

US-China trade dispute

China courts potential allies in trade war with US

Beijing expected to peel away would-be US allies by pointing to shrinking account surplus



China is heading towards a current account deficit despite a still robust surplus in manufactured goods © EPA

Gabriel Wildau in Shanghai NOVEMBER 24, 2018

China is expected to use the G20 summit in Argentina this week to show it is cutting its reliance on exports in an effort to deprive the Trump administration of allies in the trade war.

The [declaration](#) this week by Robert Lighthizer, US trade representative, that “China fundamentally has not altered its acts, policies and practices” has [damped hopes](#) for a breakthrough when the US and Chinese presidents meet in Buenos Aires.

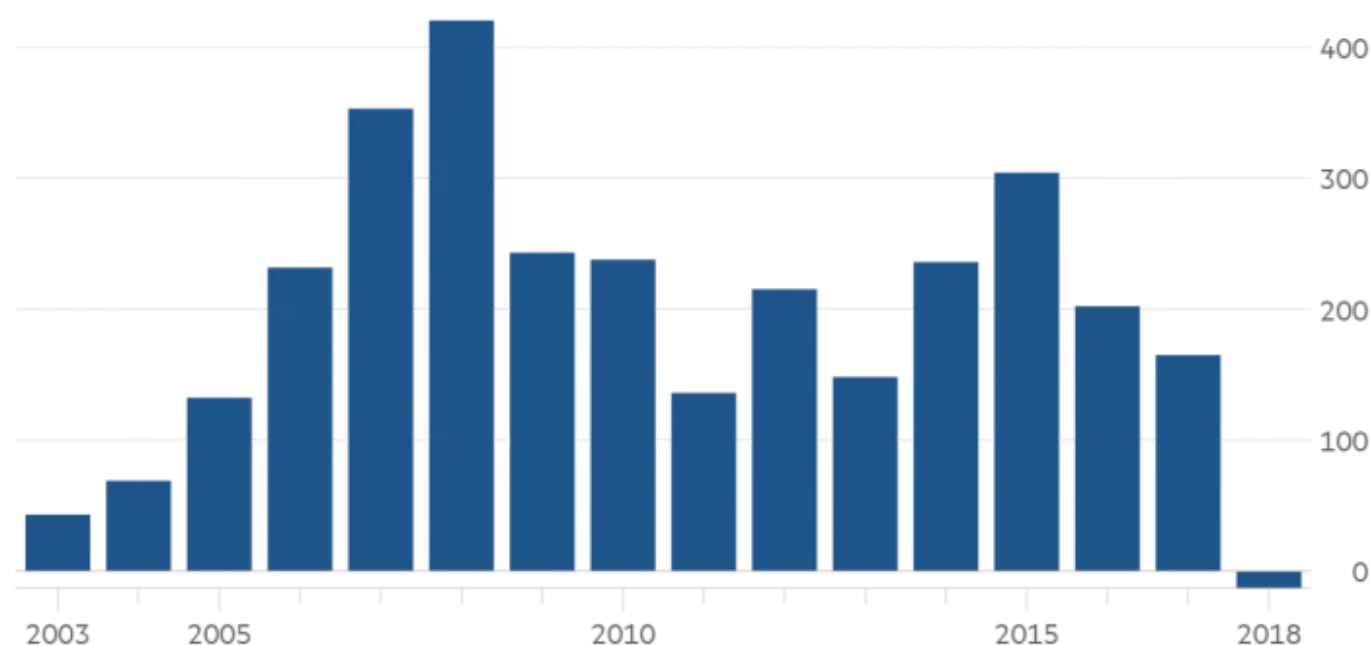
China dismissed the US report as “totally unacceptable” and said Washington had broken its commitment” to World Trade Organization members.

Rather than seek a grand bargain, analysts believe Beijing will try to peel away would-be US allies, in part by pointing to China’s shrinking current account surplus, a frequent complaint among trading partners in the 2000s.

The surplus, which peaked at \$421bn in 2008, flipped into a deficit through the first three quarters this year. Oxford Economics forecasts that the full-year surplus will be “close to zero”, as rising commodity imports and foreign tourism have gradually neutralised China’s surplus in manufactured goods.

China's vanishing current account surplus

Annual, US\$bn



2018 figure is for Jan-Sep

Source: State Administration of Foreign Exchange

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“The structural decline in the current account surplus is the result of domestic rebalancing . . . and also demonstrates the economy’s reduced reliance on export-led growth,” said Eswar Prasad, economics professor at Cornell University and former China head of the IMF.

The exception among China’s trade partners is the US, which ran a \$176bn current account deficit with China in the first half, according to US data — on track for the largest annual gap.

“China’s falling current account surplus is winning it no points in Washington, where the rising US bilateral trade deficit with China continues to fuel trade tensions,” said Mr Prasad.

Despite China’s [slowing economy](#) and weak stock market, which the White House cites as evidence that tariffs are hurting, analysts say Beijing is still unwilling to offer big concessions. Trade data show Chinese exports continue to [grow strongly](#) despite the tariffs.

China's global surplus shrinks, but US bilateral deficit worsens



Source: US Bureau of Economic Analysis, Institute for International Finance, International Monetary Fund, CEIC
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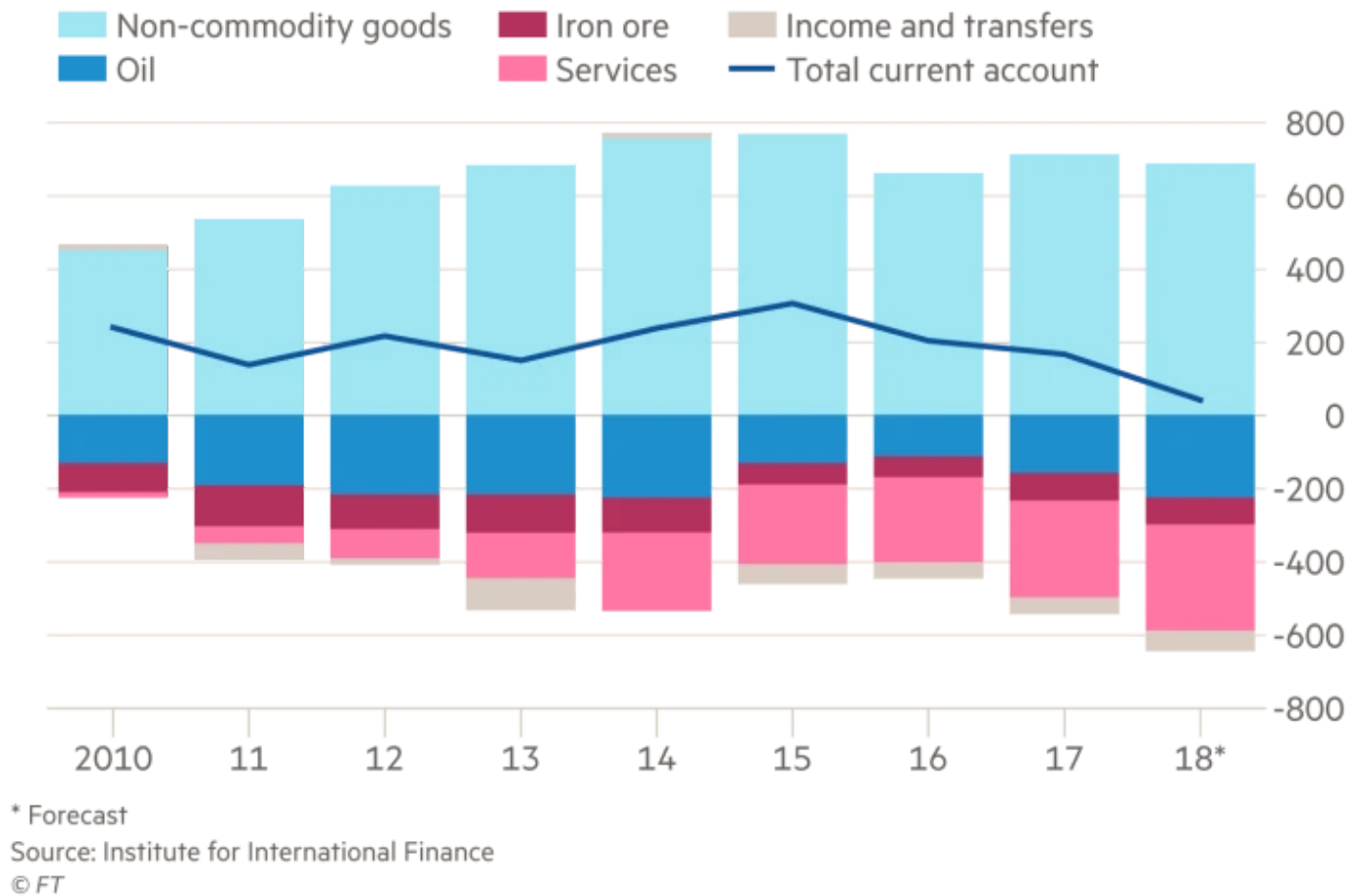
“China sees an opportunity to stop an escalation but I don’t think it’s desperate,” said Yanmei Xie, policy analyst at GaveKal-Dragonomics in Beijing. “The most they are likely to offer is tactical concessions.”

In an effort to win allies, the US has acted to [ease](#) trade conflicts with the EU, Mexico and Canada, while discouraging them from striking deals with Beijing. For its part, China has moved to improve relations with [Japan](#) and [South Korea](#), which share many US grievances on trade and technology.

An import expo in Shanghai this month presented China as a large and willing buyer. In a speech at the event, Xi Jinping cast China as a champion of globalisation and denounced a “law of the jungle” approach to trade.

China's current account

Manufacturing surplus persists despite shift towards overall balance (\$bn)



Many analysts doubt that most trading partners will be persuaded by Beijing's rhetoric or by the declining current account surplus. While commodity exporters and tourist destinations have increased sales to China, displaced manufacturing workers who have fuelled support for Mr Trump and other populist leaders have not seen much benefit.

"Workers in the manufacturing sector around the world do not have much reason to be impressed by China's rebalancing, since it hasn't helped them in the aggregate," said Brad Setser, senior fellow for international economics at the Council on Foreign Relations.

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