaper relative to the more expensive exported goods that are bought by foreigners. If the quantity of imports bought by American consumers continues to rise and the quantity of exports bought by foreign exports continues to fall, there is a greater positive difference between imports and exports, leading to increases in the trade deficit.

It has been well-documented that over the course of the trade war, the federal government's imposition of tariffs on imported Chinese goods is meant to decrease the quantity of imports bought by American consumers, lowering the trade deficit. Now, since the Trump administration wants to add a second step to this process by intervening in the currency, if they choose to devalue the U.S. dollar, American-made goods will become cheaper and more foreign consumers will buy exports. This allows for a decrease in quantity of imports bought by American consumers and an increase in quantity of exports bought by foreign consumers, pushing the United States closer to a trade surplus. There is, however, the possibility that the federal government can invoke the Gold Reserve Act of 1934 in order to sell U.S. dollars at cheaper values — this would theoretically stimulate economic growth, but the real questions concern whether other nations would be willing to buy U.S. dollars and how responsive American consumers would be to rises in inflation and the costs of imported goods.

In early February 2020, the United States Department of Commerce established a new policy that allowed the imposition of tariffs on nations allegedly devaluing or undervaluing their currencies, which makes their exports to the United States cheaper and gives them an edge in competition with domestically produced goods and services. But sectors exposed to the trade wars, such as agriculture and manufacturing, are shedding jobs and turning out bankruptcies for many firms and individuals. For farmers who have witnessed sharp declines in exports to the People's Republic of China, the Trump administration has proposed subsidies and bailouts at the level of billions of dollars, despite promises by the People's Republic of China of significant purchases within the agricultural sector as they attempt to negotiate in the midst of the coronavirus outbreak.

In January 2020, the Trump administration expanded tariffs on imported steel to include final goods that use steel in the production process, because it was assumed that more expensive steel imports would generate less competition against domestic firms. And, in spite of the growth in employment, over twelve thousand potential jobs disappeared in the manufacturing industry. The new currency regulation proposed by the United States Department of Commerce exists because, members of Congress and various cabinet agencies have found themselves frustrated with nations that gain an export edge thanks to currencies that seem undervalued compared with the dollar for decades. Historically, Japan and the United Kingdom have undervalued the yen and the pound, respectively, to generate significant export numbers, and in the present day, the PRC is emulating this model with the yuan. The idea never gained much traction for two reasons:

One, it is incredibly difficult to determine if and by how much any given currency might be undervalued, since most are traded freely on the market and fluctuate for all sorts of reasons. Additionally, American law requires that tariffs imposed on artificially devalued or undervalued imports be limited to goods and services that benefit from certain government subsidies or bailouts, alongside inexpensive currency. If the United States were to officially enter into a currency war with the PRC, the same pattern that was seen in tariffs imposed from both sides would result in back-and-forth devaluation, which could reduce citizens' purchasing power and standard of living in both nations. The Federal Reserve Bank has the ability to engage in quantitative easing, in which they seek to mitigate any contractionary or recessionary market activity by printing more money and buying government bonds and other financial assets.

Through this, the central bank is able to expand the money supply, and this can cause investors to predict that the value of the U.S. dollar will decline. Additionally, it is possible that banks may shy away from lending money, and consumers may hesitate before borrowing. Reluctance around economic transactions would have a hazardous impact on consumption, the largest component of determining real GDP output in the United States. The Trump administration's openness to manipulating the U.S. dollar, if implemented, could have staggering effects for not only 330 million Americans but billions who live in the nearly seventy nations that peg their currencies against the dollar. Most are developing countries and/or quickly emerging economies, and their economic futures could be thrown into jeopardy by unexpected artificial changes in the price of the U.S. dollar.

Furthermore, while the PRC has engaged in currency devaluation, the Chinese yuan itself has in fact appreciated by the double digits over the past few decades. This is partially due to the fact that the People's Bank of China does not depreciate their currency as often as they let its value change naturally, and partially because as recently as 2017 they have allowed the value of the yuan to appreciate significantly. This was in response to claims made by American government officials about China's role as a "currency manipulator", and to the possibility that the World Trade Organization (WTO) and International Monetary Fund (IMF) could get involved, especially with the United States' disproportionate power in both organizations. President Trump has repeatedly stated that his administration wants to ensure that imports are more expensive, while exports are cheaper, and the most evident way in which this can come about is if the dollar were to depreciate or to be purposefully undervalued.

If the value of the U.S. dollar dropped, then the value of the Chinese yuan would increase relative to the dollar, even if it did not demonstrate any changes by itself. Therefore, this would significantly reduce Americans' purchasing power of overseas goods and services, such as physical capital, in the form of equipment and machinery. They would be more inclined to buy American goods because domestic firms would sell cheaper products, and the dollar would become a weaker currency. This would have a beneficial impact on the United States' real GDP, because increased aggregate demand for American goods and services both domestically and overseas would boost employment, allowing for an increase in domestic consumption as well as positive growth in the nation's housing market.

But while this might prove advantageous in the short run, it is ultimately the case that in a potential currency war, and in the overall U.S.-China trade war, economic policies enacted and proposed by the Trump administration would likely be hazardous to the United States in the long run, putting a strain on diplomatic relations with China and instilling a sense of uncertainty regarding the economic futures of American individuals, households, and firms. While an assertive approach to China's economic strategies and policies is necessary for the United States, its current trajectory under the Trump administration is inherently flawed and must be corrected.