

## China using Russian strategy in trade war with America

[Steve LeVine](#)

Axios, Jul 22



Illustration: Lazaro Gamio/Axios

A big Chinese trade counter-assault may be on its way: a deliberate devaluation of the yuan, with the aim of offsetting the impact of U.S. tariffs, experts tell Axios.

**If they are right**, China will be mimicking an ultra-successful stratagem used [by Russia to weather](#) four years of withering western sanctions over its invasion of Ukraine.

**What's going on:** The yuan has plunged by 4.5% in value against the dollar over the last month, making Chinese goods cheaper in the U.S. and American products more expensive in China.

**As of now, the drop in** the yuan's value appears to reflect a selloff by traders watching China's economy weakening, [reports the WSJ's Saumya Vaishampayan](#). But, with both sides digging in their heels and the prospect of a protracted trade war, a determined devaluation appears to be the strongest tool in China's toolbox, economists tell Axios.

*"If they want to minimize the effect of the tariffs on their exporters, this is about the only option."*

— **Joseph Gagnon**, a former Fed official now with the Peterson Institute for International Economics

**Such a strategy would** be a strong antidote, while resulting in a hit to some Chinese commercial actors, Gagnon tells Axios. "They could fully offset the macro effect of the tariffs," he said, "but there would still be a lot of micro distortions as some firms gain and others lose."

**But the main thing** was that, from then on, Russia was earning *dollars* for its sale of oil and gas, but spending *devalued rubles* for salaries and other government programs at home. The economy shrunk and went into recession before recovering, but President Vladimir Putin — determined to withstand the pressure, and igniting a nationalistic anti-American propaganda campaign at the same time — retained wild public support.

In China, the to-and-fro and blood on the floor could end up looking like a similar war of attrition, even if China is less belligerent about it..