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Biden's Get-Tough Plans Face Sobering China Reality

China's actually gotten stronger economically over the past year when compared with the rest of the world

The U.S. and China are heading into a tense relationship during the Biden years, on security, trade and economic fronts.

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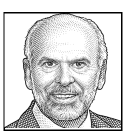

By

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As President-elect Joe Biden's team prepares to move in, there's a lot of loose talk in Washington about getting tougher with China, and beginning the process of decoupling the two nations' economies.

As is often the case with loose talk, though, reality is a lot more complicated. Getting tougher economically will be, well, tough.

Despite four years of pressure from the Trump administration, China’s economy actually is stronger in some ways at the moment than is the economy of the West. Though China has plenty of its own problems, international capital is flowing in, not out. Within Asia, China actually has improved its trade position.

“China is in a strong negotiating situation,” says Josh Lipsky, director of programs and policy at the Atlantic Council’s GeoEconomics Center. He adds: “The centrifugal forces coming out of China are stronger than they were in 2017.”

Indeed, the International Monetary Fund projects that China’s economy will expand by 1.9% in 2020, which means it is likely to be the only major world economy to grow in this year of the coronavirus pandemic. By contrast, the American economy is expected to shrink by 4.3%, and the eurozone is forecast to contract by 8.3%.

Mr. Biden has talked about forging a stronger front with allied nations to reduce China’s economic leverage, and creating incentives for American companies to move critical supply chains home from China. He hasn’t declared yet what he will do with the tariffs President Trump has imposed on a range of imports from China, or the future of a partial trade deal the Trump administration negotiated with Beijing.

The IMF projects that China’s economy will expand by 1.9% in 2020, despite the coronavirus pandemic.

PHOTO: ALEX PLAVEVSKI/SHUTTERSTOCK

As he faces those decisions, Mr. Biden is looking at a China that, in many respects, has weathered its trade fight with the Trump administration surprisingly well. Data from the U.S. Census Bureau show that the U.S. trade deficit with China in October, the latest month for which figures are available, was just 5% smaller than it was a year earlier. American exports to China were higher, largely because of more purchases of agricultural products, but so were imports from China.

On other fronts, China’s economic leverage actually has grown. It has joined 14 other countries in a new regional trade bloc that excludes the U.S.

Meantime, European nations are trying to complete a bilateral investment agreement with China. Overall, despite rising political tensions between China and the West, Western financial capital is flowing into China.

A recent Atlantic Council report shows that foreign purchases of Chinese debt have risen markedly over the last four years, and concludes: “Generally speaking, China’s opening measures promoting further integration of its financial markets with global markets stand in sharp contrast with the decoupling rhetoric coming out of Washington.”

David Dollar, a former U.S. Treasury attaché in Beijing, notes that America’s allies generally are less interested in detaching their economies from China’s than is the

U.S. "If our allies remain engaged with China, then our decoupling would isolate us and strengthen China's relative position," he says.

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Moreover, he argues, even if the U.S. succeeded at pushing China out of the global economy and its institutions, "China likely would create alternative institutions, and many developing countries will find it in their interest to go with China. So, we would re-create the kind of blocs that we had during the Cold War."

More broadly, there is a danger that economic decoupling actually would exacerbate the geopolitical and military tensions that already hang over the U.S.-China relationship. One of the forces that can keep the rivalry from getting out of control is mutual economic dependence. Unlike in the Cold War, when the U.S. had little financial entanglement with the Soviet Union and virtually no economic dependence on it, Washington and Beijing have a deeply layered economic relationship that, so far at least, has almost forced them to find a way to coexist.

That mutual dependence now is at least being called into question, with potentially far-reaching ramifications. "The U.S. and China are locked in an explicit and escalating power struggle that could tear apart the rules and institutions underpinning the global trade and governance systems," says Eswar Prasad, a professor of trade policy at Cornell University. "This will have deleterious effects on multilateralism, giving way instead to warring coalitions on a range of key issues relevant to businesses, consumers and investors around the world."

The bottom line is that the U.S. and China inevitably are heading into a more tense relationship during the Biden years, on security, trade and economic fronts. There is broad, bipartisan sentiment for a tougher approach to Beijing. But exactly what shape this changing relationship takes is very much up in the air. Meantime, the uncomfortable reality is that China enters this period of reassessment with some strong economic cards in its hand.

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