



China and the United States: Trade Conflict and Systemic Competition

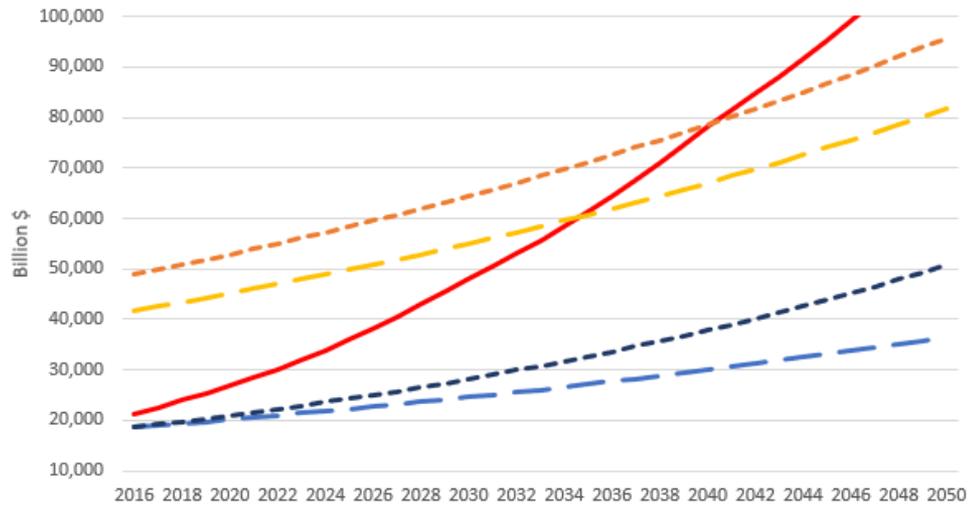
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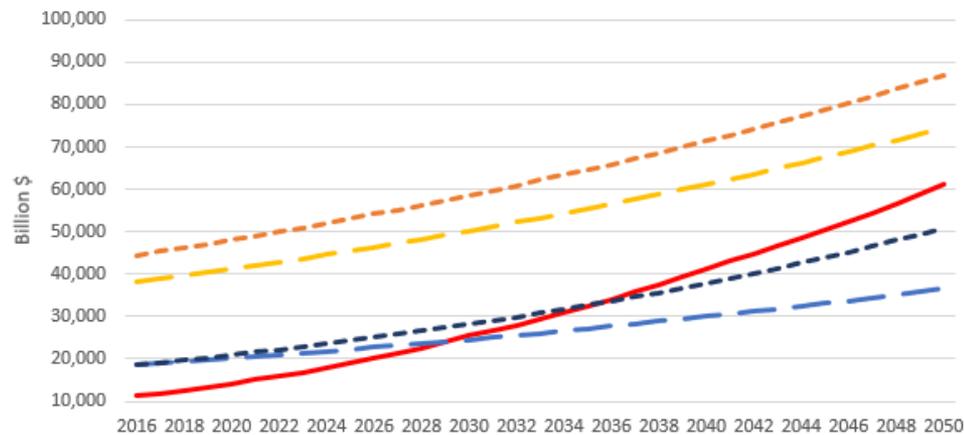
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Figure 1
GDP and GDP Growth at PPP Exchange Rates



GDP and GDP Growth at Market Exchange Rates



Coalition Group 1: US, EU, Canada, Australia, New Zealand

Coalition Group 2: adds Japan and South Korea

China @ 6% growth to 2030, 5% to 2040, 4% to 2050

US @ 2% growth

US @ 3% growth

US + Coalition Group 1 @ 2% growth

US + Coalition Group 2 @ 2% growth



The Three Shocks

1. Trump abdication of US global economic leadership
 - A. Including attacks on US allies/hegemonic coalition
 - B. And Trump is not alone in US in criticizing globalization

2. Xi dash for dominance?
 - A. To realize “China Dream” on accelerated timetable
 - B. Buttressed by his consolidation of political power
 - C. As US creates leadership vacuum
 - D. And discredited itself in Chinese eyes with 2008 financial crisis

3. China’s reversal of economic policy: from marketization (1978-2008) to renewed primacy for the state/central control/SOEs
 - A. As projected further via “Made in China 2025” program
 - B. And plans to dominate global Internet



Three Systemic Alternatives

1. G-0: no national leader
 - A. US unwilling, China not yet able or willing
 - B. Unstable, replicating “Kindleberger trap” (G0u)?
 - C. Or stable, system holds without traditional leader as it has so far (G0s)?
 - D. Key supporting role of EU (and China?) and the international institutions

2. G-1
 - A. China replaces US as US replaced UK
 - B. Providing an international economic order with Chinese characteristics
 - i. Less market, more state
 - ii. Less rule of law, more voluntary/nonbinding agreements
 - iii. Less democracy, more autocracy
 - iv. Less globalization, more national sovereignty

3. G-2
 - A. China and US cooperate to lead system
 - B. Functioning within existing formal institutions (IMF, WTO) and informal steering committees (G-20, APEC)



A Proposed Action Program

1. China to join new US-EU initiative to reform WTO
 - A. Write new rules on key issues
 - B. Thus resolving some of key current and systemic issues

2. China to join CPTPP, inducing US to rejoin so both could do so together
 - A. Reduce barriers
 - B. Write new rules on key issues

3. Major reforms of IMF (already scheduled)
 - A. To provide it with adequate resources to deal with future crises
 - B. And restructure its governance to provide more appropriate role for China (and other emerging markets)