China in the world economy: co-operation or conflict?

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China in the world economy

“Economic globalization has powered global growth and facilitated movement of goods and capital, advances in science, technology and civilization, and interactions among peoples.”

Xi Jinping, World Economic Forum, Davos, January 2016
China in the world economy

“Protection will lead to great prosperity and strength.”

Donald Trump, Inaugural Address, 20th January 2016.
China in the world economy

1. China rising
2. Globalisation up and down
3. West falling
4. Towards a new “cold war”
5. Today’s trade “war”
6. China’s future role
1. China rising

• China’s rise has been dramatic
• It is the great economic event of our era
• China has increasingly become an economic rival of the West
• But the high-income economies, in aggregate, remain more powerful economically than China
• How long might that last?
• China’s economic rise has made it a greater military power
1. China rising

SHARES IN WORLD GDP AT MARKET PRICES (IMF, WEO Database)
1. China rising

China's GDP and GDP per capita

Percentage difference to US GDP at current dollars and PPP dollars

- In 1980, China's GDP per capita was 2.5% and its GDP 10.7% of the US's.
- Measured using PPP, China's GDP overtook the US's in 2013.
- In current dollar terms, China's GDP is projected to surpass that of the US in 2031.

Source: IMF © FT
2. Globalisation up and down

• The “second globalisation” of 1978-2008 was an era of high confidence in markets
• Many in the West hoped, optimistically, that liberalisation and economic integration would mean economic and political convergence
• Confidence in this has now largely disappeared
• Democratisation and globalisation have slowed
• Liberalism has gone into reverse
2. Globalisation up and down

Trade growth has not returned to pre-crisis levels

Global measures (annual % change)

- Real GDP
- Trade volume of goods and services
- Average of previous five years: GDP, Trade

Source: IMF
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2. Globalisation up and down

Developing countries have turned away from trade

Source: McKinsey Global Institute
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3. West falling

• The period of globalisation was less good for the West, economically and politically:
  • Inequality rose
  • Real incomes stagnated
  • Populist politics took hold
3. West falling

DEBT OF MATURE ECONOMIES (per cent of GDP)(IIF)

- Households
- Non-fin corporates
- Financial Corporates
- Government
3. West falling

PROPORTION OF HOUSEHOLDS WITH FLAT OR FALLING REAL INCOMES FROM WAGES AND CAPITAL 2005-14 (Source: McKinsey)
4. Towards a new “cold war”

- China is increasingly economically important
- It is likely to become more so in the future
- The long-dominant West finds this increasingly disturbing
- The power shift is the root of the concern
- It has brought together a coalition of different Western interests all concerned about China in at least one respect
- The Chinese government is also viewed as increasingly assertive
4. Towards a new “cold war”

• Some in the West talk of a new “Cold War”
• This is not a good analogy:
  • China is not exporting an ideology
  • Communism is not a vital global ideology
  • China is vastly more integrated into the global economic system than the Soviet Union was
• So the costs of a breakdown in co-operation would be greater than the ”cold war”
5. Today’s trade “war”

- At the moment, trade is the focus of friction, especially between the US and China
- This is partly because President Trump is a protectionist
- It is also because many in the West are anxious about what they view as an unbalanced relationship
- Is this reasonable? Only up to a point
5. Today’s trade “war”
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US TRADE BALANCE WITH CHINA ($bn)
(Refinitiv, US Census Bureau)
5. Today’s trade “war”
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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. Today’s trade “war”

- US demands were 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. Today’s 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.

- I cannot imagine that any Chinese leader could accede to these demands.
- This is tantamount to an “unequal treaty”.
5. Today’s 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.
5. Today’s trade “war”

![chart showing tariffs comparison between US, EU, China, and India]

**TARIFFS (WTO)**

- **Simple average bound**
- **Simple average applied**
- **Trade-weighted average**
5. Today’s trade “war”

• The EU and Japan:
  • Share some of US objectives, notably over market access, national treatment and intellectual property
  • They disagree over US unilateralism (because it is directed at them, too)
  • They want the WTO to survive
  • So they support the US on ends, but not on means

• China could split its potential foes, if it were cunning

• Acceding to US demands for bilateral balance could split its potential foes quite quickly
6. China’s future role

• The world is in transformation
• Globalisation is under threat
• The West is eroding and its political system is under threat
• The US is moving towards a solipsistic view of policy
• Relations between the two superpowers are being re-defined, worryingly, starting with trade
• China should also worry that it might unite much of the world, against it
6. China’s future role

• How then should China respond, in its own interests and those of the world?
  • China needs to recognise that its rise is frightening
  • China can manage this fear if it understands its interest in a stable, open and co-operative world
  • China should concede, where those concessions are in China’s interests, over trade liberalisation
  • China should seek to win friends
  • China should seek to split its foes
  • China should work hard to preserve peace and promote global co-operation and the rule of law