

Window On China's Economy in Times of Trade Turbulence

November 28, 2018



Some of the critical questions and issues we will be discussing today

1. To what extent is the current trade dispute between the US and China hurting China's economy?
2. Which sectors and industries are the most impacted and what does this mean for multinationals?
3. What other factors are causing China's growth slowdown, and are they temporary or long-term?
4. What policy responses can we expect from China and how should MNCs prepare for those?



Today's Presenters



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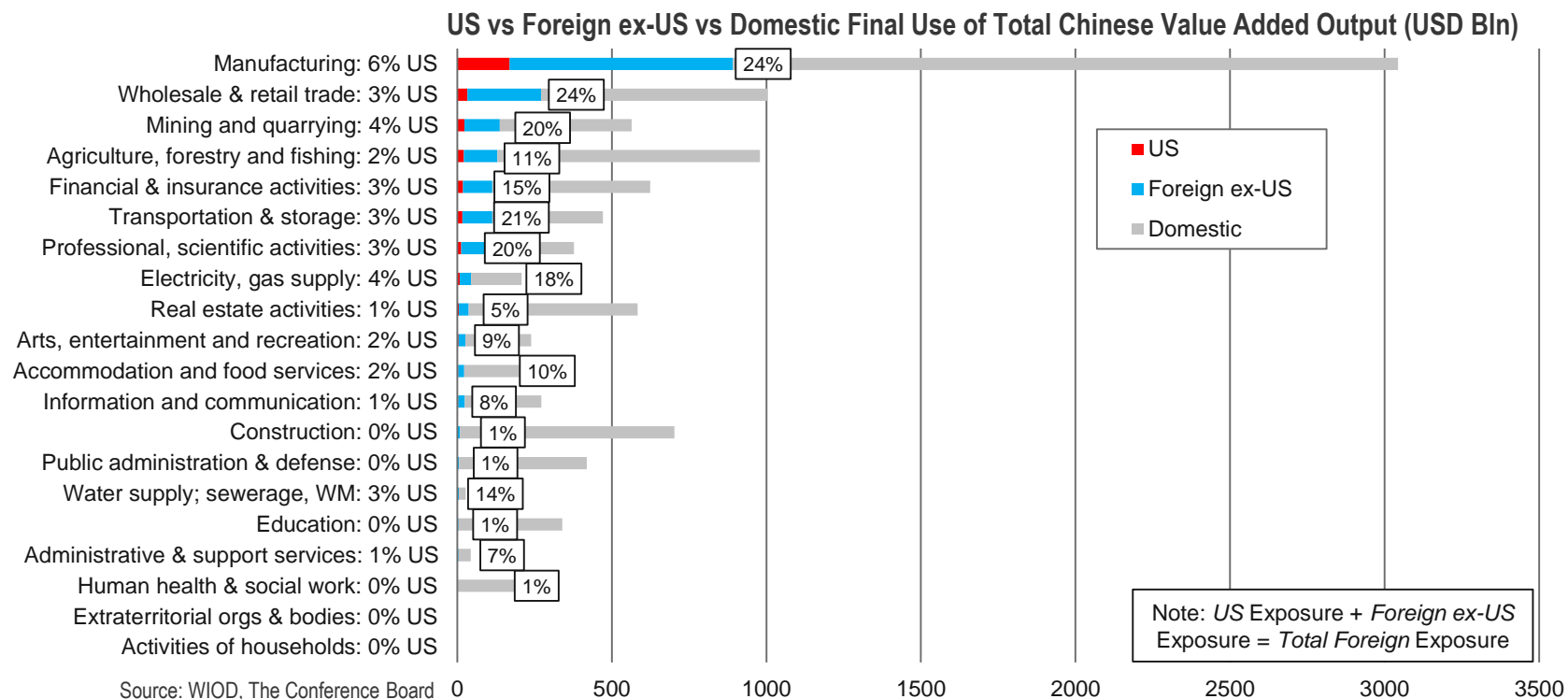
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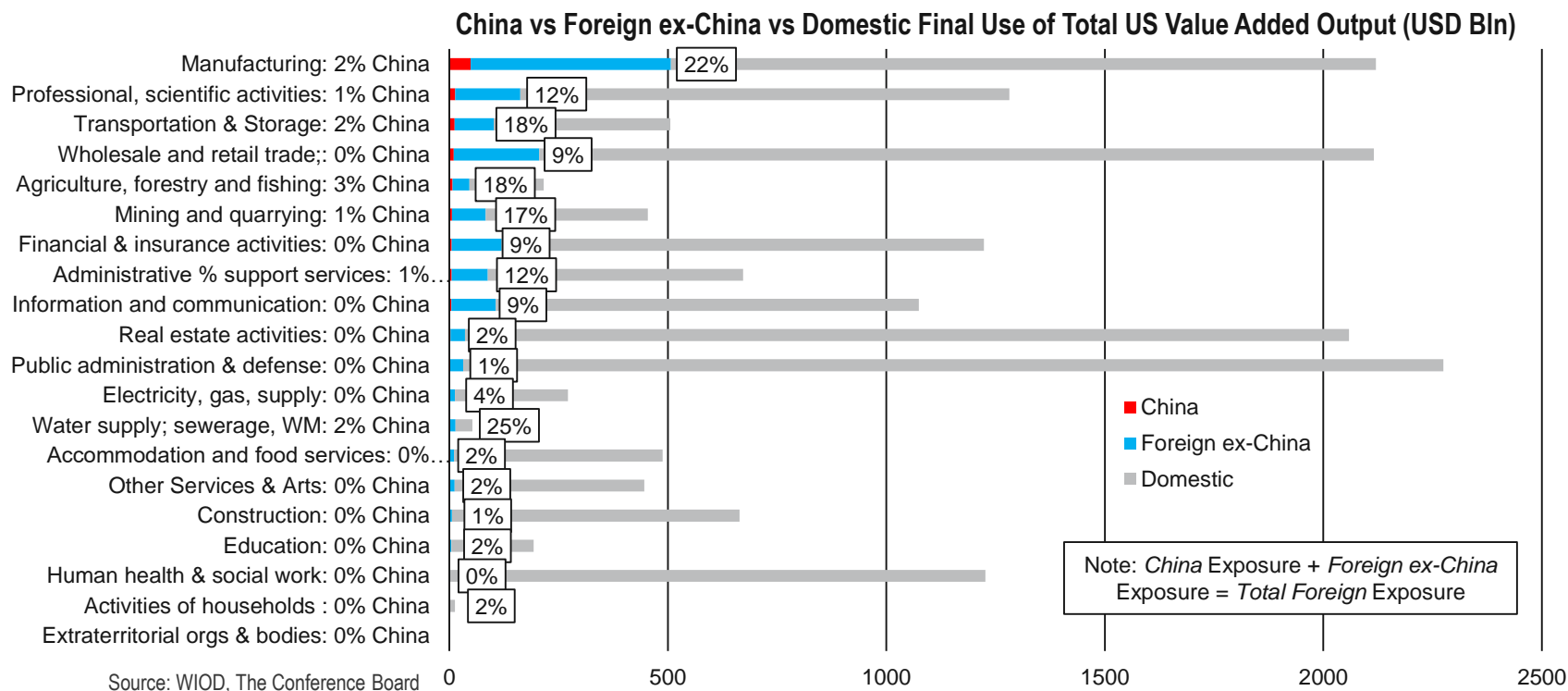
China is highly dependent on trade, and US demand is important to manufacturers



- These 20 sectors encapsulate the entirety of China's economy in 2014. Each bar represents how much value was produced in each sector – the summation is equivalent to GDP by sector.
- **Grey bars** represent value that is consumed at home in China, **red bars** represent value that is consumed in the United States, **blue bars** represent value that is consumed in the rest of the world (foreign ex-US).
- The manufacturing sector is key to China's economy (one-third of GDP) and is highly exposed to foreign demand (one-third of output).



The US is less trade dependent, but Chinese demand is important to some industries.



- These 20 sectors encapsulate the entirety of America’s economy in 2014. Each bar represents how much value was produced in each sector – the summation is equivalent to GDP.
- **Grey bars** represent value that is consumed at home in the US, **red bars** represent value that is consumed in the China, **blue bars** represent value that is consumed in the rest of the world (foreign ex-China).
- China exposures are generally low, but are clustered around manufacturing, professional services, agriculture and transportation.



Four plausible scenarios

- **Scenario 1: China concedes** – The US team tightens the screws, resists political pressure at home, causes significant pain in China over an extended period, and eventually Beijing offers extraordinary concessions because the fight proves too costly.
- **Scenario 2: Permanent divorce** – China never gives in – which proves to be serendipitous for the cohort that is seeking to fundamentally and permanently decouple the US-China economic relationship – and the tariff barriers become a long-term phenomenon.
- **Scenario 3: The US backs down** – An economic downturn in the US – manifesting in several ways but potentially led by a US market correction in response to trade war-related bad news – leads to an overt softening of the US position, putting the potential for a more moderate negotiated settlement back on the table.
- **Scenario 4: A negotiated settlement ...** What will the US accept?



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