

Trade War and China

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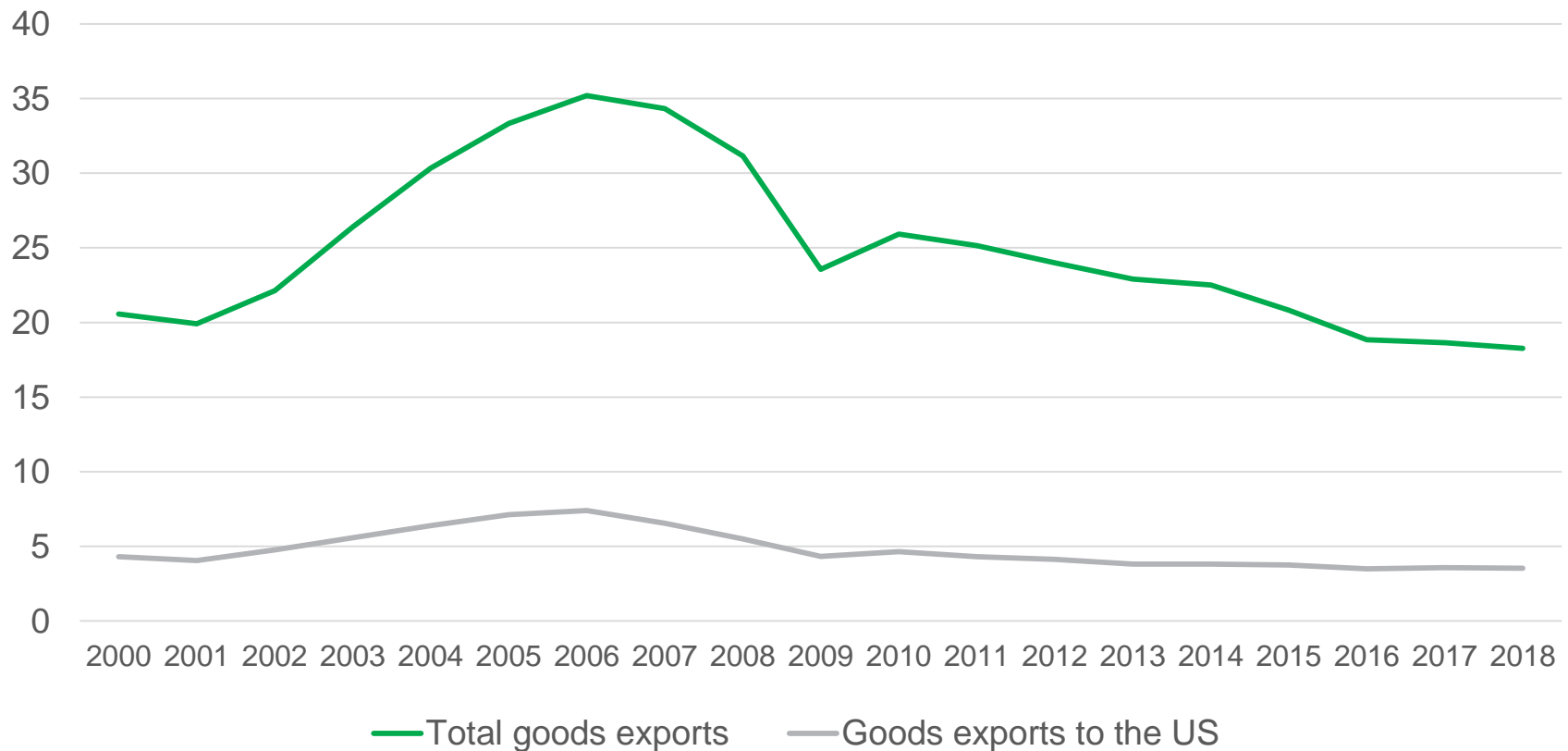
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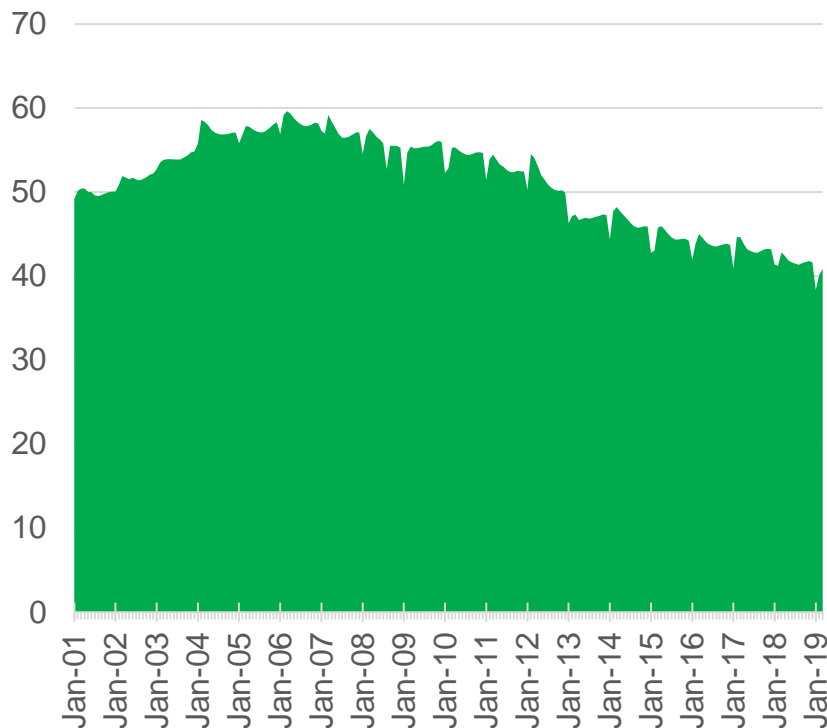
Exports' importance in China's economy diminishing

(Percent of GDP)

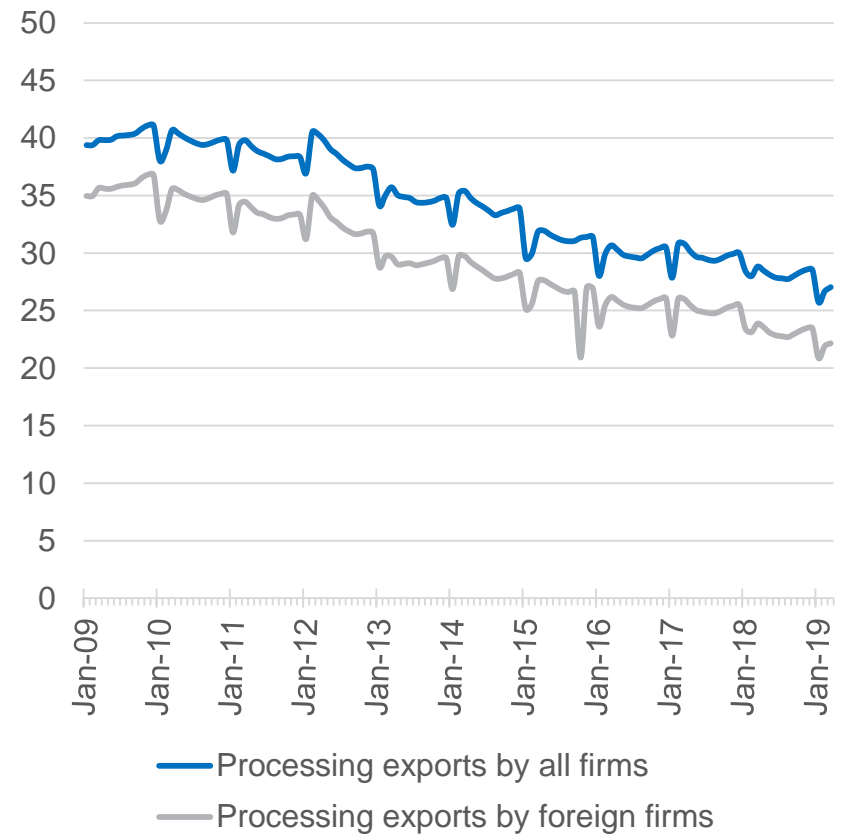


Tariffs on Chinese exports will not only hurt China

(Percent of Chinese exports by foreign invested firms)



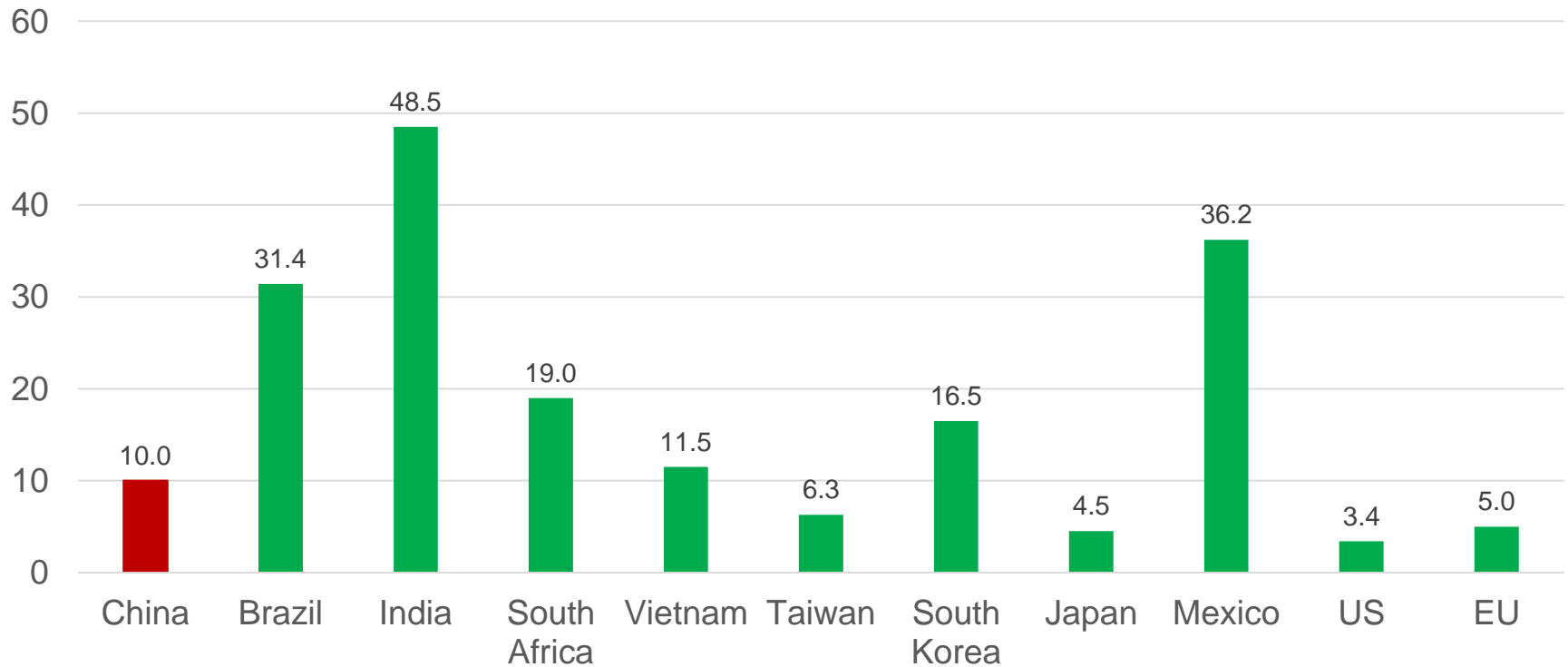
(Percent of merchandise exports)



Source: IHS Markit

China's trade sector is less closed than its peer developing economies

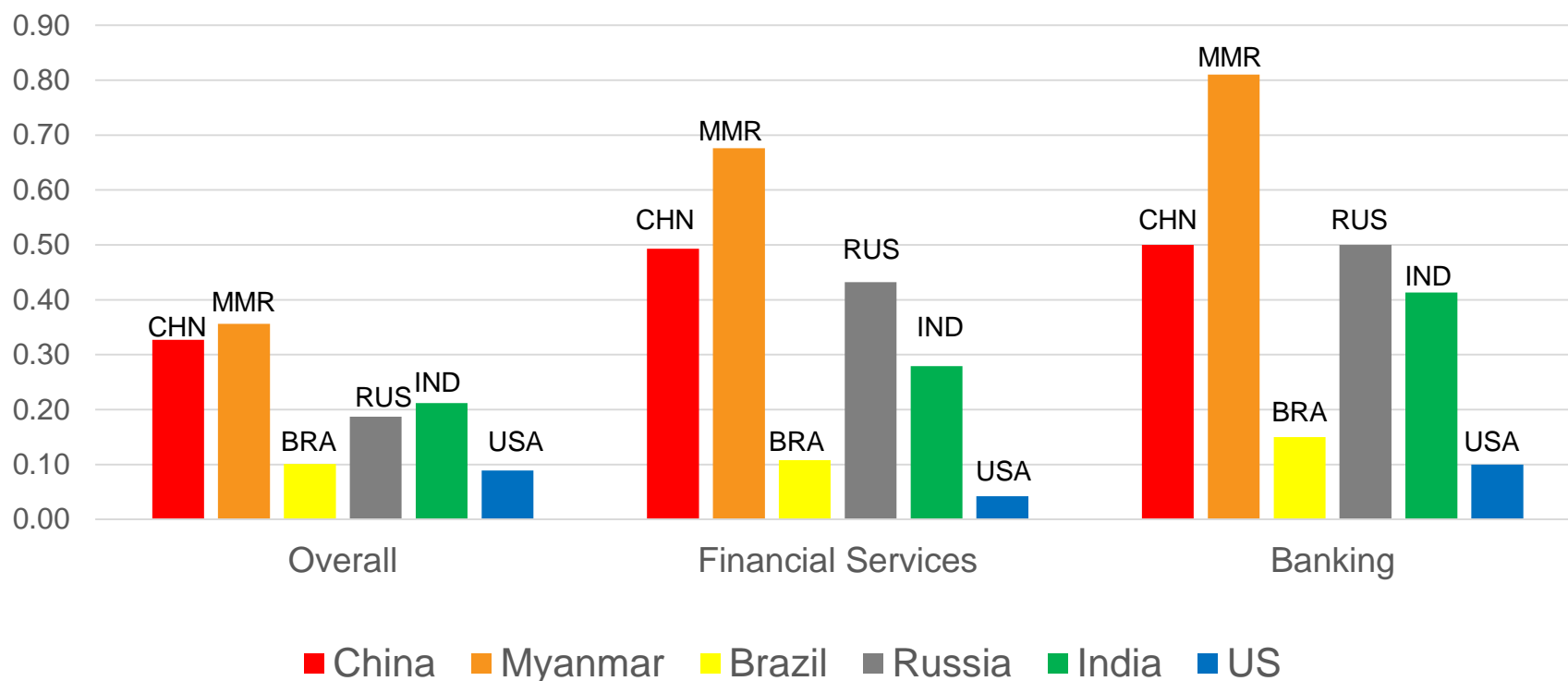
(Unweighted average tariffs, percent)



Source: WTO World Tariff Profiles 2017

But China's financial markets are extremely closed, much room for opening-up and reform

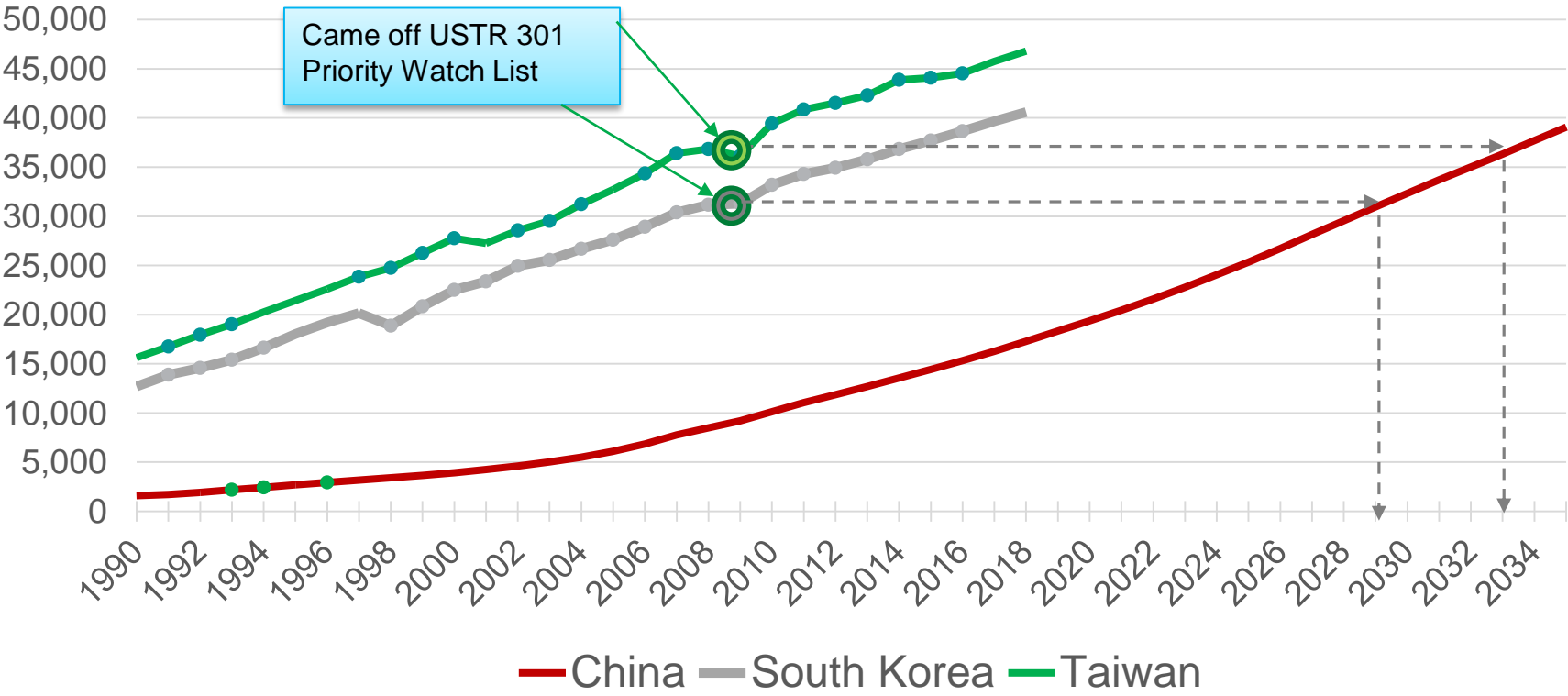
(OECD FDI Regulatory Restrictiveness Index, 1 = most restrictive)



Source: OECD

Low income countries are normally intellectual property rights violators

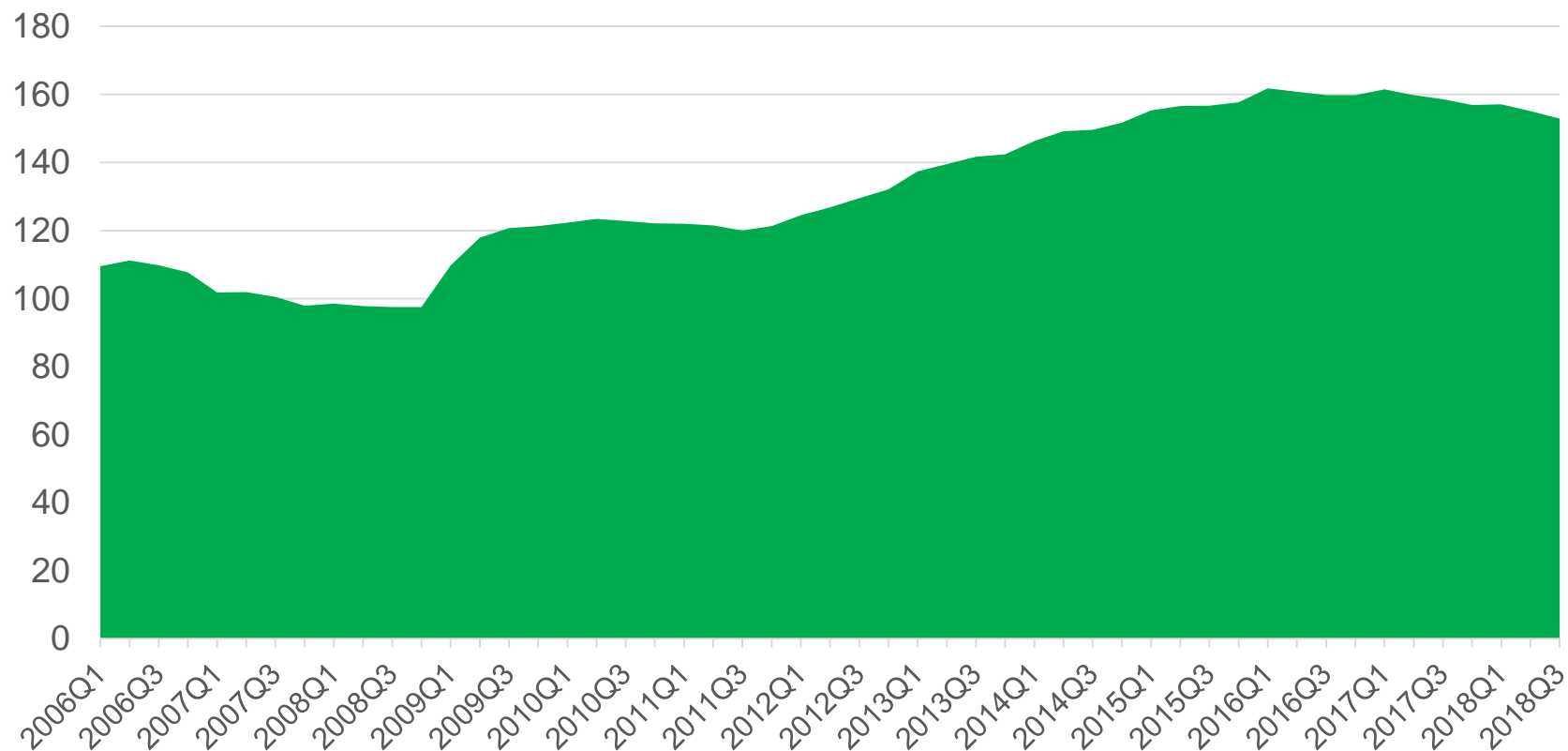
(Per capita GDP, 2015 PPP USD)



Source: IHS Markit

China's unfinished deleveraging

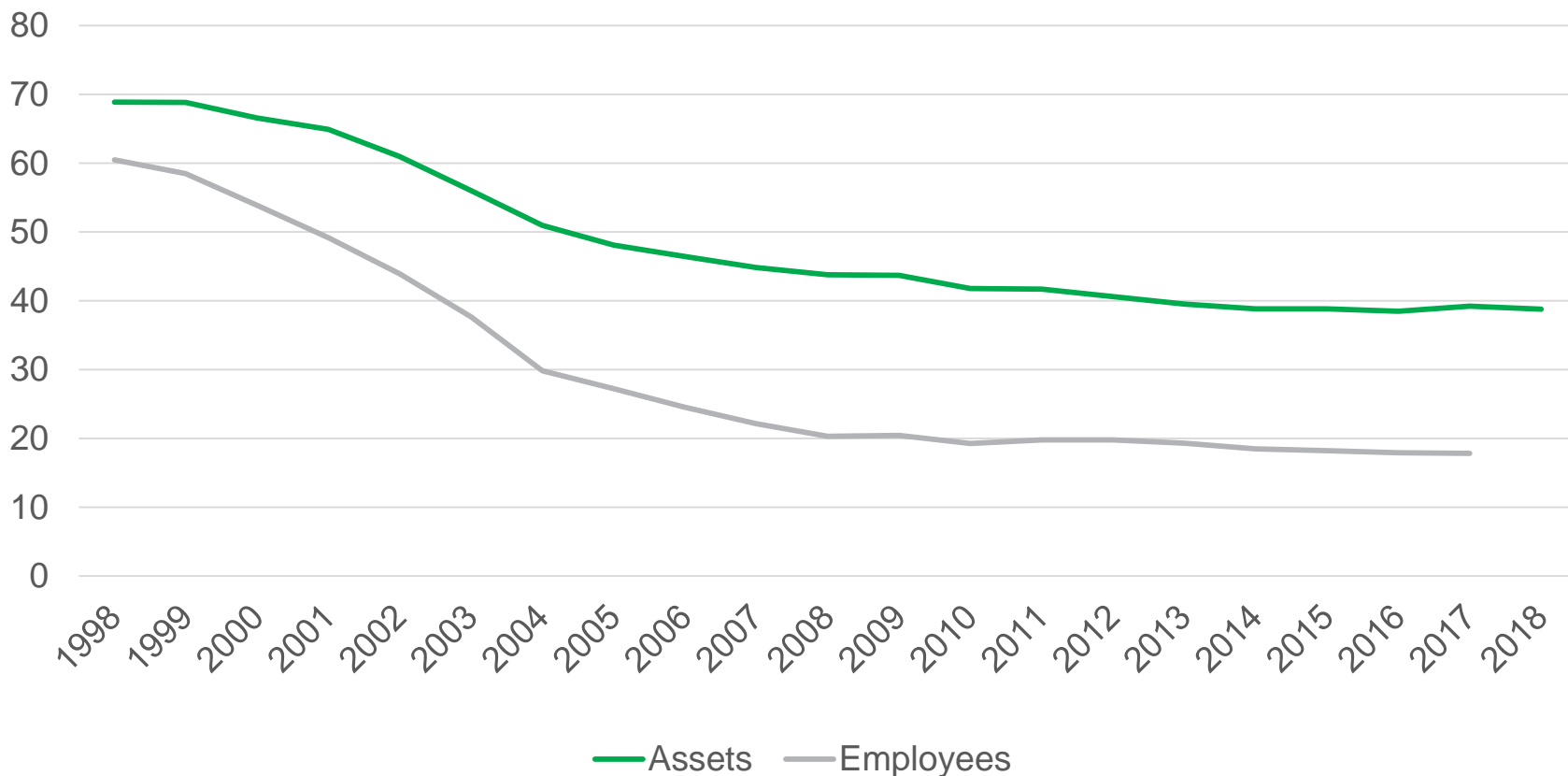
(Non-financial corporations debt, percent of GDP)



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 backdown 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)

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