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# As "Front-Loading" Decreases, China's Trade Slows, Signaling Looming Recession

By Anand Purohit, J.D. Candidate 2021 | January 30, 2019

On September 17, 2018, the Trump Administration imposed a 10% tariff on a slew of Chinese products, ranging from tuna to fertilizer to cranberries and steam turbines. The Administration threatened a further increase in tariffs, set to take effect the following January. Caught in the midst of an escalating trade war, Chinese companies reacted swiftly. Fearing the impending January tariff-hike, these companies drastically increased their exports to the United States, desperately trying to squeeze in as many sales as possible before the expected tariff increase. Reciprocally, U.S. companies (many of which assembled their products in China and imported the finished commodities to be sold in the U.S.) rushed to import their Chinese-made products before the higher tariffs were to become effective. The result: a massive surge in China's net exports to the United States. By November, China had posted a record trade surplus with the United States. Ultimately, the January tariff-hike was never implemented—the new tariff regime was postponed after both nations committed to work towards a long-term trade agreement.

Now that the panic-fueled rush has subsided, China's exports to the U.S. have slumped. Through November, Chinese exporters were frantically shipping goods to the U.S. in anticipation of possible tariff increases; now, as this "front-loading" fades, China's December exports posted at 4.4% lower than the previous year.

Interestingly, China's imports are also down. This, however, cannot be attributed to the trade war. Instead, it is indicative of a slowdown in China's domestic economy—a reduction in its domestic demand. Simply put, Chinese consumers are demanding fewer goods. To combat this, China is expected to implement a series of stimulus measures, including reducing interest rates, cutting taxes, and decreasing banks' reserve requirements. Taken together, these measures should stimulate a flood of investment and lending, which may bolster Chinese economic growth. However, such policies may have detrimental impacts on an already-ailing U.S. stock market.

Some have suggested that high Asian savings rates actually promote U.S. economic growth. In short, underdeveloped Asian capital markets cannot efficiently absorb all those savings—the Asian capital market is simply not large enough to utilize all that deposited money. So, where do

the excess savings go? They are invested in foreign capital markets—most notably, the United States. Essentially, the Asian “savings glut” feeds U.S. capital markets. Now, China is considering slashing interest rates, which could lead to a sharp reduction in Chinese savings. As a result, we could see a further slowdown in U.S. economic growth—this may be the straw that breaks the economic camel’s back, sending the U.S. into an overdue recession.