



Trade War Won't Stop Asia's Growth

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The trade war rumbles on. How significant is a threatened 10% on more Chinese exports to the U.S.? In itself, not very significant at all. At least not as far as China is concerned. We have, over the past few months, received enough data on the initial tariffs to understand the near-term effects.

First, announcements of tariffs are accompanied by falls in Asia's markets and in the S&P 500 Index. So, market participants regard them as damaging to both the U.S. and Asia's economies and markets. This is surely correct. Trade is no different from any other economic exchange, except that you are exchanging goods and services with foreigners. No reason to treat it much differently than that. So, any interference in the free exchange of goods damages both buyers and sellers through the inefficiencies it causes.

Second, we know from data in the U.S. that the prices on tariffed goods have increased more than those on non-tariffed goods. We also know that whereas the U.S. trade deficit with China has shrunk slightly, the deficit with other Asian nations has widened. Chinese companies can transship via other Asian ports or shift production to other countries to avoid the tariffs. So the main burden of the inefficiency is borne by the U.S. consumer and not the Chinese producer.

Third, what really seems to matter in the short term is the rhetoric. One country "standing up to another." This is largely a false narrative but it plays well in U.S. elections. I have heard many investors say that the U.S. is too powerful and always wins these confrontations. But the rhetoric of war is a totally false way of looking at trade. The real hold that the U.S. has over foreign companies is largely in the finance sector—the denial of banking licenses in the world's largest financial markets, for example, is potentially crippling to some banks. For the most part, however, trade links are intertwined—a trade war is really like two duelers standing apart, facing each other, and shooting themselves in the foot.

But markets are nervous environments and they factor in not just the immediate impact but also the potential for severe disruptions to supply chains and corporate profits. Undoubtedly, technology is the sector most exposed to such disruption. This explains why some tech stocks were particularly weak. But do we really expect the U.S. to put at risk the technology sector that has been driving the stock market higher, which is the rhetorical barometer of U.S. economic health? It is always possible, of course, but the recent threatened tariffs seem more like an attempt to prod the Chinese into giving the U.S. administration a palpable winning headline—perhaps more agricultural goods sales to China, at a time when the U.S. president must share the political limelight with the Democratic Party debates among their nominees to challenge him in the next election.

This disturbance in the markets, therefore, seems politically motivated and timed. I suspect it is more likely an opportunity to buy more cheaply off nervous traders than a reason to become more concerned about Asia's long-term growth. A growth that depends less on trade and more on continued savings, efficient investment and institutional reform. All things to which Asia remains committed.

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