

MACROCOSM

Trump ♥ Muslims (In China)

Wednesday, October 9, 2019

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By linking trade to human rights, Trump just co-opted Elizabeth Warren's China policy.

Yesterday the [Commerce Department announced](#) that it is adding 28 Chinese firms and governmental units to the so-called “entities list” – companies to whom US firms may not sell sensitive technology products – under its authority to administer [Export Administration Regulations](#). On the face of it, this is just deepening the supply-side pressure President Donald J. Trump is exerting in his trade war with China through bans on technology sales to telecom champion Huawei, softening China up for this week's negotiations in Washington.

- *But this is different, because of its stated rationale: the entities subject to the prohibition are not alleged security risks or intellectual property thieves, like Huawei – rather, they are identified with human rights abuses against ethnic Uighurs, Kazakhs and Kyrgyz – Muslims who are concentrated in the northern Chinese province of Xinjian. The prohibited US products are those that would aid in the terrifying technology-driven repression of these Muslims, including [extensive electronic surveillance](#).*
- *Combined with a travel ban [announced yesterday by the State Department](#), against Chinese officials believed to be carrying out the abuses, this opens up a whole new front in the trade war: the US is now not only trying to reform China's trade practices, but its civil liberties practices, too.*
- *This would seem to be poking a big stick in China's eye.* After all, in its public pronouncements, China has always pushed back against the trade reforms that Trump insists on by claiming that they represent an interference in its internal affairs (see, for example, [“On China's Trade War ‘White Paper’”](#) June 2, 2019). That's always been a flimsy argument, because trade by its very nature is not internal. *But this really is interfering with China's internal affairs.* We're not saying it doesn't have a lofty moral basis, but it is nevertheless a very provocative thing for Trump to do, especially because of *the delicious irony of it: Trump is not exactly famous for standing up for Muslims.*
- We said months ago that we'd know when Trump was ready to go nuclear in the trade war – that is, to push China to a point where it absolutely had to walk away – when he offered US support for the protestors in Hong Kong (see [“China the Currency Manipulator, and So What?”](#) August 6, 2019). He took a few small steps in that

Update to strategic view**US MACRO, ASIA**

MACRO, FX: New technology sales prohibitions and a travel ban add supply-side pressure against China in the trade war. But the target – firms and officials implicated in the repression of Muslims in Xinjian – opens up a new front: a US crusade not just against trade abuses, but human rights abuses too. This seems calculated to offend China, which already sees US trade demands as interference in internal affairs. It is likely also calculated to co-opt Warren's China policy, and make Trump invulnerable to Democratic challenge in 2020 even with no trade deal in hand. Trump will now only take a great deal, not a good one. We'll know when China feels enough pressure to offer a great deal when RMB weakens further and foreign exchange reserves must be spent to intervene in support.

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direction with a couple of tweets that challenged Chinese President Xi Jinping to personally mediate the matter, and insisted on a “humanitarian” solution (see [“On Trump Playing the Hong Kong Card”](#) August 15, 2019). But he never outright endorsed the protests, and has been fairly quiet about it as [violence has continued to escalate](#). In [his recent speech at the United Nations General Assembly](#), he simply called on China to honor its treaty obligations to Hong Kong, and once again called Xi a “great leader.” [It is the NBA](#), not Trump, that has made it personal.

- So far Trump has not *personally* weighed in on the Xinjian matter. He’s left that to surrogates – Wilbur Ross at Commerce, and Michael Pompeo at State. As always, Trump is leaving the door open for personal diplomacy with Xi based on the face-saving appearance of respect.
- *But now, with Commerce and State having spoken, Trump is just a tweet away from making it personal, which would be to slam the door on any possible deal with China.*
- By bringing human rights into the trade war, Trump has done something else that we think may prove to be quite fundamental. *He is hunkering down to go into the 2020 elections with no trade deal*, a position now doubly justified – first on the usual grounds of unfair trade practices, and now also on the grounds of human rights. It was already hard enough for Democratic opponents to oppose much about Trump’s crusade against China. *And now with human rights dragged into it – the rights of Muslims, yet! – the Democrats can only stand by helplessly and try to change the subject.*
- *Trump just co-opted Elizabeth Warren’s China policy.*
- All this is visible to the Chinese, who may conclude that they now face so much determined pressure that they have to make a good deal. It’s possible. After all, this week Trump signed [a sweeping trade deal with Japan](#) that stands as [a model for free trade in digital goods and services](#).
- As of this writing early Wednesday morning, there is some optimism [from a report](#) – thinly sourced as always – that “China is still open to reaching a partial trade deal with the U.S.” Seriously? “Still open”? Since when has China *not* been “open” to a deal that accomplishes little of the basic reforms – such as intellectual property protections – that Trump insists on? China doesn’t have to be very “open” to want to buy US hogs, when a large portion of its own stock of this critical protein source has been [wiped out by a virus](#) (and China’s [Strategic Pork Reserve](#) can only go so far).
- *But we reiterate what we said in early August. We think, at this point, Trump won’t take anything but a great deal* (see [“RMB Breaks 7: Is this ‘the Edge of Chaos’?”](#) August 5, 2019), and great deals are harder to come by than good ones.
- *We think China hasn’t experienced enough pain yet to offer a great deal.*
- *That means the risk-back-on mood since late August is over-done.*
- *How will we know when China might need to capitulate?*
- We still think the pain-index to watch is the Chinese currency (see [“China’s Currency Crisis is Over... Yuan to Bet?”](#) September 10,

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New York Times
October 5, 2019

[Fed Chair Jerome Powell weathers wave of criticism about his leadership](#)

Tory Newmyer
Washington Post
October 1, 2019

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2019). China let it weaken a breathtaking 4% over the month of August, without doing anything to intervene to support it. RMB has been steady through September, but it has taken some support to make it so – China [spent \\$10 billion in foreign exchange reserves](#) during the month. We expect more weakness, and increasingly expensive attempts to intervene in support.

Bottom line

New technology sales prohibitions and a travel ban add supply-side pressure against China in the trade war. But the target – firms and officials implicated in the repression of Muslims in Xinjian – opens up a new front: a US crusade not just against trade abuses, but human rights abuses too. This seems calculated to offend China, which already sees US trade demands as interference in internal affairs. It is likely also calculated to co-opt Warren's China policy, and make Trump invulnerable to Democratic challenge in 2020 even with no trade deal in hand. Trump will now only take a great deal, not a good one. We'll know when China feels enough pressure to offer a great deal when RMB weakens further and foreign exchange reserves must be spent to intervene in support. ▶