

Future of US-China Relations

Martin Wolf, Chief Economics Commentator, Financial Times

Nottingham University 2019

7th March 2019

Nottingham

Future of US-China Relations

“Protection will lead to great prosperity and strength.”

Donald Trump, Inaugural Address, 20th
January 2018.

Future of US-China relations

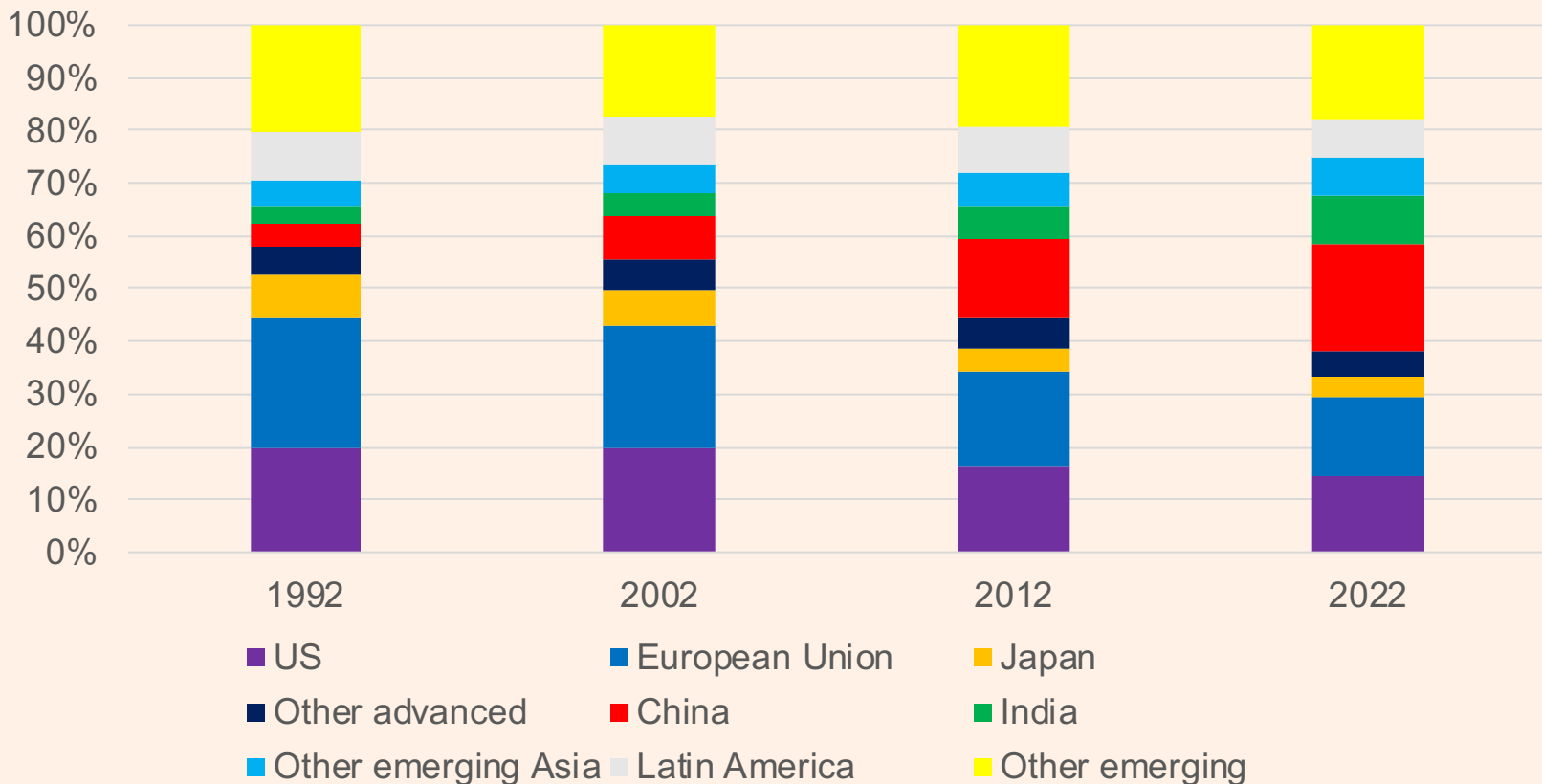
1. Global transformation
2. Weakening globalisation
3. China's challenges
4. China-US tension
5. Trade war
6. Perilous world

1. Global transformation

- Road to today
- China's rise
- Winners and losers

1. Transformation: China's rise

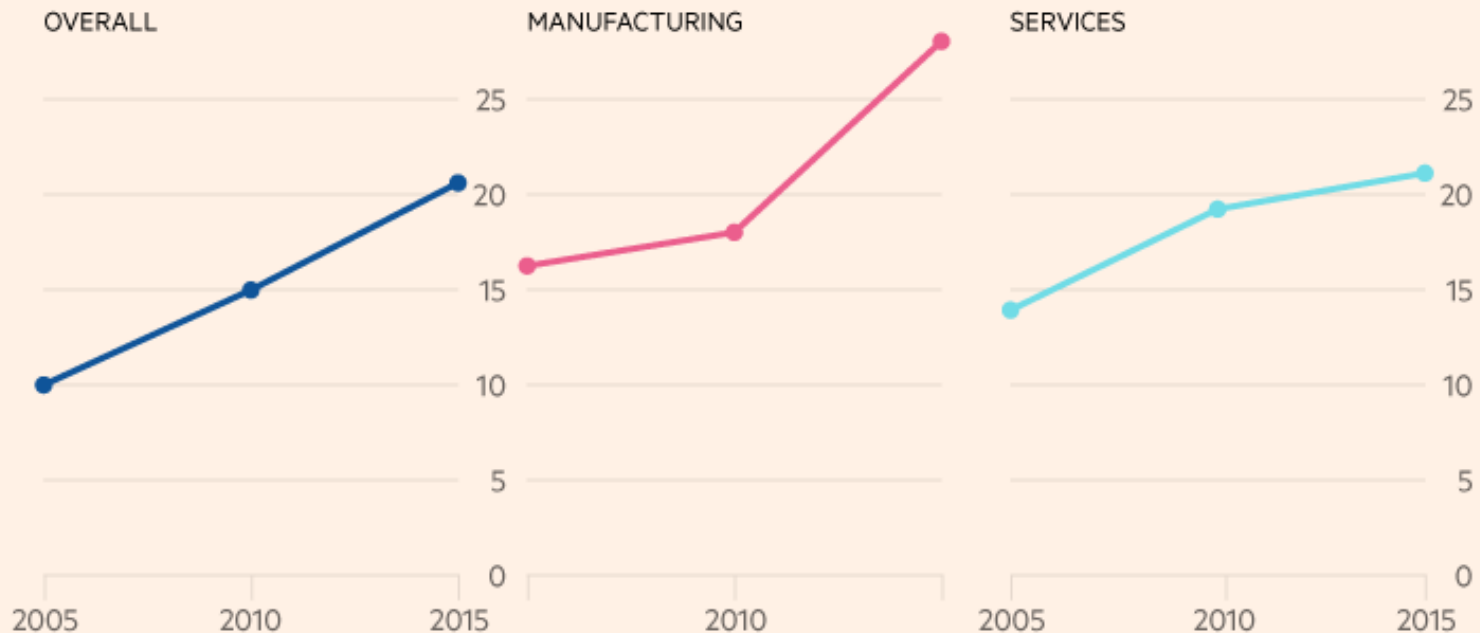
**SHARES IN WORLD GDP AT PURCHASING POWER
PARITY (IMF, WEO database)**



1. Transformation: China's rise

China's labour productivity is increasing, with manufacturing driving the rise

As a % of US level



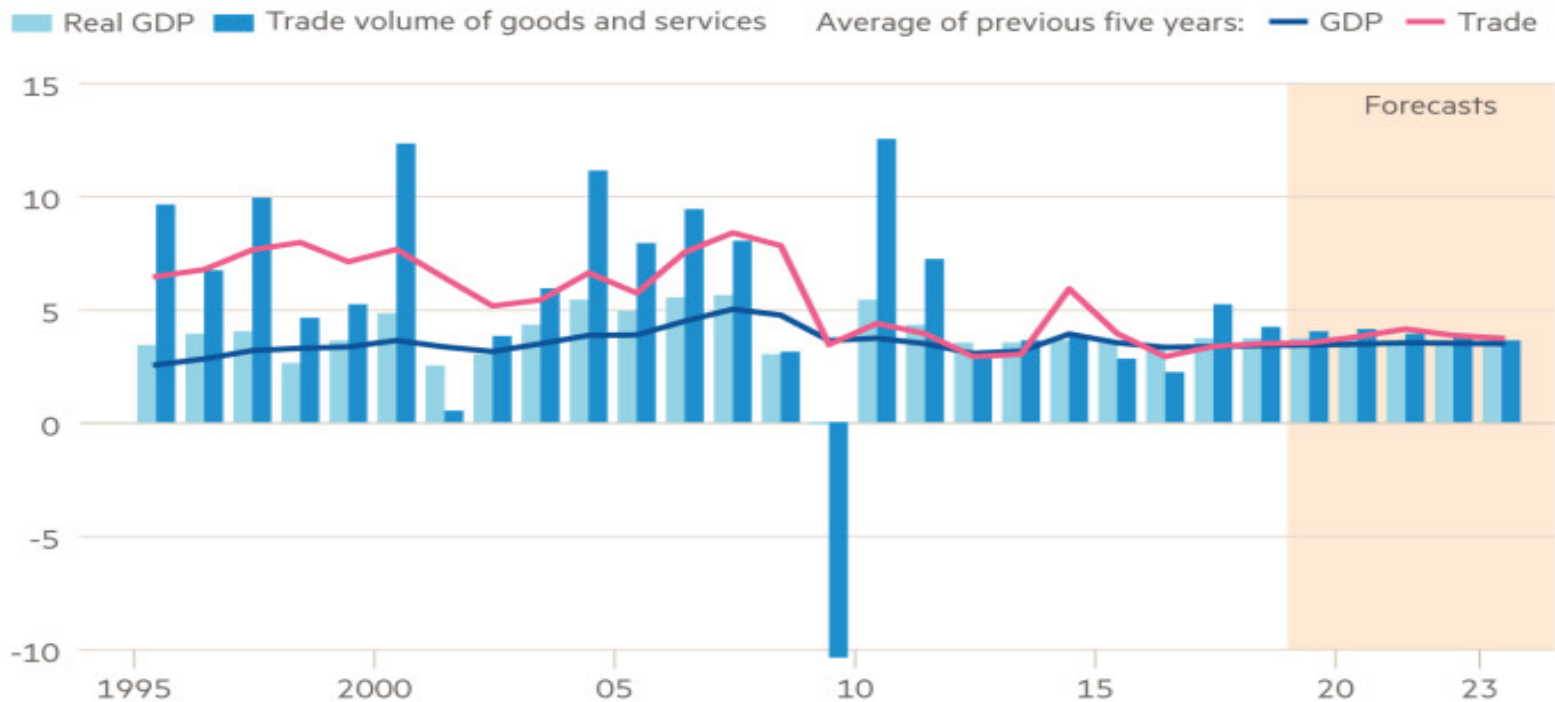
Source not yet added

© FT

2. Weakening globalisation

Trade growth has not returned to pre-crisis levels

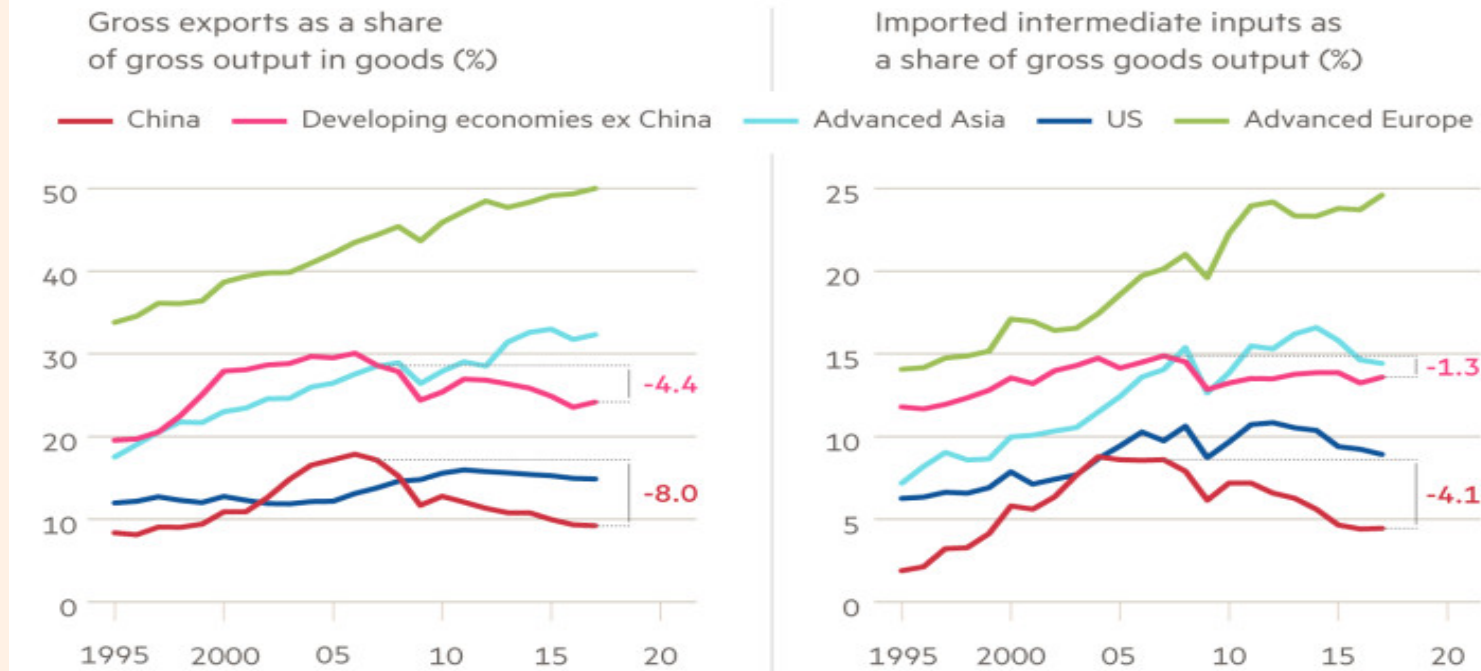
Global measures (annual % change)



Source: IMF
© FT

2. Weakening globalisation

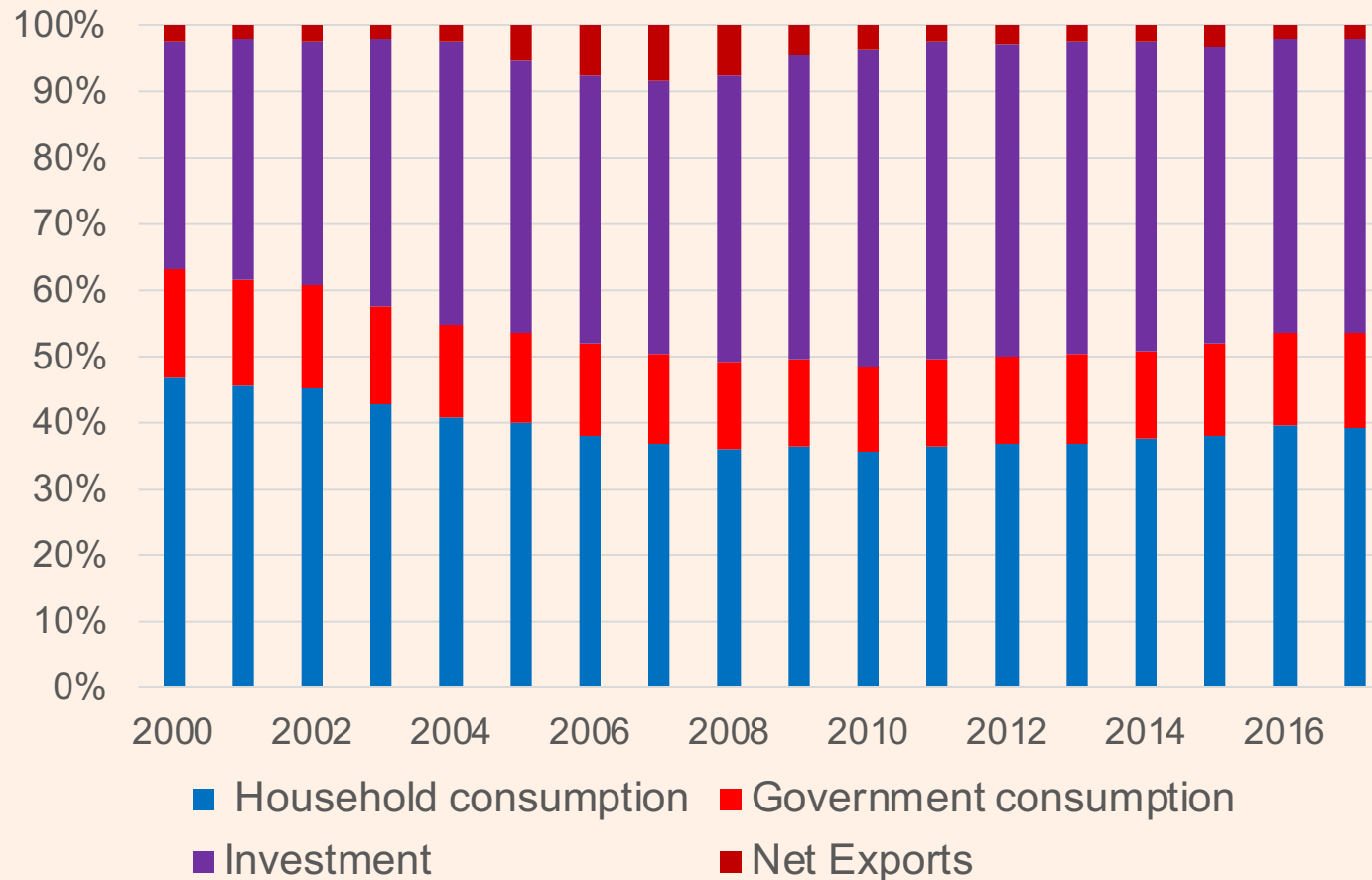
Developing countries have turned away from trade



Source: McKinsey Global Institute
© FT

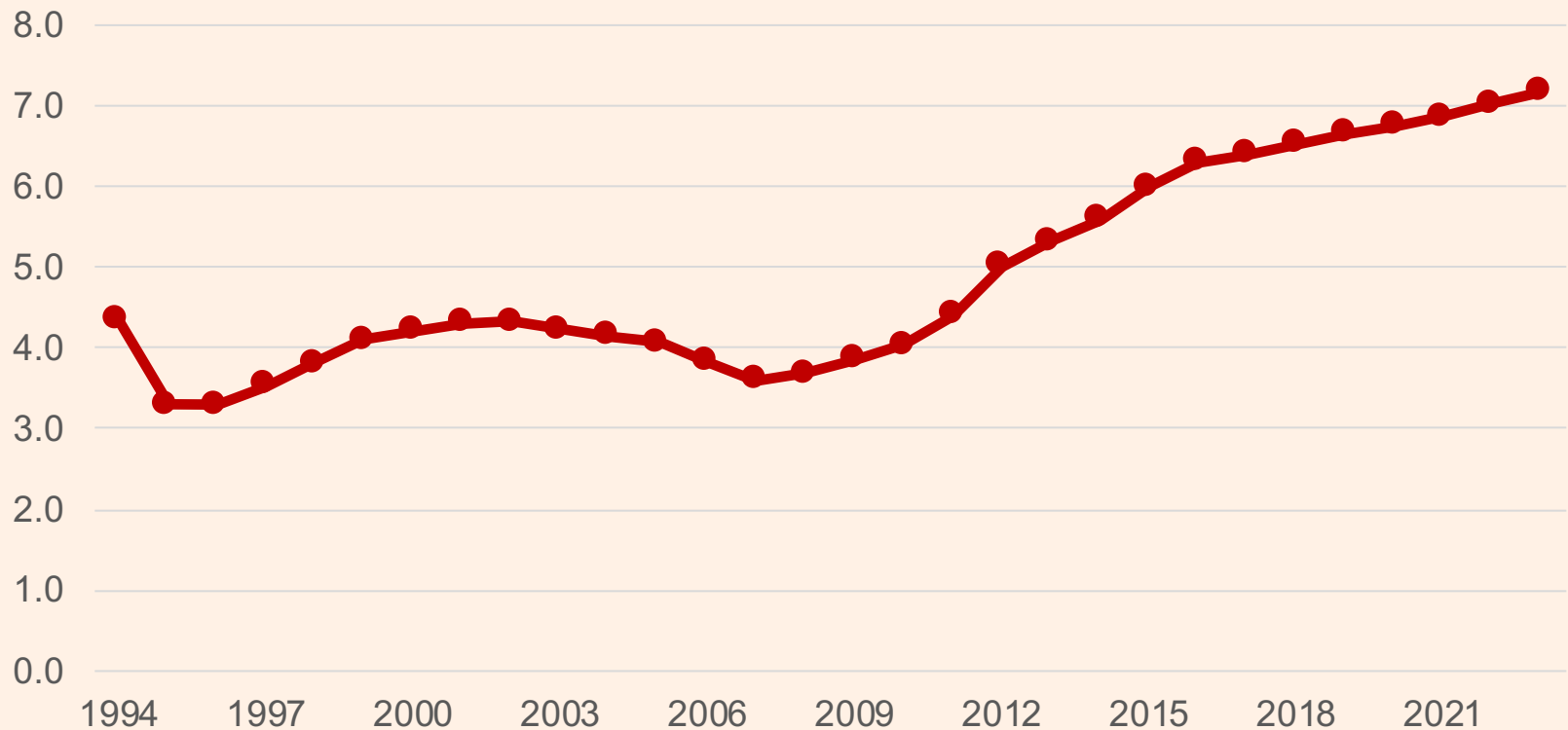
3. China's challenges

STRUCTURE OF CHINA'S DEMAND



3. China's challenges

**CHINA: FIVE-YEAR MOVING AVERAGE OF
INCREMENTAL CAPITAL-OUTPUT RATIO**



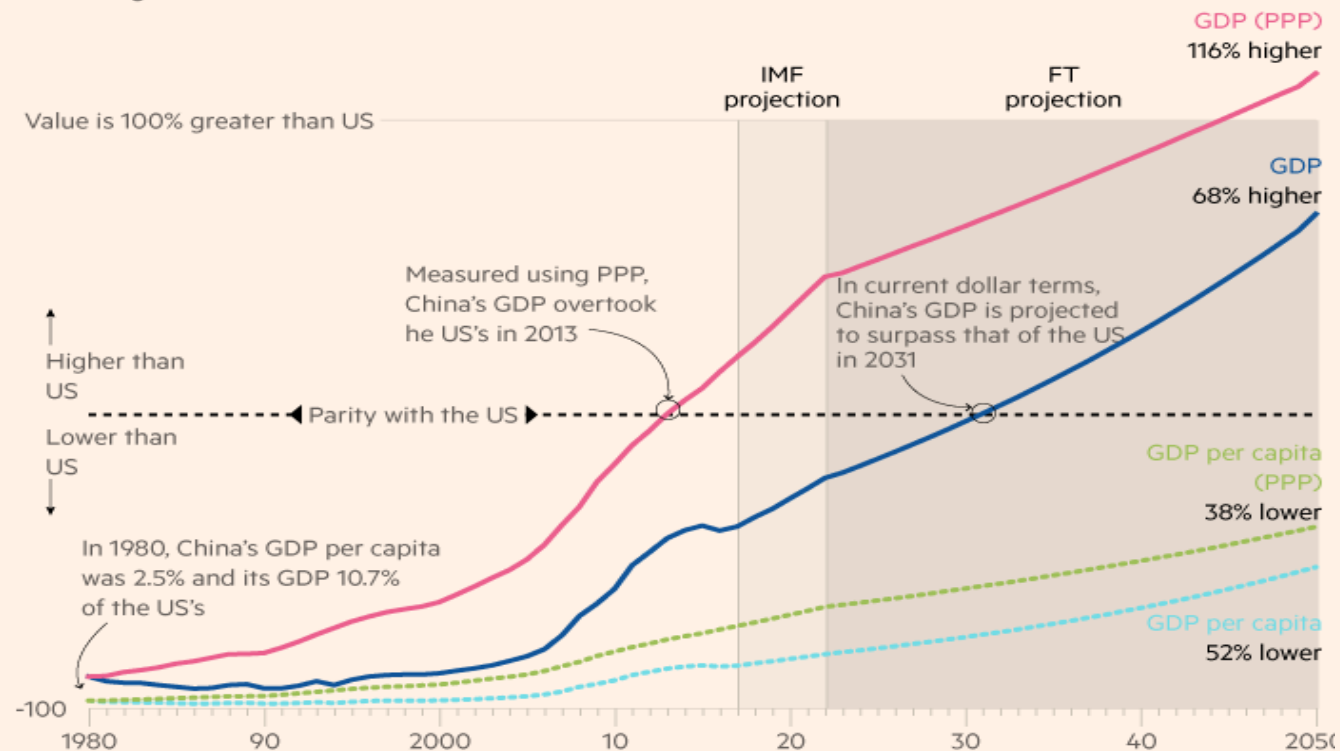
3. China's challenges



4. China-US tensions

China's GDP and GDP per capita

Percentage difference to US GDP at current dollars and PPP dollars

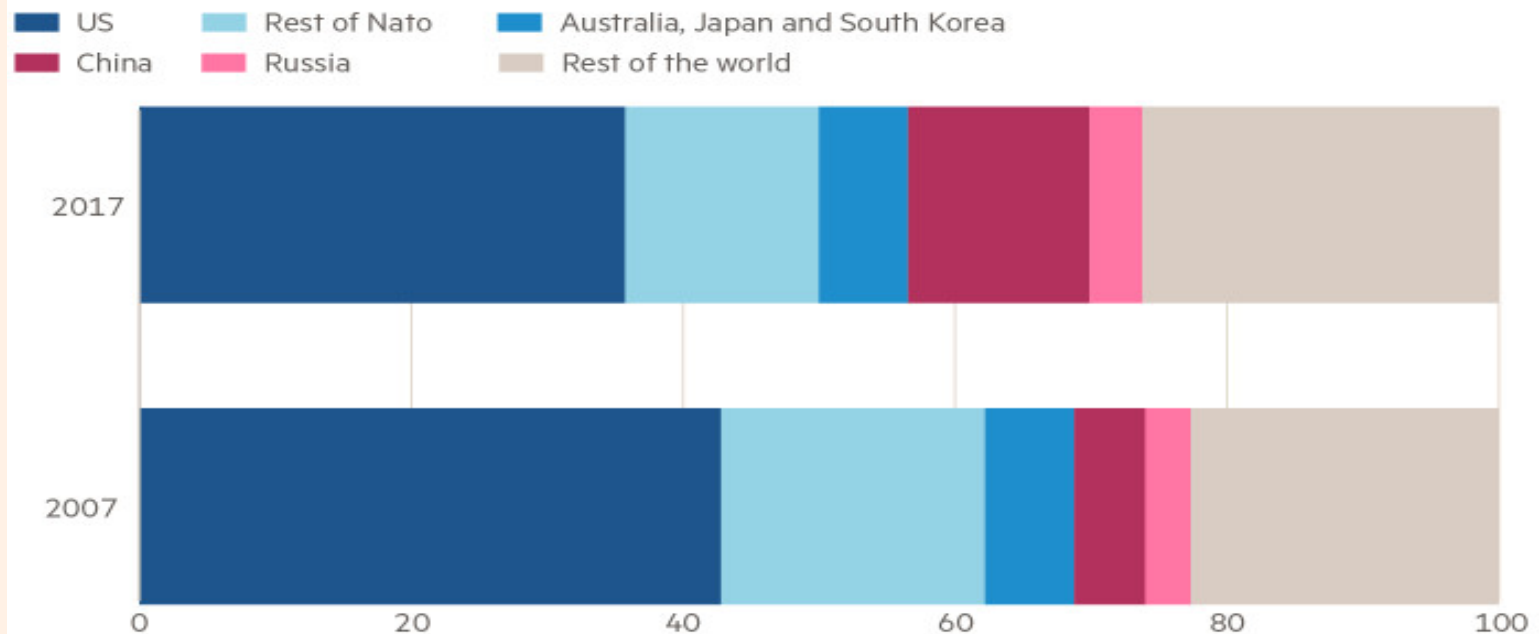


Source: IMF
© FT

4. China-US tensions

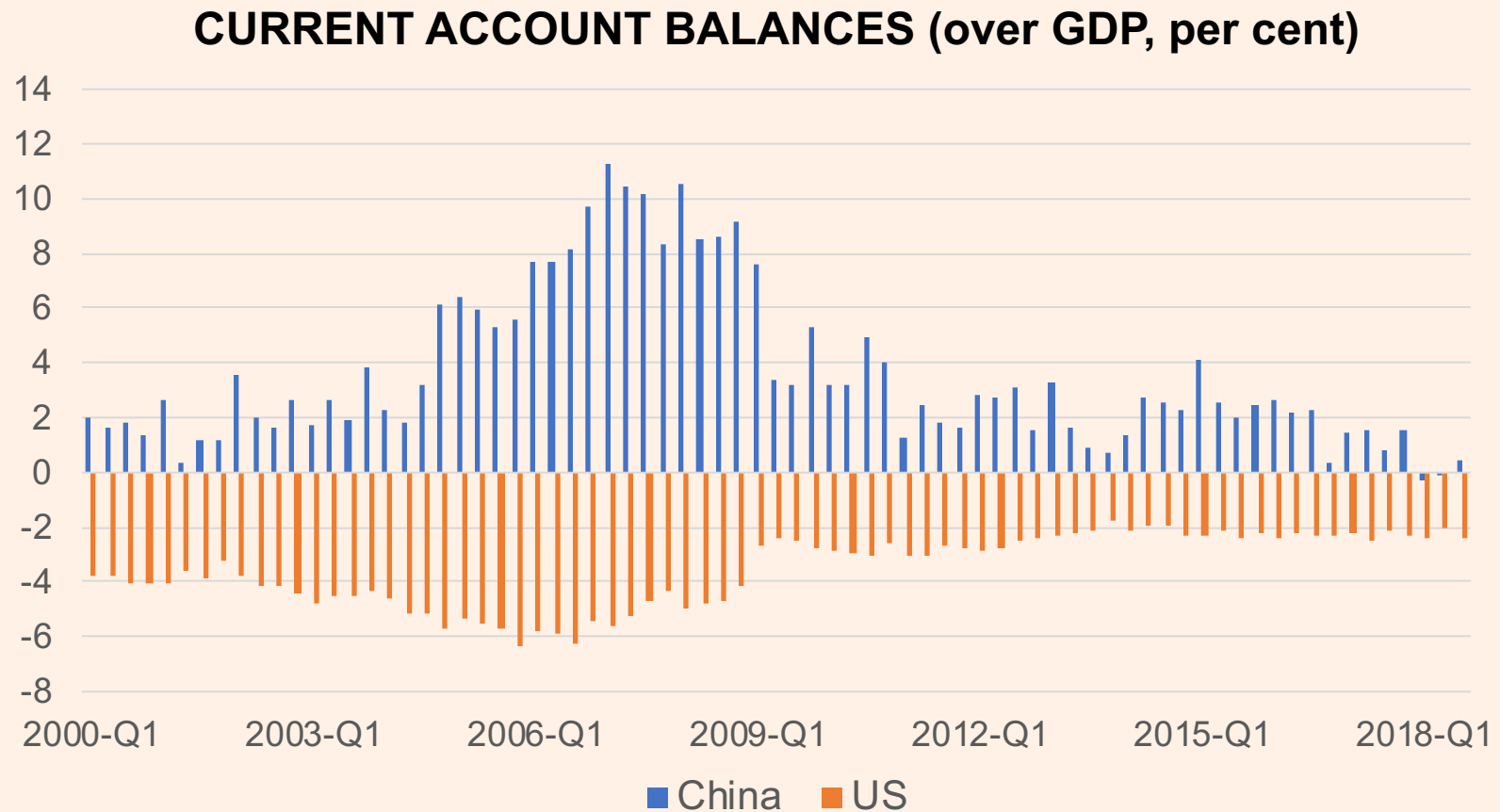
Western world's share of military spending is in decline but remains dominant

% of world military spending

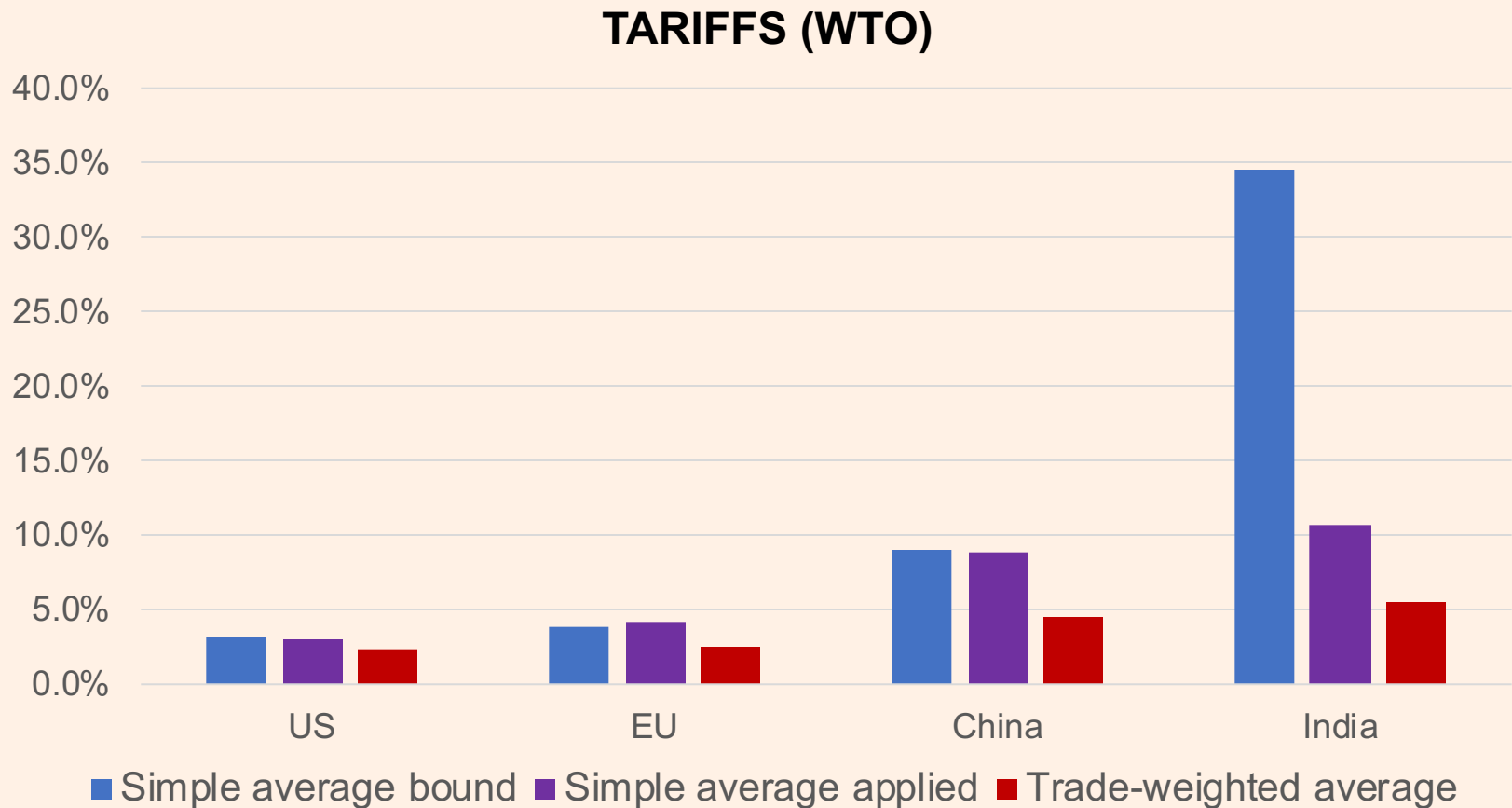


Source: IMF
© FT

5. China-US trade war



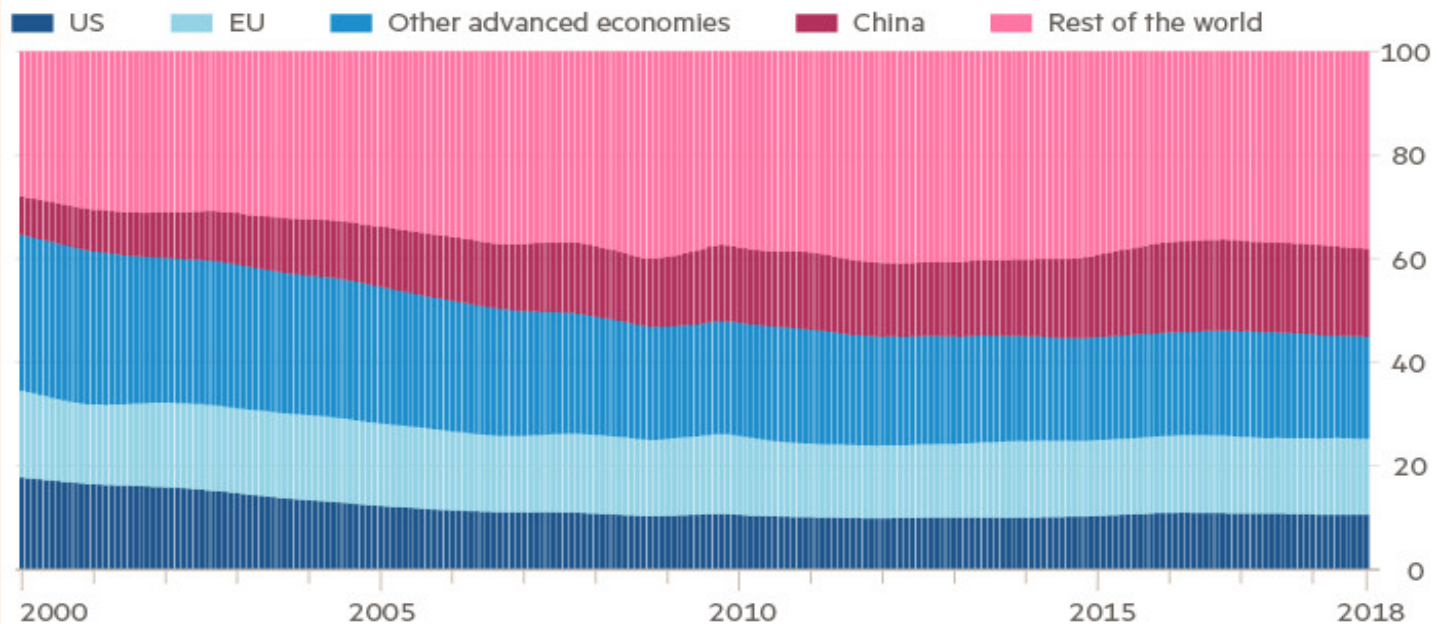
5. China-US trade war



5. China-US trade war

Developed economies remain larger importers than China

Share of global Imports of goods, by source (%)



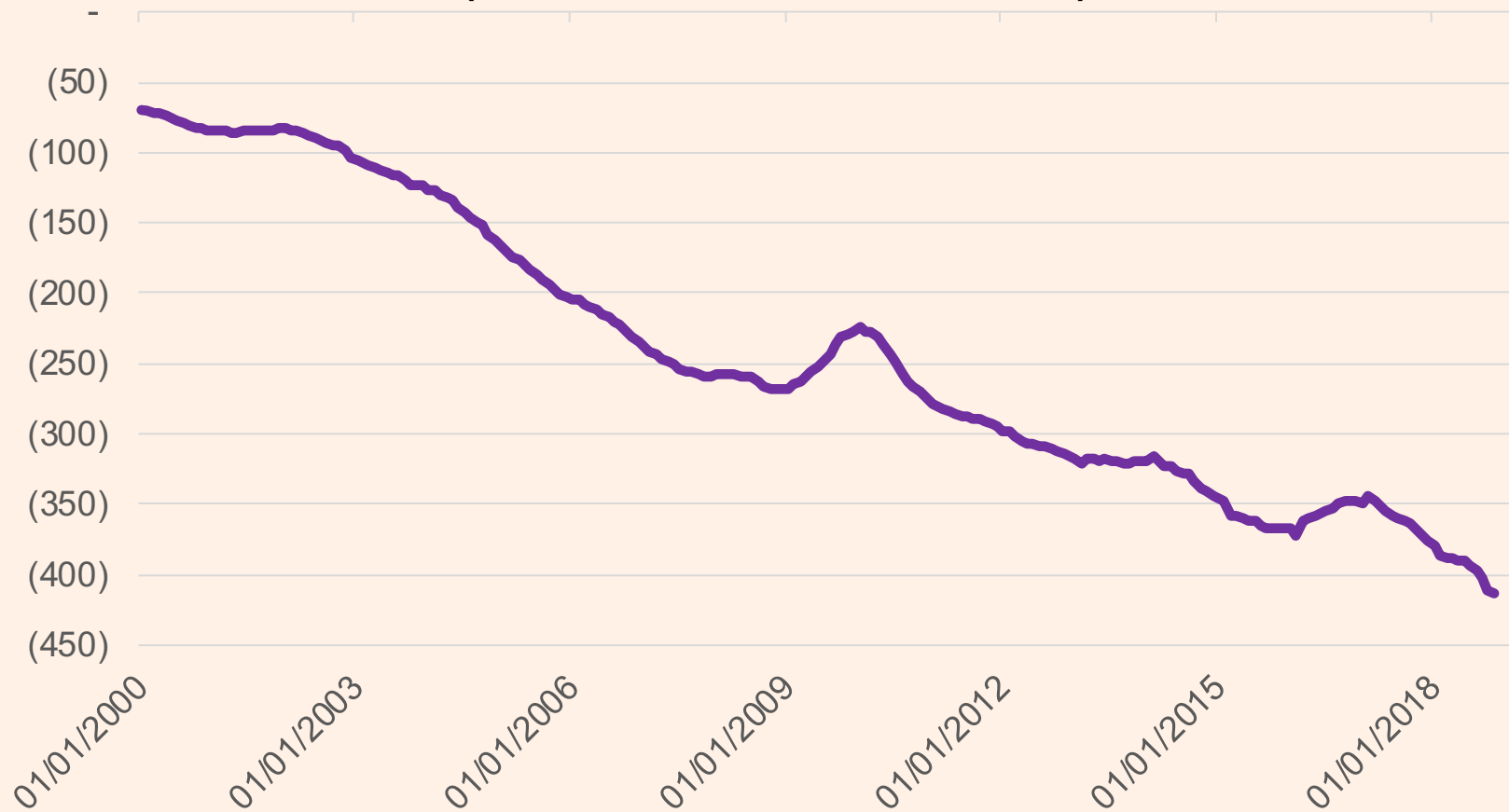
Excludes Intra-EU trade

Source: IMF Direction of Trade Statistics

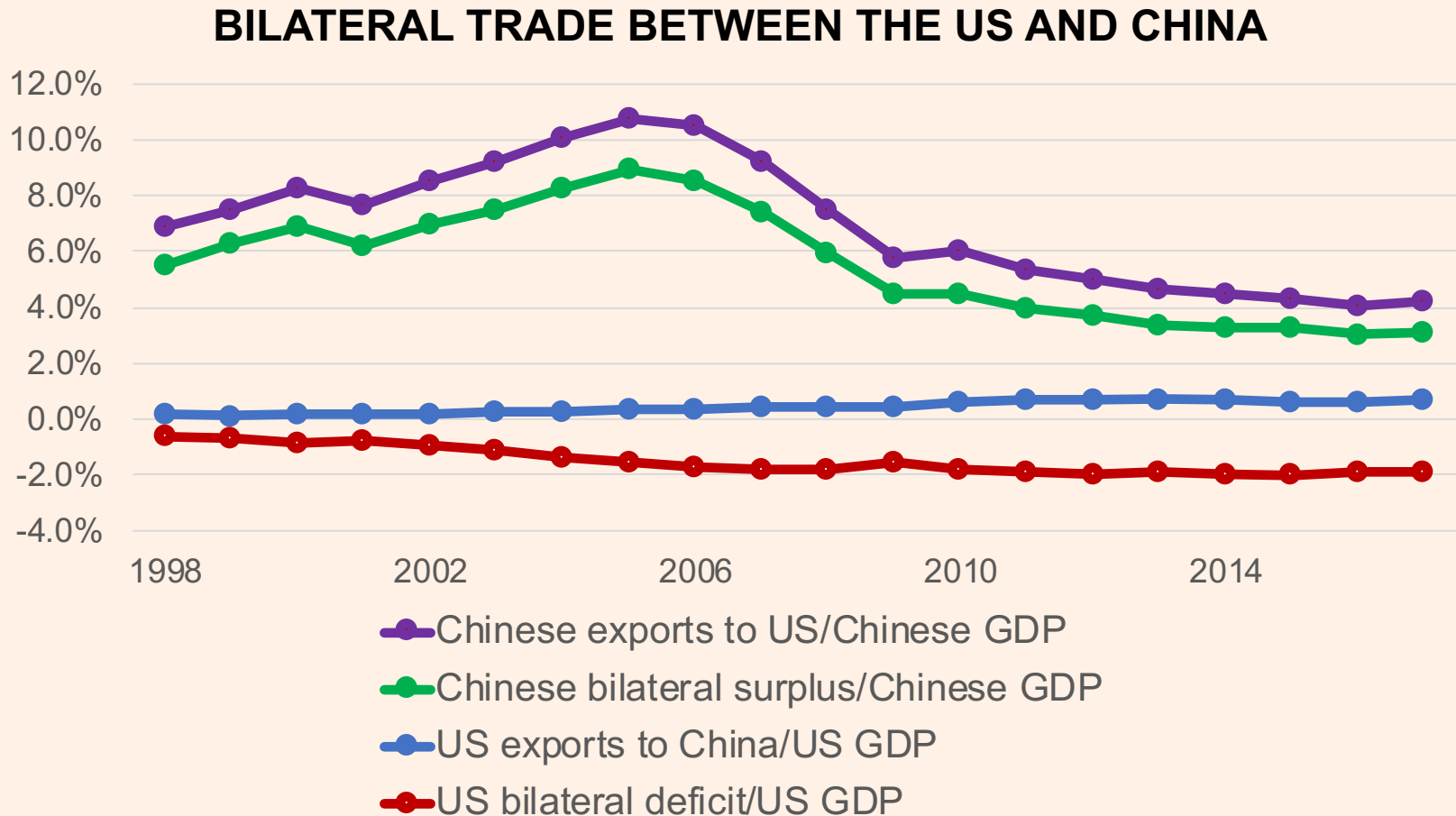
© FT

5. China-US trade war

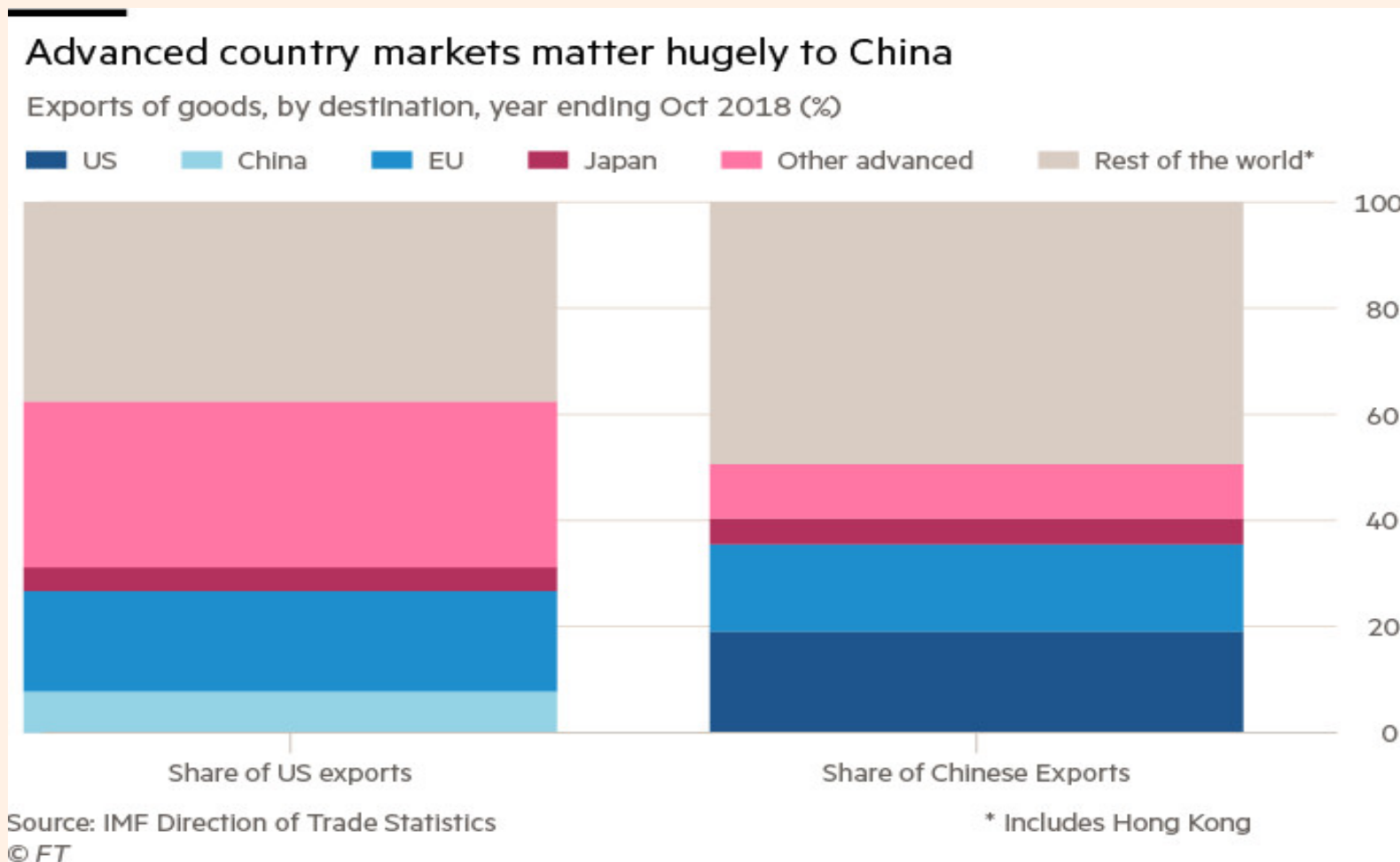
US TRADE BALANCE WITH CHINA (\$bn)
(Refinitiv, US Census Bureau)



5. China-US trade war



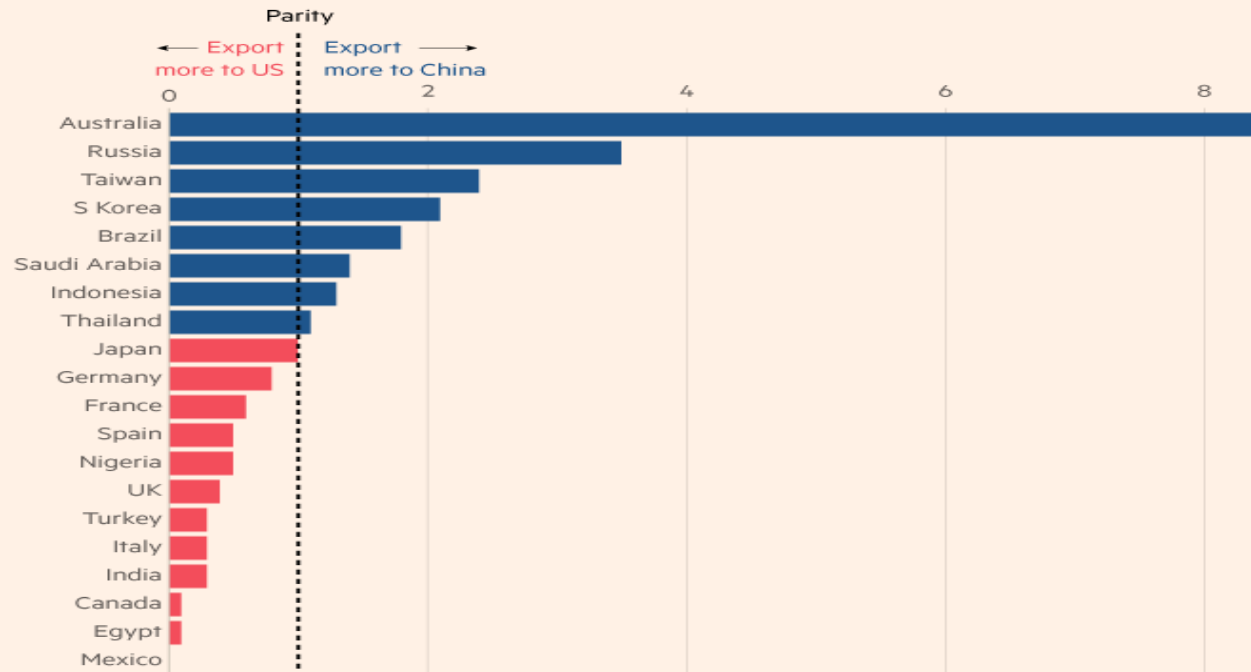
5. China-US trade war



5. China-US trade war

Eight of the world's 20 largest economies* export more to China than to the US

Exports to China over exports to the US, 2017 (ratio)

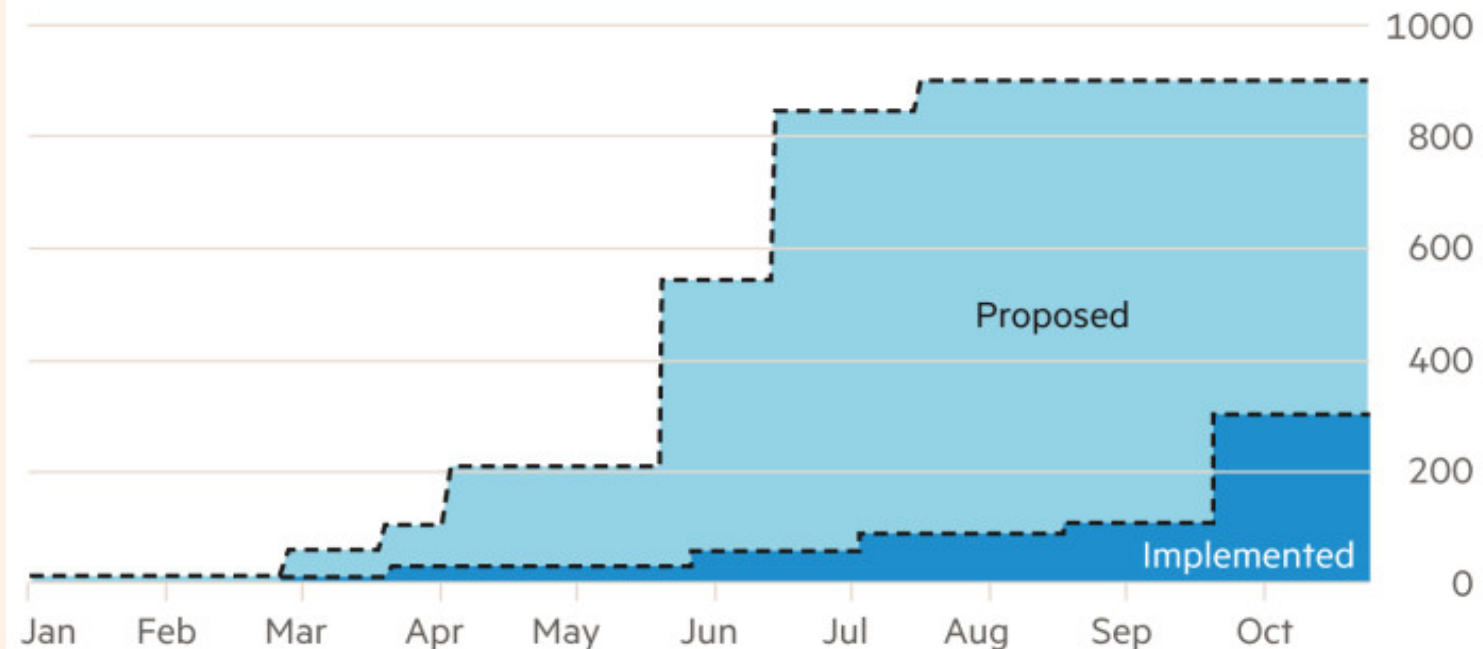


Source: IMF and national statistics for Taiwan *largest economies at PPP
© FT

5. China-US trade war

The US has turned towards protectionism

US imports subject to tariffs, 2018 (\$bn)



Source: Goldman Sachs
© FT

5. China-US trade war

- US demands that China should:
 - Reduce US-China trade imbalance by \$200bn over two years
 - Eliminate all “market-distorting subsidies”
 - Strengthen intellectual property protection and eliminate technology requirements in joint ventures
 - Cease espionage, cyber espionage, counterfeiting and piracy
 - Forego all retaliatory actions, including any requests for consultations in the WTO
 - Accept US restrictions on Chinese inward FDI

5. China-US trade war

- Afford US investors “fair, effective and non-discriminatory market access and treatment”, including removal of foreign investment restrictions
- Reduce tariffs in “non-critical sectors” to US levels and open access to services and farm products
- Accept quarterly monitoring.
- China “will not oppose, challenge or take any form of action against” any such US impositions.

5. China-US trade war

- It is unclear whether a deal can be done on this basis. But it should be noted that:
 - Concern about the bilateral balance has no economic logic
 - China's tariffs are actually relatively low
 - Acceptance of US demands would lead to *more* entanglement of US business in China, while many Americans want *less* entanglement
 - All these actions are contrary to WTO rules
 - But the US is engaged in destroying the WTO.

6. Perilous world

- The world is in profound transformation, economically and politically
- This is leading to a rise of populism and protectionism in the West
- The US is moving towards a new “cold war” with China
- Globalisation is under threat
- Relations between the two superpowers are being re-defined, worryingly