Trade War and China

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Todd C. Lee
Executive Director Global Economics
todd.lee@ihsmarkit.com
Exports’ importance in China’s economy diminishing

(Percent of GDP)

Total goods exports

Goods exports to the US

Tariffs on Chinese exports will not only hurt China

Source: IHS Markit
China’s trade sector is less closed than its peer developing economies

(Unweighted average tariffs, percent)

Source: WTO World Tariff Profiles 2017
But China’s financial markets are extremely closed, much room for opening-up and reform

(OECD FDI Regulatory Restrictiveness Index, 1 = most restrictive)

Source: OECD
Low income countries are normally intellectual property rights violators

(Per capita GDP, 2015 PPP USD)

Came off USTR 301 Priority Watch List

Source: IHS Markit
China’s unfinished deleveraging

(Non-financial corporations debt, percent of GDP)

Source: BIS
China’s state-owned enterprises retain dominance under Xi Jinping

(State-owned enterprises’ share of industrial sector, percent)

Source: IHS Markit
Key points of China’s trade war

• Direct impact of the announced tariffs on China is not severe in near-term
• Tariffs will not only hurt China, due to its key role in global supply chain
• Beijing does not want a trade war, but cannot back down due to domestic politics
• Complete elimination of state-owned sector subsidy is a no-go for Beijing
• China’s intellectual property rights normalization will be a long-term process, regardless of the outcome of the trade war
• Beijing will likely keep the RMB stable in the near-term, but could adopt a weak RMB policy if trade negotiation completely breaks down
• China’s economic conflict with the US reflects Beijing’s contradictory economic policy objectives of reform and opening-up (growth) and statism (control)