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Headline: Can Trade Intervention Lead to Freer Trade?

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Tweet: As long as the chronic surplus countries balance their trade with American assets the US has "no choice" but to run deficits. The most likely response to beggar-thy-neighbor trade policies will be additional tariffs or capital controls. @michaelxpettis

Summary: China comprises less than 18% of global GDP, it accounts for over 31% of global manufacturing and less than 13% of global consumption. The United States, which accounts for 24% of global GDP, accounts for less than 17% of global manufacturing and nearly 27% of global consumption. In persistent surplus economies, weak domestic demand is simply the flip side of policies that result in manufacturing competitiveness. The manufacturing sector is subsidized directly or indirectly by households, which leaves them more competitive and leaves households less able to purchase a substantial share of what they produce. In order to balance these surpluses, the opposite transfers must occur in the deficit countries. Just as consumers are forced to subsidize producers in the surplus countries through various explicit and implicit transfers, producers are effectively forced to subsidize consumers in the deficit countries. Probably the best response for the United States and the world in the medium and long term would be for the United States to intervene to reverse the beggar-thy-neighbor policies of the surplus nations. This could be done either with restrictions on the ability of surplus countries to dump goods into the U.S. economy or with restrictions on the ability of surplus countries to dump excess savings into the U.S. financial system. The most obvious of the former policies are tariffs, and the most obvious of the latter are taxes on capital inflows.

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Primary Topic: China

Topics: China, Database, GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit, Trade (not deficits), Weekly

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