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Does the US Have Any Leverage on China?

With Donald Trump's trade war with China heating up I thought I should bring in Mr. Arithmetic to clarify the situation. Trump apparently thinks that he holds all the cards in this one because the U.S. imports much more than it exports to China.

As I [pointed out](#) previously, China has other weapons. For example, it can just stop respecting U.S. patents and copyrights altogether, sending items all over the world that don't include any royalty payments or licensing fees. This could reduce the price of patented drugs by 90 percent or more and make all of Microsoft's software free.

But even ignoring the other weapons that China has in a trade war, the idea that the idea that the country can't get by without the U.S. market doesn't fit the data. At the most basic level, China [exported](#) a bit more than \$500 billion in goods and services to the United States last year. This comes to a bit [more than 4.0 percent](#) of its GDP, measured on a dollar exchange rate basis.

As many analysts have noted, much of the value of these exports is not actually value-added in China. For example, the full value of an iPhone produced in China will be counted as an export to the United States even though most of the value comes from software developed in the United States and parts imported from other countries. Perhaps 40 percent or more of the trade deficit reflects value-added from other countries. (On the flip side, many of the imports from other countries include value-added from Chinese products.)

But let's ignore this issue. Suppose Donald Trump's get tough trade policies reduce our imports from China by 50 percent, a huge reduction. This would come to roughly 2.0 percent of China's GDP. Will this have China screaming "uncle?"

Probably not, as Mr. Arithmetic points out, China's [trade surplus fell by 4.4 percentage points of GDP](#) from 2008 to 2009, yet its economy still grew by more than 9.0 percent that year and by more than 10.0 percent the next year. While all of China's annual data should be viewed with some skepticism, few doubt the basic story. China managed to get through the recession without a major hit to its growth.

Of course that drop in exports was due to an unexpected economic crisis, this one would be due to a politically motivated trade war. Mr. Arithmetic does not expect China to be giving in any time soon.

This column originally appeared on [Beat the Press](#).