



# RICHARD COOPER

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## In-kook PARK

Our next speaker will be Professor Richard Cooper.

## Richard COOPER

Donald Trump unexpectedly won the American election to be President for the next four years. Political pollsters and political pundits, who widely expected Hillary Clinton to win, sometimes handsomely, will be re-examining where they went badly wrong, in particular whether “unsure” voters voted overwhelmingly for Trump, or Clinton’s supporters differentially failed to vote (perhaps confident she would be elected without their votes), or both. In fact Clinton won the popular vote by around a million votes, but in the American system less populous states such as Wyoming and North Dakota get disproportionate weight. If Clinton had won only 100,000 more votes in Wisconsin, Michigan, and Pennsylvania she would have won the election. In short, the election was very close, not a landslide for Trump; American opinion is deeply divided.

Trump’s political party, the Republicans, also retained their majorities in the two houses of Congress, although by smaller majorities than they have now. And while they are pleased to have their Party back in the White House, many Republican leaders are very uncomfortable with their new President.

What can we expect of a Trump administration? And how will it affect China? Unfortunately, we do not know. Trump’s campaigns largely attacked his opponents – including his Republican opponents (15 of them) during the primary season until last August. Substantive issues were dealt with largely by slogans – sometimes called “bumper-stickers” in America, after slogans pasted on the bumpers of cars – rather than by articulated policies. Trump expressed confidence in his election, but in fact he was unprepared for it.

Under the US system, the newly elected president does not actually take office until January 20 following the election. In the interim he must choose his senior officials, most of whom have to be confirmed by the Senate before they can take office and make official decisions. Unless this is done, only the President alone can make official decisions. In fact his first act as President will be to submit a new budget to Congress, which must approve any expenditure of funds. The Federal government’s fiscal year runs from October 1 through September 30; but Congress has not passed President Obama’s proposed budget submitted last February, so Congress has provided a “continuing resolution” which allows agencies to spend what they spent in the previous year, but to begin no new programs. President Trump must submit a revised budget for the remainder of the year. For practical reasons he can make only limited changes, so will be criticized whatever he does.

We can speculate about Trump’s policies as they might affect China, on the basis of his campaign slogans, under three categories: those that have no direct bearing on China (largely because they are domestic), those that can adversely affect China, and those that can favorably affect China (largely because they are aimed at other countries).

His main early preoccupations (apart from the budget) will be with reduction of taxation, especially on corporations and on wealthy individuals, both of which he promised; on appointing a new, conservative justice of the Supreme Court; on un-doing some regulations, especially affecting the environment and financial institutions; on immigration, both new



and existing migrants that are not legally in the United States; and on repealing (changed after the election to amending) the Affordable Care Act, the legislation of 2010 that requires all Americans to have medical insurance and permits them to do so. These actions have strong support among many Republican law-makers, but all will be very complicated and time-consuming once he gets beyond the general objective to actually making policy. They will pre-occupy the President and Congress, and will have no direct bearing on relations with China.

China figured directly a few times in Trump's campaign. He promised one of his first acts as President would be to declare that China is a "currency manipulator." His new Secretary of Treasury could do this. Under US law, to do so would request to China to have a formal consultation on the issue. The charge would then be examined in detail by both parties, and probably by the International Monetary Fund. This issue might have been arguable ten years ago; but professional consensus these days is that the RMB is not significantly undervalued relative to the US dollar. Indeed, during the past 18 months China has intervened in the foreign exchange market to prevent the RMB from depreciating against the dollar.

Trump seems to have an animus against imports from China (and from Mexico), which he argued have destroyed American jobs. What might he do to translate this animus into policy? There are already a number of outstanding anti-dumping cases against Chinese goods. The US process has been deliberated isolated by law from presidential influence, so he could not do much beyond possibly encouraging firms to file anti-dumping cases. Cases against foreign governments for subsidizing exports can in contrast be initiated by the Administration. But under WTO rules an injury must be found against an impacted industry, and injury is measured in the US by an independent agency, not subject to determination by the President. The President could raise duties against Chinese goods, but (apart from dumping and subsidies) China is protected against that by its membership in the WTO. US withdrawal from the WTO, which Trump could do, would permit other countries to discriminate against US exports, and would be subject to fierce opposition by the business community and by most Republicans.

Finally, Trump has called climate change a "hoax," perpetrated by China to undermine American manufacturing. Of all his many claims, this is one of the most outrageous. He will undoubtedly pursue policies against climate change less aggressively than Obama, and he could actually withdraw from the Paris Agreement on climate change, but probably will just ignore it.

Of the campaign promises that might favor China would be failure to ratify the Trans-Pacific Partnership, seen as part of the Obama administration rebalancing toward Asia; nullification of the North American Free Trade Area, permitting Chinese goods to compete more favorably against Mexican goods; and his threats against the US-Japan and US-Korean security alliances if those countries fail to contribute more to them, thus catering to China's official view that such alliances are relics of the Cold War – although over time that might induce one or both countries to develop nuclear weapons, unless China persuades its ally North Korea to abandon its nuclear program.

Will Trump's campaign slogans be translated into policy? There are several mitigating circumstances. First, they helped get him elected, but he may as President ignore some or even all of them. Second, he will discover (as indicated above) that the President is not the CEO of the United States; he will have much less power, due to constitutional checks and balances, than the CEO of a company he owns. Third, his towering ego will lead him to worry about his legacy as President, and he will not want to do anything deliberately that damages that legacy. Finally, like many earlier presidents, he may actually learn on the job, and develop a more normal presidential perspective.

**In-kook PARK**

Thank you, Professor Cooper. You are right; the currency manipulation argument is a 10-year-old issue. But at that time, without exception, Western economists recommended expanding domestic production as a long-term structural measure to improve that situation. Alibaba is a good example of how the Chinese government boosts domestic consumption. Do you agree with Madame Lagarde's assessment that the Chinese are doing well in transforming from export based to consumption based economy?

**Richard COOPER**

I have noticed Qiao's figure of 71% for consumption. Here, we have to be careful about language, because people are using the term consumption at a different place. Household consumption in China is nowhere near 71% of GDP. I am guessing, but we can ask him, that this figure includes public consumption, not public consumption, infrastructure investment, but public consumption and so people are using different terms to explain this. Chinese households have shown a willingness to raise their consumption as incomes have risen but they have also saved more. The key point is that the Chinese government could spend more on public consumption on behalf of households. What does that mean? Healthcare, pensions and education; the three areas where the public sector can play a key role in rebalancing the economy.

**In-kook PARK**

If you would allow me very briefly, James Woolsey, top advisor of President-elect Donald Trump, mentioned that "the Obama administration's opposition to the formation of the AIIB was a strategic mistake. I hope that the next administration's response to the Belt and Road initiative will be much warmer." What do you think of his argument?

**Richard COOPER**

Donald Trump and warmth do not go too well together. I agree, and I said so in this forum last year. I have had that view for a long time; the Obama administration just made a big mistake on the AIIB. That is the only way to describe it. I made the analogy to the Asian Development Bank, created in the 1960s to engage Japan in a wider world role and it was very successful. I think the AIIB is timely, it engages China in a global endeavour and I think the only way to describe the criticism is just a blunder by the Obama White House. The US is not able to join it, or would not be, because a Republican Congress would never have supported a subscription by an Obama administration. If a Republican administration asks for such a subscription they may be more receptive in the future.

**In-kook PARK**

Thank you for your good comment.