Exclusive – Don Luskin: Trump Will Win the Trade War Because China Is a 'Fragile, Lawless Slave State'

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Don Luskin, chief investment officer at Trend Macro, joined SiriusXM host Rebecca Mansour on Monday's *Breitbart News Tonight* to discuss his recent *Wall Street Journal* op-ed, "China Is Losing the Trade War with Trump."

"My thesis is that what Trump is really after here is for China to grow up and play nice like the large nation that it is," said Luskin.

To accomplish that, Luskin said China would have to "stop its own massive tariffs, stop its theft of intellectual property, stop its requirements that foreign companies that want to do business on Chinese soil have to take on bogus Chinese partners who will steal their intellectual property — all that stuff's got to go."

"They joined the World Trade Organization in 2001, and they haven't played by the rules since Day One," he said.

Luskin said he was not a fan of tariffs, but found them useful in concert with economic sanctions and other forms of pressure against China, while President Trump's tax and regulatory policies are perking up the U.S. economy and sowing doubt in Beijing that it can win the trade war.

"Tariffs are, in fact, a kind of sales tax you impose on yourself," he noted. "But we can afford it right now, and my thesis is that China can't. China is actually very fragile. China is a huge debt-fueled totalitarian economy that masquerades as — it's got a nice-sounding fancy name — 'state capitalism.'"

Luskin said the Chinese economy is filled with excess capacity, inefficiency, poor investments, and corruption.

"The only way they limp along, avoiding recessions, is to issue more and more debt and get less and less GDP growth out of it. We're in a position to put some tariffs on Chinese goods — which yes, make Chinese merchandise a little more expensive for us, but that's a pain we can take. It's *not* a pain they can take," he said.

Luskin found encouraging signs that China is getting close to raising the white flag of surrender, including a 27 percent drop in the Chinese stock market at the same time the American market is hitting "all-time highs."

The Chinese currency is also declining, suffering its two worst months in history back-to-back, which he said looks more like an economic death spiral than the birth of a new global superpower. Luskin viewed the declining Chinese stock market as a vote of no confidence from investors around the world.

Luskin called the "elite consensus" about trade policy "naive" and applauded President Trump for challenging it.

"The idea is that at all times and in all places, more trade is good — even predatory trade where you have, say, state-sponsored steel mills that produce steel below cost, sell it here at a lost. The typical Cato Institute view of trade is, 'Well, why would you object to that? Don't you like free steel?' Sure you do — until it puts your own steel industry out of business," he said.

Instead, Luskin cited the wisdom of the great economists that "trade is good when it is reciprocal because if it's not reciprocal, it's not trade."

Luskin was not impressed with some of China's demonstrations of economic might, especially given the debt burden Beijing rapidly accumulated to finance them.

"I don't think building a bunch of empty cities, and maglev trains to nowhere, and investing in so much overcapacity in their steel industry that workers just basically show up to get paid and do nothing – those are not good investments," he said.

"There's one other thing that makes China very weak that we just don't think about here in a very orderly country like the United States, and that is: we in this country are basically free," he continued. "We've been brought up to control ourselves, to discipline ourselves, to honor the rule of law."

"China is a lawless slave state. It is really no different than the Soviet Union was 50 years ago, except they've got fancier, prettier skyscrapers," he charged.

"What that means is that you've got a political elite that is trying to control 1.4 billion prisoners. This is a prison state. If any kind of economic slippage happens at all, there aren't enough riot police in the world," he predicted.

"That's the real risk. It's not the debt. It's not the tariffs. It's that China is not a stable culture, just like the Soviet Union wasn't, just like the East-West Germany divide wasn't. When that thing blew, man, the Soviet Union blew up into 25 pieces like in two weeks. All the peasants stormed the Berlin Wall. That's China's true risk," he said.

Luskin doubted the Chinese can weather the trade war simply by printing money.

"China couldn't really thrive if it weren't for a lot of investment from the rest of the world," he pointed out. "It's the investment of capital, the investment of ideas, the investment of managers that you send over there to show them how to run factories and businesses."

"When a currency starts weakening like this, what happens has happened over and over throughout the decades with all the emerging markets," he said. "It's happened throughout Asia, it's happened in Latin America. It's sort of like the 17-year locust — it just seems to happen on a cyclical basis."

"People put money into these countries, they try to devalue their currency in order to win a trade war, get a little bit of a competitive advantage," he explained. "It's like putting your merchandise on sale. As soon as you devalue your currency, all the people who invested in your country — who started with dollars or euros, you know, real money — they start saying, 'Oh, my God! Why did I invest in that crazy little country, when just at the stroke of a pen they can devalue their currency by ten percent. I'm pulling my money out!' Instead of having a run on the bank, you have a run on the country."

"Capital does not like to be where it's not treated well," he observed. "In today's modern world, anybody could just pick up their cell phone and just, boom, 'I want my billion back from China.' In the last two years, China has already had a trillion dollars of capital flight. It's only got about two and a half trillion left. That's a lot, but you can see zero from there."

Luskin was skeptical of the notion that China can replace departing foreign demand with domestic consumption.

"There's a factory in Shenzen that's operated by a Taiwanese company called Foxconn," he said. "It's a single factory that's 1.4 square miles big, that employs 450,000 people in a single factory. They make iPads, and they make iPhones. None of them are consumed in China. They're all exported. Do you think the Chinese are suddenly going to start buying those? It's just not going to happen. They've already got their knockoff iPhones based on the stolen intellectual property from Apple. It ain't never gonna happen."