

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 emphasize 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?



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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’)

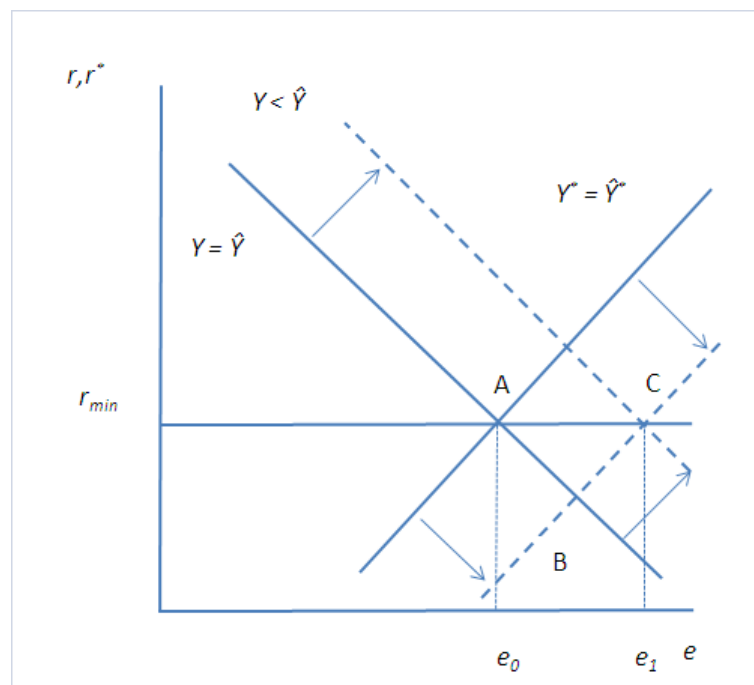
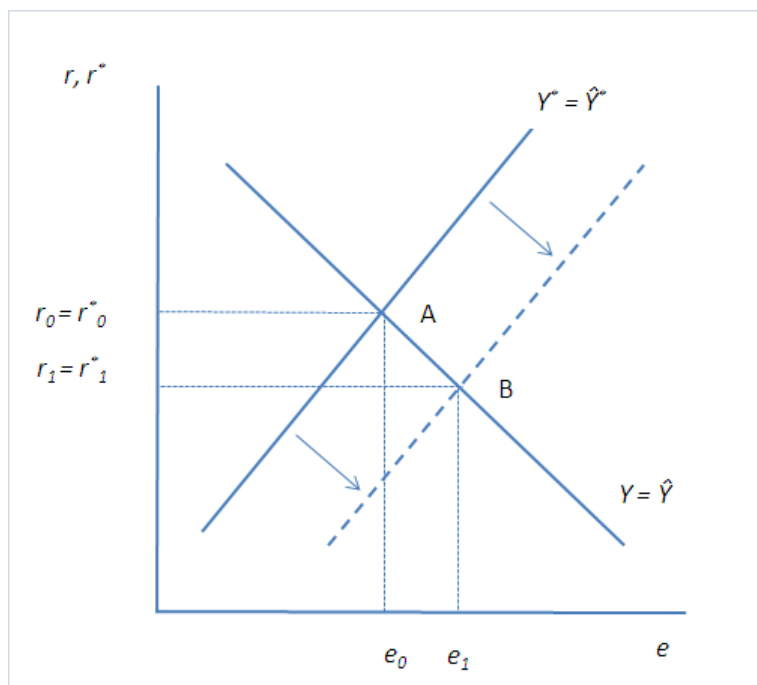
The 'so-what' factor

- 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

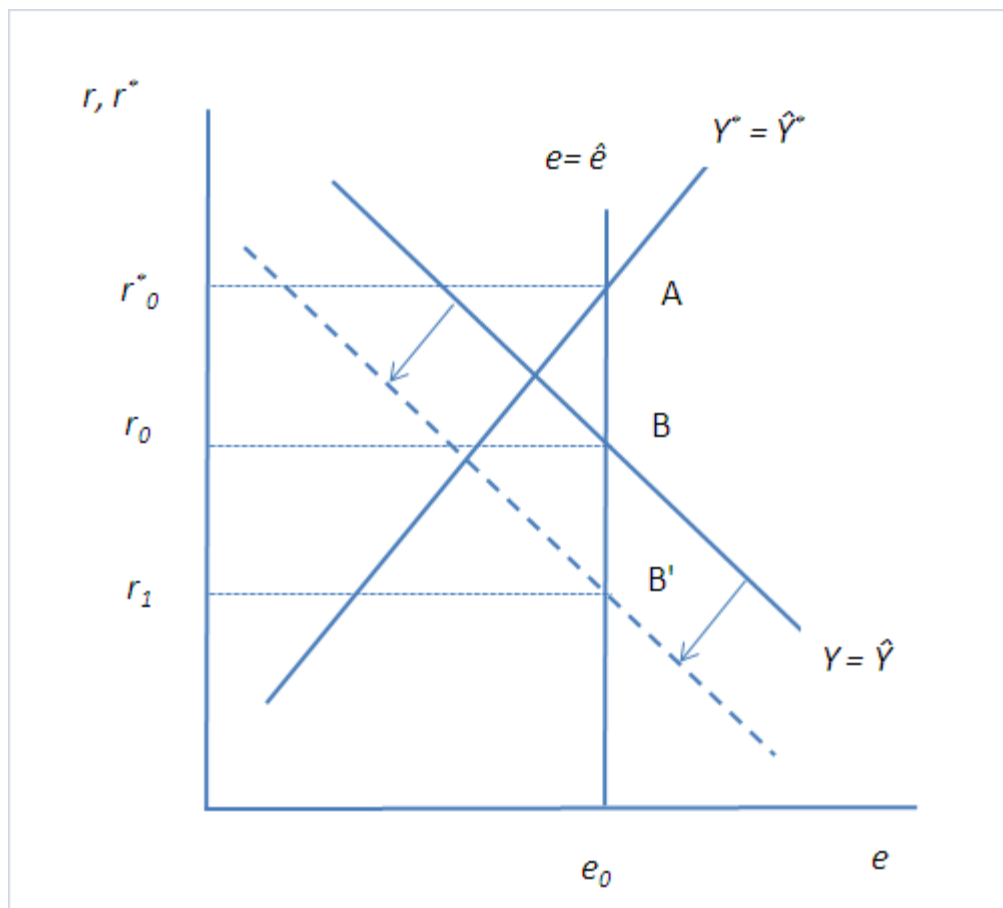
Conclusion

- 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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