

# Trade War with China? Will Trump Hop on an American Silk Road?

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*If it's a trade war with China he would rather have, the new president will find himself on the back foot from day one*

*Hysteria reigns supreme at the dawn of the Trump era, with the President rebranded across the whole ideological spectrum as an [American Mao](#) or even an [American Hitler](#).*

Let's step away from this "American [media] carnage" to examine a few facts concerning the unofficial G2: US-China relations.



Then came President [Xi Jinping's masterclass at Davos](#), where he positioned himself as Ronald Xi Reagan selling "inclusive" globalization to the stalwarts of international turbo-capitalism.

Finally Ma again, also at Davos, came up with a crystal clear, cause-and-effect formulation on globalization and US economic distress.

Ma said, "In the past 30 years, companies like IBM, Cisco and Microsoft made tons of money." The problem was how the US spent the wealth: "In the past 30 years, America has had 13 wars at a cost of US\$14.2 trillion." So what if the US "had spent part of that money on building up their infrastructure, helping white-collar and blue-collar workers? You're supposed to spend money on your own people. It's not that other countries steal American jobs. It is your strategy - that you did not distribute the money in a proper way."

In the meantime, something quite extraordinary happened at the Asian Financial Forum in Hong Kong, one day before Xi's Davos speech. China Investment Corporation (CIC) chairman Ding Xuedong, referring to Trump's much-vaunted US\$1 trillion infrastructure building plan, said that created fabulous investment opportunities for China and his US\$800 billion sovereign fund.

According to Ding, Washington will need at least an astonishing US\$8 trillion to fund the infrastructure spectacular. Federal government and US private investors are not enough: "They have to rely on foreign investors." And CIC is ready for it - focusing already on "alternative investments in the US".

Assuming the Trump administration welcomes CIC, and that's a major "if", it will be a slow start. Only US\$80 billion of CIC's overseas investments are currently held in US government

debt. A massive national security/antitrust controversy will be inevitable. And yet, if successful, the move could be a win-win towards an American Silk Road.

### **Time to tweak your supply chain**

Now let's take a look at the options. Trump's campaign promises to declare China a currency manipulator and slap a 45 per cent tariff on Chinese imports are, in theory, still on the table.

Peter Navarro – author of *Death by China* and *Crouching Tiger: What China's Militarism Means for the World* – will be directing the new National Trade Council at the White House, focusing on “China's unfair subsidy behavior”.

At the same time, countless reports [such as this one](#) are focusing on US-China trade war scenarios. And they do not look good for making America great again.

To start with, Beijing is not manipulating the yuan. On the contrary, the People's Bank of China wants a stable exchange rate, translating into stable trade.

In case of a major rift, Beijing would not be inclined to dump US Treasury bonds en masse; that's not exactly a win-win for Chinese reserves.

The US has way more foreign direct investment in China than vice-versa, so it's easy to see who would be on the losing end. At the same time, Chinese businesses could profit from more tax breaks and invest in upgrading their production lines. The break down: China's enormous savings funding the next step of industrial investment – especially as seven million college graduates hit the market each year. Now that's a win-win.

Any trade war projection leads to the same results: depressed US consumption, less economic growth, and more unemployment – particularly among the rust belt/ “basket of deplorables” axis.

Then there's the [horror story for major US corporations](#) such as Apple, whose exceptionally complex supply chains would take years to be tweaked. Boeing for its part relies on selling jets to China for 150,000 American jobs, and is already planning a giant new Chinese assembly plant.

The Trump administration will dump the Obama administration's trade arm of the pivot to Asia, the TPP. No one in Asia is exactly shedding tears for it; at the same time no one knows whether Team Trump may be interested, further on down the road, in discussing a Free Trade Area in the Asia-Pacific.

What is absolutely certain is that, absent a trade war, the new US trade strategy will be perfect for Beijing, as China will accelerate the expansion of its New Silk Roads/One Belt, One Road project, especially across the Southeast Asian mainland, as in high-speed rail lines linking Yunnan province to Singapore via Laos, Thailand and Malaysia.

At Davos, Jin Liqun, president of the Chinese-led Asia Infrastructure Investment Bank (AIIB), even opened the door, half in jest, to US participation. So all bets are off: imagine the “American Mao” joining AIIB to be part of the action across Eurasia while accepting CIC investment to build the American Silk Road. Would that be considered an “alternative fact”?

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