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Trade dispute may never end

The opposing positions taken on global trade by the US and China might be a running sore for years and possibly decades forcing corporate planners to adapt to irreconcilable national differences.

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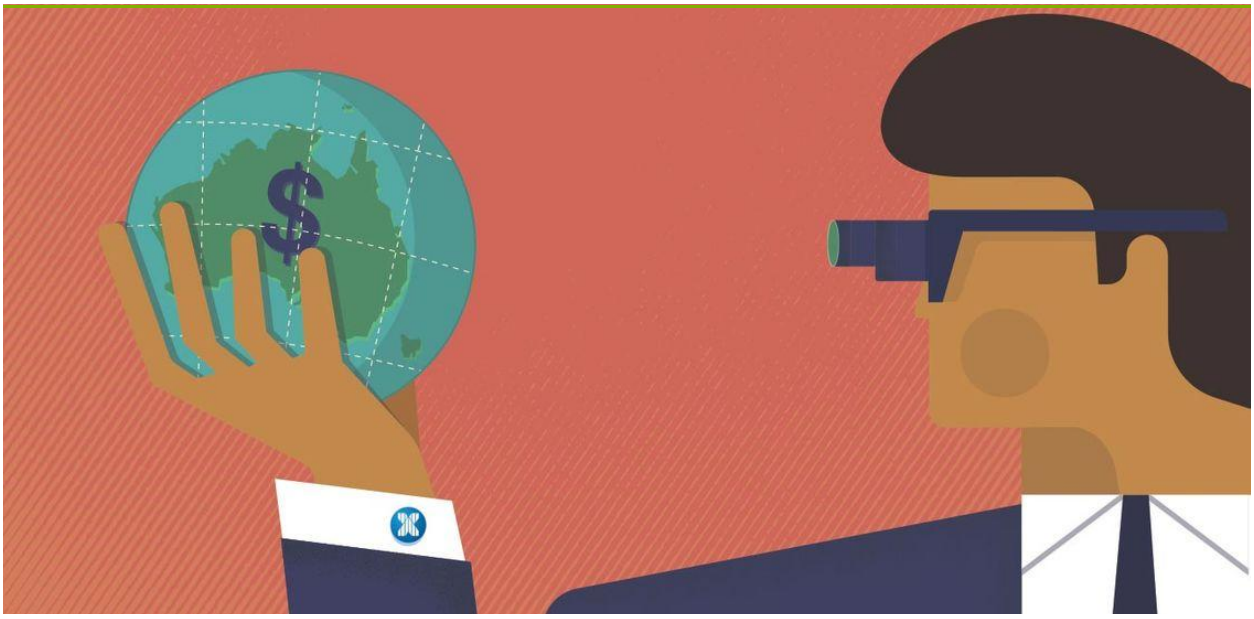

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The so-called trade dispute goes well beyond the size of the trade balance between the two countries. US president Donald Trump's trade adviser, Peter Navarro, speaks passionately on behalf of the US about China's "seven acts of economic aggression", as he has done before in his books and documentary films.

Cyber intrusion, forced technology transfers, intellectual property theft, dumping, currency manipulation, state-owned enterprise subsidies and the flow of deadly opioids into the US are the seven pillars of Navarro's longstanding, anti-China zealotry.

The US-China trade wrangle is no traditional negotiation in which countries agree reciprocal lowering of barriers to spur mutually beneficial trade flows.

Chinese demands of the US are minimal. Chinese leaders just want to be left alone to reposition their nation as a global economic and political power.

Trump can plausibly promise North Korea and Iran economic windfalls if those two renegade nations change their behaviour. China is well beyond such an engagement.

Promises from China of added imports of US farm products are indicative of how its leaders see the relationship. More agricultural imports are what an advanced economy has historically offered a newly developing, less economically powerful country wanting to kick start the next phase of its growth.

US and Chinese negotiators are scheduled to sit down again in September to see if an agreement can be reached but resolution of US complaints seems as far away as ever.

The possibility of Trump being gone within 18 months may motivate China to take its time but hopes of a more pliant replacement by 2021 may prove optimistic. Navarro's strident tones might be absent but another US president will be no pushover. Trump will have inevitably manoeuvred his opponent, whoever he or she might be in the 2020 presidential election, into taking a strong anti-China stance.

> **Taking Chinese market access for granted or assuming stable trade arrangements with China or within North America or Europe may no longer make sense**

Chinese and US interlocutors might agree to keep talking. They might set up working groups to study specific sector proposals. They could even draw up a framework agreement. In the end, China may simply choose to give ground to rid itself of a pesky rival, confident of its own direction.

Even if the Chinese side was to concede ground on all seven of the Navarro structural issues in a formal agreement, compliance would still loom as a bugbear. Constant arguments about agreement implementation would plague business conditions indefinitely and over many presidential cycles.

In any event, the trade dispute has been getting an unfairly bad press.

US economic growth was always prone to slip lower after very briefly topping 3%, kicked along by many years of unsustainably aggressive monetary expansion and debt-funded tax cuts. China's peak growth, driven by a huge investment binge, had come and gone, leaving its planners to manage outcomes lower. Europe's growth had peaked in 2017 before the drag of weak productivity, an aging population base and adjustment constraints imposed by a single currency reasserted itself.

The dispute with China is just one part of a much larger and complex conundrum for internationally oriented businesses.

Within North America, previously well-established patterns of trade arising from the 1994 US-Canada-Mexico free-trade agreement are also being disrupted. A revamped North American trade agreement is struggling for approval in the current US Congress.

In Europe, the stand-off over Brexit is affecting patterns of trade and investment planning. Korea and Japan are also uneasy economic partners.

Within several key global industries, change is afoot. Car manufacturers, for example, are on the cusp of a revolution with the now widely foreseen demise of the petrol guzzling internal combustion engine. Motor vehicle purchases are peaking as car owners reappraise their needs amid competing forms of transport offerings and growing concerns about environmental impacts.

Transport electrification will require a massive retooling effort with an already felt impact on locational decisions. Development of autonomous vehicles needs huge financial commitments by already financially shaky car makers facing competition from well-heeled technology innovators.

Large chunks of the world economy are in disarray. Brazil, Argentina, Turkey and Russia are examples of currently mid-sized but potentially strongly growing economic areas performing well below their potential because of systemic failures only radical political surgery can mend.

India's development intentions can only be achieved if it grabs a larger share of trade in manufactured products. That means supplanting others in worldwide supply chains.

Into this mix, the Trump administration has added further exchange-rate management challenges for business as it retreats from the long-asserted US government preference for a strong dollar.

Against this background, ample incentives for companies to rethink how they organise their supply chains are emerging.

China is too big to ignore but future business leaders will face a very different mix of global trade risks and opportunities. Taking Chinese market access for granted or assuming stable trade arrangements with China or within North America or Europe may no longer make sense.

Geographically more diversified supply chains will emerge. Vietnam, Thailand, Laos, Cambodia and Indonesia, parts of eastern and southern Europe and Latin America, as well as India, should benefit from any loss of confidence about what China can offer.

The absence of a formal trade deal does not mean indefinitely falling growth rates. Initial disruption will give way to an eventual resumption of more normal cyclical patterns based around whatever new arrangements are practical.

Redeployment of investment in manufacturing capacity that might have otherwise flowed to China is likely to accompany future global economic expansions. Investment will occur across a wider geographic base to reduce the risk of single country or region exposure.

Efforts to diversify global supply chains, however inconvenient for business managers, may themselves help reinvigorate some of the currently missing energy from the global economy.

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