

Global Economy

Economic tension remains unresolved

Expansión (Spain)

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One situation that is often used in works of fiction is the existence of an underlying, unresolved tension between two of the characters, let's say dealing with feelings, which goes on to affect the development of the plot. Something like this is happening in the negotiations between the United States and China, whose story is the reduction of the trade imbalance between both economies, but whose underlying tension is the dispute for global economic leadership.

The story seems to have a happy ending, at the time of writing, although with the US negotiating strategy it's hard to know for sure, as was just seen in Vietnam with North Korea. USA extended the trade deal that was due to expire 1 March, postponing tariff increases on approximately 40% of US imports from China, worth \$200,000 million, a measure that would lead to Chinese retaliation and potential escalation widespread tariff increases. This extension aims to give a final push to the ongoing negotiations and reach a lasting agreement, although it is not known exactly what type, either with regard to content or format. It seems that there will be immediate commitments by China to increase its purchases from the US, especially for politically sensitive products such as soy, and enhanced facilitation for the presence of American companies in the Chinese market.

However, beyond these purely trade-related points, other American demands have been more related to the tension on the leadership of the global economy which is coming more and more to the surface, and that directly affect the Chinese economic model, a hybrid of market economy and planning and interventionism of Government in the private sector. These are subsidies to Chinese companies that facilitate their penetration in other markets, the effective protection of commercial intellectual property, or the forced transfer of technology to allow a corporate presence in China. These demands did not begin with the Trump presidency, nor do they come strictly from the US. Specifically, the US strategy of challenging the status quo of the global governance of the economy, mostly in regard to trade but not solely in that area, starts with its claim of opportunism on the part of China, which seeks to be seen as one more from the group of market economies as regards the world trade order, a status that the US and other countries deny it, which is the reason that they impose anti-dumping actions.

All these points seem to be resolved, including the use of the exchange rate as a trade weapon (which is certainly not in the interest of China given the delicate balance of policies needed to achieve a soft landing of its economy); or at least some form of follow-up and later control will be arranged, through periodic meetings between authorities of both countries after an initial meeting of both presidents. We shall see, and hopefully this will be the case, since the uncertainty of the economic scenario will be reduced. However, what may seem like a happy ending in a few weeks will really be a "to be continued", with many issues left to be resolved in future chapters. In addition, within a context in which there are few actors - only two - and in which there should be more, including, at the very least, Europe, Japan, India, the United Kingdom, Canada, South America, etc. In short, all those who play some role in world trade. If this is not the case, there is a certain amount of risk involved of having a bilateral governance of a global issue, with barriers between one block and another that end up limiting the use of the opportunities that the digital revolution currently provides, as well as automation to take advantage of the efficiency gains of the global value chains. Furthermore, on this subject, we must keep an eye on another show that may be about to start, that of placing tariffs on imports from the US automotive sector, due to posing a threat to national security. Raising the curtain on tariffs in a sector that makes up approximately 3% of global trade would certainly turn this into a "thriller" or even a true horror show. Hopefully the G20 will soon be able to stop taking notes and start taking decisions. And that Europe will once again feel closer to the US on trade issues than it does today. Both these players need each other to push China to change its trade practices, but the gravitational force that the US exerts on Europe is today lower than in the past because of the unilateral approach to trade that it is showing in this strategic war with China. This is a pity, because between the two of them they can have a strong position in multilateral negotiations which will allow a more peaceful balance to be maintained.

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