Global Economy

Fanning and damping

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China’s economy focuses world attention, both because of the size it has attained in the past few decades of rapid growth and in view of the unique combination of (ever less) centrally planned and (ever more) market-based economy that has succeeded in lifting hundreds of millions of people out of poverty. Judging by the pattern of other countries that have followed this same path, such as Japan and South Korea, implicit in this real convergence is a moderation of growth due to the demographic brake and the transformation of an emerging economy based on investment and exports into one centred on domestic consumption and services. It is precisely this long-term structural transformation that is behind the two issues that will ensure that China stays under the global spotlight.

Firstly, the vagaries of economic policies, which will continue to fan and damp practically at the same time in a way that is not seen elsewhere. Fanning demand with fiscal policy (and, a little, with monetary policy), and using regulatory measures to damp the excessive leverage and other financial vulnerabilities that have accumulated over the past few years. And all this with the aim of managing the slowdown, which is necessary to correct the excesses and vulnerabilities but bothersome when it comes to maintaining social harmony.

Secondly, the future of relations with the USA, which goes well beyond the question of whether the truce in the tariff war holds. This is one more movement in what may prove a real turning point in relations between the two countries, which have gone from collaboration, including support for joining the World Trade Organisation (WTO), to confrontation, precisely because the US government considers that China has taken advantage of the global trade governance system, among other things by being treated, wrongly, as an emerging economy subject to the rules of the market. The difficulty of accessing the Chinese market and the lack of protection of intellectual property are recurring complaints that the current WTO has not been able to resolve. But the best remedy is not to be found in bilateral agreements signed under the threat of reprisals in less than 90 days.

Beyond these skirmishes, one of the keys in the race for economic leadership is how to make available resources more productive. The US invests 2.7% of its GDP in R&D, the same proportion as in 2001 when China joined the WTO. Since then, China has more than doubled its R&D investment, to 2.1% of GDP. In this area at least China is fanning tirelessly.

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