Comments to Barry Bosworth’s paper

Conflicts in the US-China Economic Relationship: Opposite Side of the Same Coin?

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The argument

• Which reforms are needed to maintain China’s high economic growth rate?
• How these play out vis-a-vis the structural imbalances within the US economy
Main points

• Two models of growth in conflict?
• Two SICs in need of reforming
• Unfair advantages (China) and missed opportunity (the US)?
• Does the magnitude of the US-China bilateral imbalance emphasis structural problems in the US model of growth (rather than just China’s ‘mercantilist’ approach (the ‘convenient’ political story)?)
Background - China

• Successful development through trade
• But recent slowdown in China’s economic growth:
  - the external environment matters
  - advanced economies still more relevant than EMEs
• Mixed evidence on China’s over exposure to investments
• Savings and investment: a conundrum?
  - increase in disposable income
  - reduction in savings rate
Background - the US

• External imbalances
• Excessive domestic consumption
• Low savings and investment
• Domestic and external debt
• Deteriorating physical infrastructure and human capital
The 3trl dollar question

If there is a golden opportunity from the growth of China, why has the US failed to grab it?
Why has the US failed to grab the opportunity?

- The other side of the Apple story: is it true that the cost differential between China and the US is US$16?
  - manufacturing capacity
  - human capital
- The ‘dollar curse’ (the other side of the coin of China’s ‘dollar trap’)

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The ‘so-what’ factor

- Looking at Barry Bosworth’s paper from international macroeconomics
- Two SIC with interdependencies (both trade and monetary) and potential for spillovers
- Two economies that present structural synergies as well as structural incompatibilities
- Asymmetries in the exchange rate regime and in the capital account liberalisation
- As a result system that does not adjust automatically
- Policy cooperation is needed
Conclusion

• Both China and the US need to address the structural issues embedded in their model of growth
• How long this will take?
• In the meantime imbalances need to be managed
• Is policy cooperation the answer to manage the transition?
How the US and China should behave: B-MF model
But asymmetric conditions constraint the adjustment
Thank you

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