Trade Wars Are Class Wars
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Summary
1. This book explains global trade has both benefits and consequences in that inequalities within countries are being misinterpreted as issues between countries. The book goes into the history of global trade and finance and explains surplus countries (i.e. China and Germany) as well as the persistent deficit of the United States. Finally, it explains weaknesses in the current global trade system with some recommendations on how to proceed.

Key Takeaways
1. Introduction
   a. Global trade has both benefits and consequences.
   b. Economic differences within countries are misinterpreted as differences between them.
   c. Wealthy Europeans did not want to invest in domestic products and expansion with questionable returns, so they turned to imperialism that way they had captive markets to sell to; this is an issue of capital allocation.
2. O•N•E From Adam Smith to Tim Cook The Transformation of Global Trade
   a. Brief History of Global Trade
      i. Global trade was initially limited to raw material and finished goods due to a lack of infrastructure.
      ii. The combination of the shipping container and better communications technology lowered costs, allowing companies to develop complex supply chains to increase efficiency and lower taxes.
      iii. Pages 22-27 describe in depth how the shipping container lowered transportation costs.
   b. Trade Theory & US Economic Development
      i. Adam Smith established the power of specialization and David Ricardo determined nations would be better off trading where they had a comparative advantage.
      ii. Smith and Ricardo did not contemplate global supply chains and increased capital mobility.
      iii. There is not an optimal economic development plan that exists for all nations, but rather playing the hand you are dealt.
      iv. Alexander Hamilton recognized an important tradeoff: that you can either be diversified or specialized, but not both.
      v. The economy of the United States developed from a combination of infrastructure investment and import tariffs.
      vi. Friedrich List was an observer of economic development in the United States and believed in a virtuous circle of consumption and production:
         1. Increased production if transformed into higher wages would increase consumption demand and then consumption which would then increase production further.
   c. Trade data is distorted by global value chains and tax avoidance.
i. Page 29 explains how credit is given to the company who exports the finished good but upstream raw materials and components often originate elsewhere.

ii. Trade is not done by countries, but companies who try to avoid tax.

iii. Intangible assets are mobile and are a key to tax avoidance.

iv. You can no longer study trade in isolation: you need to understand how money moves across borders as it is no longer solely trade finance.

3. T•W•O The Growth of Global Finance
   a. International Capital Flows
      i. Financial flows drive trade flows, not the other way around.
      ii. Finance drives trade.
   b. One should not assume these flows are driven by rational investment, but by credit conditions, liquidity conditions, and sentiment of the time.
   c. Long-term growth is driven by investment, part of which comes of savings and that is what drives capital flows.
      i. A country’s savings is driven by the distribution of income.
   d. Imbalances can occur if there are more savings than productive investment opportunities, and countries will "export" the difference.
   e. The Euro at least in part drove some of the great financial crisis.

4. T•H•R•E•E Savings, Investment, and Imbalances
   a. Transition from scarcity to abundance
      i. Historical tradeoffs between investment and consumption no longer hold so any sort of under-consumption is wasteful and counterproductive.
      ii. In a world of abundance, capital allocation should go to increasing consumption to raise living standards.
   b. The following is a set of equations to help reconcile imbalances:
      i. Global demand = Global Production
         1. Demand = Consumption + Investment
         2. Production = Consumption + Savings
         3. Domestic Demand = GDP + Imports – Exports
         4. Exports - Imports = Domestic saving - Domestic investment
   c. Many countries have used a combination of two economic development models to raise living standards.
      i. the "high-savings" model which transfers resources from domestic consumers to governments and businesses allowing them to invest.
         1. This model growth the "pie", but cuts the relative slice that ordinary workers receive as it limits consumption to fund savings and spur investment.
         2. China and Germany use this model by lowering internal demand relative to production and force the rest of the world to absorb the difference.
      ii. "high-wage" model" which involves raising imports relative to exports allowing workers to participate in the upside.
   d. Ideas that to connect to Capitalism without Capital: The Rise of the Intangible Economy
Pages 76-78 explain there is overcapacity and a lack of productive investment opportunities that result in firms accumulating excess cash or returning it to shareholders.

An alternate way to think about high valuations is that the supply of savings is much higher than the demand for savings and part of this is likely driven by some of the characteristics of intangible investment.

The current account and financial account of a country must balance.

i. The current account is the sum of the individual saving and spending decisions of a country.

ii. Page 86 explains a current account deficit corresponds to a financial account surplus and vice-versa.

iii. Large surpluses or deficits are not inherently good or bad, but depend on how the money is raised (i.e. debt or equity) and how it is spent.

Despite generating a consistent surplus, Germany has not been good at capital allocation as borne out by results; it should have either focused on raising domestic consumption or investing domestically.

External financial financing can either be pulled in (i.e. Turkey) or pushed into (i.e. Spain)

i. Financial flows never seem to go to the right places at the right times in the right form.

ii. Large inflows into small and developing countries are hard for them to ingest; this is a similar dynamic to a startup that raises too much money.

Navarro's Error explains deficits cannot be explained by bilateral trade and that only global relations matter; this matters because policy centered around tariffs by examining this relationships will either do nothing or cause more harm.

5. From Tiananmen to the Belt and Road Understanding China's Surplus

a. Investment is only useful if its funds unmet consumption and production to justify the cost otherwise its a waste of resources; China's investment is state directed and not market driven which was initially fine given the low hanging fruit, but this is no longer the case.

b. The growth model of China is unbalanced as it combines a trade surplus with financial outflows to the rest of the world to stay balanced.

c. China's hard currency peg kept its exports cheap and acted as a subsidy to manufacturing companies.

d. In a broad sense, household's are net importers because they don't make everything themselves; therefore, a strong currency helps increase consumption and a weak currency the opposite.

e. At some point China's economy will rebalance and a good way to do this is to shift income to Chinese workers so they can consume more of what they produce.

f. Countries aren't poor because they lack capital but rather because they lack the proper institutions to absorb capital to become rich.

6. The Fall of the Wall and the Schwarze Null - Understanding Germany's Surplus

a. The European Union was meant to make Europe more stable, but it may end up making Europe less flexible.

i. The Euro has forced other countries to "become" Germany by under-consumming and under-investing in its infrastructure.
ii. They must also follow a model of austerity and its policy choice affect the rest of the world.

b. On page 169, the authors note that sometimes ideology can trump logic and uses Germany's aversion to public debt as an example.
   i. Germany could have taken on low cost debt to invest in the country and infrastructure, but it did not do so and that is bad capital allocation as it implies you think returns on that investment are negative.

c. Germany has very concentrated wealth, so a lot of its policy has enriched the wealthy at the expense of the average worker.

d. The narrative the Eurozone crisis was caused by reckless borrowers is incomplete as someone has to fund those borrowers, and it useful to ask, who?

7. S•I•X The American Exception - The Exorbitant Burden and the Persistent Deficit

a. The open economy and stable government make America a unique and attractive destination for the world's excess savings to both good and bad effect.
   i. These inflows don't seek profits, but self-insurance (safety) against crisis which keep borrowing costs low and finance consumption in America.
   ii. The current system drives imbalances, causing other countries to accumulate US reserve assets to self-insure at the expense of domestic spending.

b. Main Point: distribution of incomes within countries can affect relations with the rest of the world.

c. The author notes declines in business investment on page 178.
   i. Some of this is driven by the economic characteristics of intangible investment and as capital equipment is more advanced, less labor involved.

d. Think of the current account as an independent variable, with the government, businesses, and individuals adjusting to inflows from abroad.

e. Dollar as the reserve currency
   i. Keynes wanted a clearing central bank for world trade and finance, but America vetoed it.
   ii. The reserve currency is not a blessing, but a curse and the author suggest we go back to Keynes concept of an international reserve currency.

f. China keeps its currency down by accumulating reserves which keeps income away from workers and consumers and channels it to the government and owners of export industries.

g. Foreign financial inflows drove the mortgage debt bubble and US de-industrialization.
   i. The mortgage debt bubble was excessive demand for US reserve assets relative to supply; the government and US businesses did not want to absorb that demand, so it found its way to consumers via mortgages and that massive increase in credit supply led to lower underwriting standards.
   ii. US de-industrialization came from absorbing imports from companies who emphasized exports at the expense of production.

8. Conclusion: To End the Trade Wars, End the Class Wars

a. Open trade has made globalization reinforce inequality, allowing governments and the rich to take advantages of households and workers.

b. Tariffs do not address or solve trade imbalances, but capital controls might.
c. The open system worked when the United States was the majority of the world economy, but that is no longer true.
d. This system now puts stress and strain on the United States.
e. A persistent surplus does not indicate increased productivity, but rather inequality within a country.

What I got out of it

1. Infrastructure and technology improvements spawned rapid growth in global trade.
2. Global trade has grown created complex supply chains optimized for profitability and not resilience.
3. Capital allocation occurs at not only the firm and individual level, but also the national level.
4. The open system of global trade based on the US dollar magnifies distortions as the US has become a small part of the world economy.

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