Washington State China Relations Council

Policy Briefing Series

Outlook on China’s Economy and Market Reforms: Risks and Rewards

Some Introductory Remarks on Reform, Trade Policy, and the Renminbi

Fabio Ghironi
University of Washington, CEPR, and NBER

U.S. Bank Center
Seattle, June 28, 2017
● Proportion of trade controlled by government is key in WTO definition of market economy.

● China:
Protectionism on the rise:

Graph III.10

1 AUs, CA, CH, JP, NO, NZ and US. 2 BR, CL, CN, CO, ID, IN, KR, MX, MY, PE, PH, RU, SA, SG, TH, TR and ZA. 3 Total number of trade-restrictive measures introduced by G20 economies since 2008. The monitoring of the accumulation and removal of restrictions started at the end of 2010. 4 Merchandise trade.

Sources: World Bank; World Trade Organization; CPB Netherlands Bureau for Economic Policy Analysis; Datastream; BIS calculations.
China’s tariff protection in perspective:

Figure 1 Weighted average applied tariff of 10 big countries in 2015 (percent)

- Brazil: 8.3
- India: 6.3
- China: 3.4
- United States: 1.0
- Italy: 1.6
- France: 1.6
- United Kingdom: 1.6
- Germany: 1.6
- Japan: 1.4
- Canada: 1.0

Note: Data for India is for 2013, the most recent available year.

Source: World Development Indicators.

But protection through industrial policy matters!
● Chinese exports of steel to the U.S.:

![Chinese Steel Exports to U.S. Plunge](image)

- U.S. tariffs working to protect domestic producers

● Now steeling for the “Nuclear Option”?

● Section 232 Investigation, Trade Expansion Act of 1962, imports and national security.
Who (in the U.S.) would lost most from trade war?
• The Retreat of the Renminbi (Steil & Smith, Project Syndicate, June 22, 2017):

- Use of RMB in global payments doubled between April 2014 and August 2015 to 2.8% of total, good for 4th most used currency in the world.

- Since then RMB’s share in global payments has fallen to 1.6% (7th place).

- Use in global bond markets down 45% from 2015 peak.

- RMB deposits in Hong Kong banks down by half.

- 35% of China’s cross-border trade was settled in RMB in 2015 (with most of the remainder in dollars), that share is now about 12%. 
• What is going on with the exchange rate?
But PBOC has mostly been intervening to prop up the RMB lately:
• Watch out for monetary policy normalization:
The figures in these slides come from a variety of sources. Here is additional information relative to that contained in the figures themselves: