

MACROCOSM

China Strikes Back

Monday, June 1, 2020

Donald Luskin

Trump's Hong Kong response was refreshingly weak, and China will make it even weaker.

We are happy with our call last Thursday (see [“How Worried Should We Be About Hong Kong?”](#) May 28, 2020) that President Donald J. Trump's response to China imposing a “security law” on Hong Kong would be more campaign rhetoric than economic policy substance. This is welcome news for the fragile US economy, and for the risk-back-on move underway in markets.

Listening to his press conference late Friday ([transcript](#), [video](#)), as soon as we heard him begin with his familiar old rant about how “they have ripped off the United States like no one has ever done before,” we were pretty sure we weren't looking at a renewed US-China trade war. We were *certain* as soon as the first actual policy measure he announced turned out to be withdrawing the US from the World Health Organization. That's classic Trump misdirection – a serving of red meat for his base, and irresistible bait for the media, who by lambasting Trump for *that* would distract attention from what was to follow: a menu of symbolic measures, half measures and maybe-someday measures that could, arguably, add up to “soft on China.” We think [reports this morning that China has instructed some state-run agricultural cooperatives to suspend purchases of US soybeans only confirm this.](#)

- As we argued last week, despite widespread claims to the contrary – including claims made by Trump in his announcement Friday – China is not in fact breaking any [United Nations treaties](#) nor contravening [Hong Kong's Basic Law](#). Not that truth matters all that much in geopolitics, but credibility is a limit to some extent: as a *casus belli* like the [Reichstag fire](#) or [Gulf of Tonkin incident](#), this one is pretty easily fact-checkable.
- With or without a credible rationale, Trump's hand here is weak because the US is months behind China in vanquishing Covid-2019, and re-opening its economy. [China is hardly back to anything like full strength](#), but it's ahead of the US, and trade wars are games of relative strength. The US doesn't enjoy the advantage it did when Trump provoked one two years ago (see [“China is Losing the Trade War with Trump”](#) July 29, 2018).
- So other than withdrawing from the WHO, all Trump announced on Friday was:

Update to strategic view

US MACRO, ASIA

MACRO: As we predicted, Trump's policy initiatives Friday to punish China for imposing a “security law” on Hong Kong were vague, weak and deferred. Behind China in conquering Covid-2019 and reopening its economy, the US is still fragile, and Trump doesn't dare reignite the US-China trade war. China knows this, and has announced suspension of some soybean purchases as a shot across the bow designed to weaken Trump's policy initiatives as their details are formed. Trump's announcement Friday was brimming with the usual China-bashing bluster, and China paid him back over the weekend by trolling him for the US urban riots. This bluster is welcome, because the tougher they talk, the less tough they need to act.

[\[Strategy dashboard\]](#)

1. "...issue a proclamation to better secure our nation's vital university research and to suspend the entry of certain foreign nationals from China who we have identified as potential security risks.
 2. "...instructing my Presidential Working Group on Financial Markets to study the differing practices of Chinese companies listed on the U.S. financial markets...
 3. "...directing my administration to begin the process of eliminating policy exemptions that give Hong Kong different and special treatment...from our extradition treaty to our export controls on dual-use technologies and more, with few exceptions.
 4. "...revising the State Department's travel advisory for Hong Kong to reflect the increased danger of surveillance and punishment by the Chinese state security apparatus.
 5. "...take action to revoke Hong Kong's preferential treatment as a separate customs and travel territory from the rest of China."
- "Study." "Begin the process." "Revising." Weak stuff to begin with, and on a long fuse. Plenty of time to let the intensity of the demand effect to "do something" dissipate – and plenty of time for China to make counterthreats, like today's reports about soybean purchases, that will inevitably succeed at moderating the Trump administration's responses.
 - Paradoxically, at the same time, as Trump completes these various long-fused initiatives, however watered down they will ultimately be, they will provide him a renewable font of China-bashing accomplishments for the campaign trail.
 - It is in the interests of both US and Chinese leaders to make shows of strength, for each to try to shame and intimidate the other – as Trump did in Friday's rant, and as China did over the weekend by [trolling Trump](#) for the US urban riots in the wake of the death of [George Floyd](#).
 - It may sound alarming, but the tougher they talk, the less tough they need to act. We continue to think that the risk of a renewal of the US-China trade war is quite remote.

Bottom line

As we predicted, Trump's policy initiatives Friday to punish China for imposing a "security law" on Hong Kong were vague, weak and deferred. Behind China in conquering Covid-2019 and reopening its economy, the US is still fragile, and Trump doesn't dare reignite the US-China trade war. China knows this, and has announced suspension of some soybean purchases as a shot across the bow designed to weaken Trump's policy initiatives as their details are formed. Trump's announcement Friday was brimming with the usual China-bashing bluster, and China paid him back over the weekend by trolling him for the US urban riots. This bluster is welcome, because the tougher they talk, the less tough they need to act.



Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Dallas TX
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[\[About us\]](#)