

China and the US: an odd couple doomed to co-operation

It might take a communist leader to convince Trump of the merits of free trade

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MARCH 21, 2017 by: **Martin Wolf**

The future of our world heavily depends on relations between the US, a young country and the incumbent superpower, and China, an ancient empire and a rising superpower. Making these relations particularly challenging have been the election in the US of Donald Trump, a populist xenophobe, and the ascendancy of Xi Jinping, a centralising autocrat, in China.

No less contrasting, however, are the perspectives of these two on the world economy. Forty years ago, Mao Zedong ruled China: his aim was autarky. Ever since 1978, however, the watchword of China's economic policy has been the "[reform and opening up \(https://en.wikipedia.org/wiki/Chinese_economic_reform\)](https://en.wikipedia.org/wiki/Chinese_economic_reform)" proposed by his successor, Deng Xiaoping. Meanwhile, the US, progenitor of post-second world war liberal internationalism, is consumed with self-doubt and so has elected as leader a man who considers this outstandingly successful policy inimical to his country's interests.

One of today's ironies is this reversal of attitudes towards the open world economy. Nothing better illustrates this than the contrast between the strong [support for globalisation offered by President Xi](http://next.ft.com/content/67ec2ec0-dca2-11e6-9d7c-be108f1c1dce) (<http://next.ft.com/content/67ec2ec0-dca2-11e6-9d7c-be108f1c1dce>) at the World Economic Forum annual meeting in Davos in January and Mr Trump's egregious assertion (<http://ig.ft.com/sites/trump-inauguration-annotations/>), just three days later, that "protection will lead to great prosperity and strength". The [communiqué](http://next.ft.com/content/3b267560-0cba-11e7-b030-768954394623) (<http://next.ft.com/content/3b267560-0cba-11e7-b030-768954394623>) of the meeting of the Group of 20 finance ministers in Germany last weekend duly dropped last year's language vowing to "resist all forms of protectionism". The implications of such US protectionism are still unknown. But they are highly disturbing. The very last thing our fragile world economy needs is a trade war between the US and China.

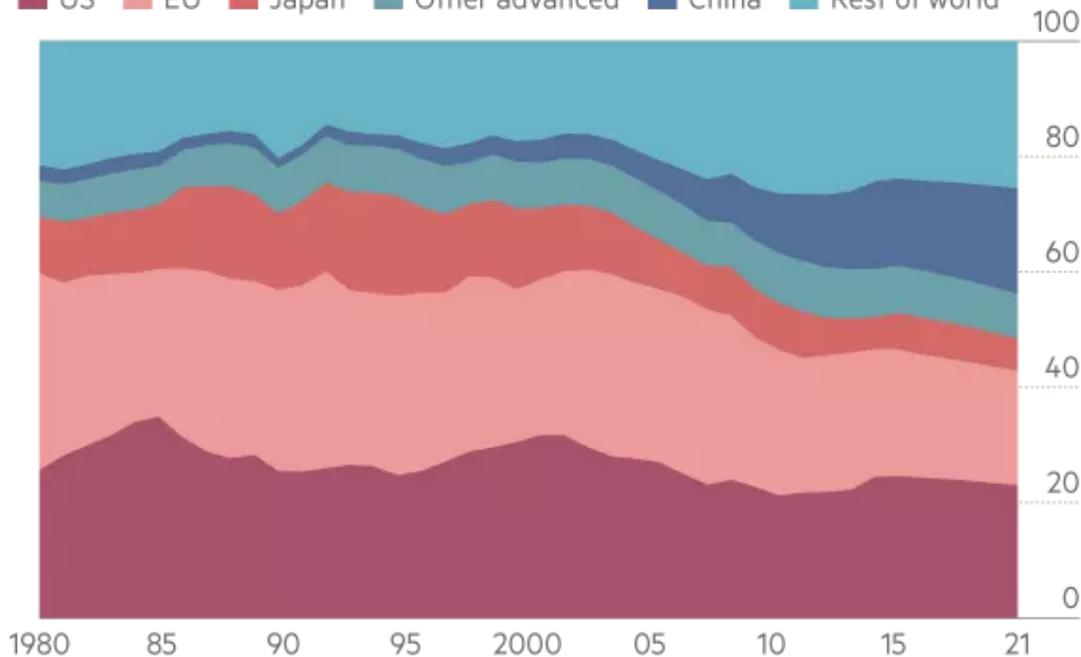
Participation in this year's [China Development Forum](http://cdf-en.cdrf.org.cn/) (<http://cdf-en.cdrf.org.cn/>) has brought home to me some of the deeper roots of today's disenchantment. Chinese participants told me privately that they had once looked to the US as the successful model of capitalism, democracy and economic opening. The global financial crisis, the election of Mr Trump and US protectionism have devastated its prestige in all three respects. Westerners complain, in turn, that the rhetoric of Chinese openness is far from matched by reality, pointing not least to the [promotion of national champions](http://www.europeanchamber.com.cn/en/publications-archi) (<http://www.europeanchamber.com.cn/en/publications-archi>[ve/473/China_Manufacturing_2025_Putting_Industrial_Policy_Ahead_of_Market_Force](http://www.europeanchamber.com.cn/en/publications-archi/473/China_Manufacturing_2025_Putting_Industrial_Policy_Ahead_of_Market_Force)), especially in advanced industries. Another objection is to commercial cyber espionage. In addition to this is disappointment that support for China's economic opening has not yet led to greater democracy.

Yet it is also evident that this odd couple is doomed to co-operate if essential global public goods — management of the global commons, international security and stable prosperity — are to be secured. Mr Trump may declare "America first". The Chinese leadership may focus on the welfare of its own citizens. But neither will be able to deliver what they want without paying attention to the interests and views of others. It is astonishing that today the Chinese leadership seems to understand this better than that of the US.

Economy expanding

Share of global GDP (nominal, at market prices, %)

US EU Japan Other advanced China Rest of world



(2016-2021 = forecasts)

Source: IMF

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When presidents Xi and Trump [meet next month](http://next.ft.com/content/fe1fd82a-07f3-11e7-97d1-5e720a26771b) at Mar-a-Lago, the “winter White House”, in the first meeting between the two, a basis for co-operation needs to be found. The omens are not good. Mr Trump has targeted China’s trade and foreign exchange policies. He has even flirted with challenging the “[One China](http://next.ft.com/content/40825e36-ef3f-11e6-930f-061b01e23655)” policy, under which the People’s Republic is the only legitimate Chinese state. To this must be added the gulfs in personality and experience between the “tweeter-in-chief” and the communist apparatchik, the dealmaking real estate developer and the triumphant climber of the party’s greasy pole.

If we merely focus on the economic dimension, how might this dialogue of the all-too-likely-to-be-deaf be saved?

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Sino-US trade friction ‘inevitable’ as Beijing awaits Trump envoy (<http://next.ft.com/content/7d0db592-0adf-11e7-97d1-5e720a26771b>)

First, the two leaders need to convince each other that neither will achieve his goals if they are in conflict. This is evidently true of an actual war. But it is also true of a trade war. Which country would lose most is an idle intellectual exercise. Without doubt, both would lose, directly and indirectly.

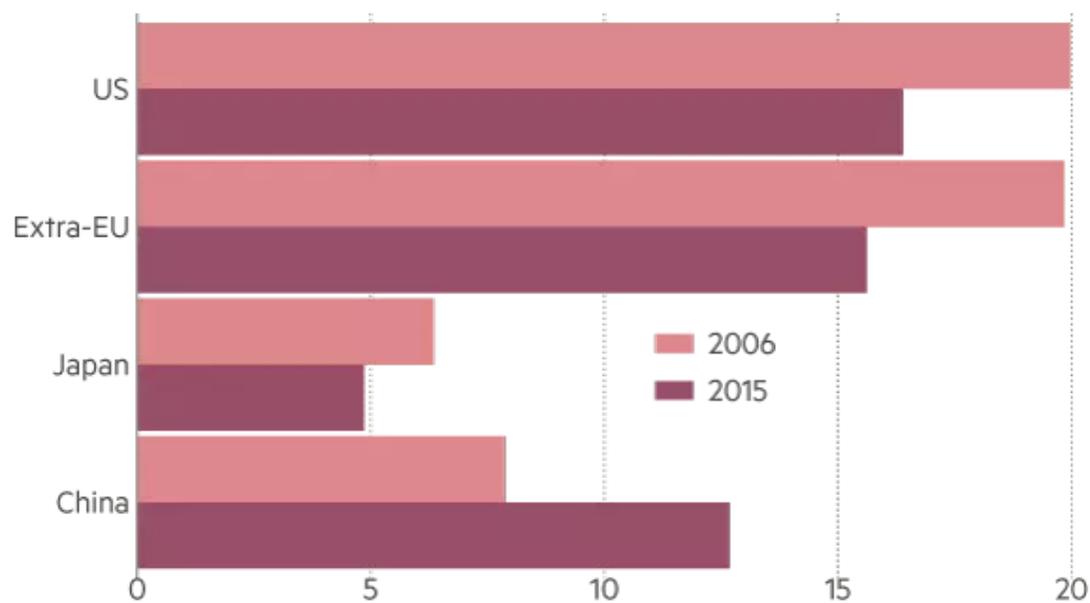
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Second, Mr Xi needs to bring home to Mr Trump that his views on China's policies are hopelessly out of date. China has spent \$1tn of its currency reserves on keeping the renminbi up since June 2014. Between 2006 and 2016, China's exports fell from 35 per cent to 19 per cent of gross domestic product. The all-conquering export machine is an old story.

Third, Mr Trump needs to tell Mr Xi that China's industrial policies are a legitimate matter of concern to other countries. China can rightly argue it is a developing country. But it is also an economic colossus. Its development policies seem like predatory mercantilism to other countries. China needs to recognise that, in an interdependent world, others have a reasonable interest in what it does. This applies also to the size of its current account surpluses. Of course, Mr Trump has to understand similar points. If he does not care about the global consequences of what he does, why should China?

Imports climbing

Share of global imports of goods and services (excluding intra-EU trade, %)



Source: WTO

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Fourth, China can help give Mr Trump what he wants. The US president wants greenfield industrial investments in parts of his country damaged by deindustrialisation. This can never be reversed. But Mr Xi can surely find Chinese businesses happy to invest in the US. Mr Trump likes such announcements. Mr Xi should help him.

Finally, Mr Trump wants an infrastructure boom in the US. China is by far the world's greatest exponent of fast infrastructure delivery. It must be possible to marry China's capabilities to Mr Trump's objectives.



Source: Thomson Reuters Datastream

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However contrasting the two countries may appear, they do share interests. Maintaining the open world economy is one of them. It is vital that Mr Trump be persuaded that his views on trade are mistaken. It is surreal that we depend on a Chinese communist to persuade a US president of the merits of liberal global trade. Yet today's desperate times require such desperate measures.

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